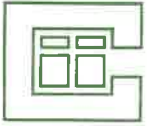


Confederation House  
Kildare Street, Dublin 2  
Telephone 77 98 01  
Telex 4711  
T'grams Confindus Dublin



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# PRESS RELEASE

## The Confederation of Irish Industry

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry at Dun Laoghaire Chamber of Commerce Lunch at 1.00 p.m. on Tuesday, 11 October 1977, at the National Yacht Club, Dun Laoghaire.

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### INDUSTRY HAS POTENTIAL TO MEET OUTPUT AND EMPLOYMENT TARGETS

#### Present Position

At present, it is estimated that industrial output is growing at an annual rate of 10% and that industrial employment is growing by about 4%, or about 8,000 jobs per annum. While this is the best industrial growth performance in the EEC - and is four times faster than Britain - it is still not good enough to meet the output and employment requirements of the economy.

Approximately half of this growth in output has been due to the fact that industrial costs in Ireland grew broadly in line with our main trading partners so that established industry was able to secure its full share of the growth in international trade. The remaining half of industrial growth this year is due to the contribution of new firms which started production for the first time, or built up towards full production.

This result is in line with Confederation expectations due to maintaining our cost competitiveness.

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Some external factors also are having a major effect on the industrial growth rate. For example, the devaluation of sterling up to the autumn of 1976 had short term favourable effects on the quarter of industrial production which was sold outside the sterling/punt area. The corporate tax concessions to industries supplying the home market, which were able to increase production by 5% and employment by 3%, was a further positive factor. On the negative side, the impact of the Temporary Employment Subsidy in Britain - which provides a £1,000 subsidy over a period of one year to U.K. industries for each employee in danger of redundancy - has had a very damaging effect on the Irish textile and clothing industries. Furthermore, the fact that many parts of the U.K. food processing sector can purchase raw materials up to 30% cheaper than their Irish counterparts - because of Britain's decision not to devalue her Green Pound - is continuing to have an adverse effect on the very valuable downstream processing segment of the food industry e.g. processed meat products and confectionery products. Finally, the last 12% reduction in tariffs against old EEC countries and a similar reduction against the rest of the world, further intensified competition on the home market.

In summary, industry is growing at the rate which was to be expected from holding our rate of industrial costs in line with our major competitors and the continued success of the IDA in attracting new industries to Ireland. An increase of 10% in output and about 8,000 additional jobs, has shown that industry in Ireland has remarkable resilience and has the capacity to respond to a favourable trading environment.

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Objective

However, an increase of 10% in output and about 8,000 jobs is not enough to meet the needs of the economy. Registered unemployment, although falling, is still exceptionally high and there will continue to be a big increase in the new entrants to the labour force.

The objective for the next year should be to raise the rate of increase in industrial output closer to 15% and the rate of increase in manufacturing employment from 8,000 closer to 15,000, the level necessary to approach full employment over the next decade.

I believe that this objective can be achieved if the following conditions are met :

1. Industrial costs in Ireland should remain in line with our main trading partners for 1977 and 1978. For example, the ESRI has forecast a rate of increase in Irish industrial earnings about 5% higher than that estimated for Britain by the NIESR. Some of this differential is due to a higher rate of economic activity, involving more overtime, higher bonus payments and the effects of a more rapid rate of industrial restructuring in Ireland - as capital intensive firms replace some of the more traditional labour intensive units. These factors, however, are unlikely to account for a gap as large as 5%. It will, clearly, be necessary to recover this slippage in costs in 1978. Additional increase in output and employment can be gained by having a slower rate of earnings growth in Ireland than in our major trading partners.

Some commentators have pointed out that average unit wage costs in Irish industry increased less rapidly than our competitors during 1976. Three points need to be emphasised. This favourable movement was strongly influenced by the addition of a small number of high output,

low employment, capital intensive new industries. Secondly, an improvement in unit costs can be achieved by firms which have to cut back output, employment and product lines in order to compensate for higher relative increase in major elements of costs. For example, over the last five years, unit costs in the clothing and footwear sector have risen broadly in line with our competitors but this had to be achieved by a 12% reduction in output and a 30% reduction in employment to counteract higher production costs.

Thirdly, unit costs movements must be considered over a longer period than one year, particularly in periods immediately before and after a recession.

2. That new enterprises continue to be attracted to set up in Ireland at a similar rate in 1978 as in 1977. It must be recognised that there is likely to be increased competition from other EEC member states, who also have high unemployment, for these mobile industries.
3. Firms supplying the home market should be given similar fiscal concessions to exporting firms in order to stimulate a greater rate of new investment by established industry. Special consideration should be given to the need for increasing the per capita investment to European levels in the most labour intensive sectors.
4. Immediate solutions must be found to counteract the British Temporary Employment Subsidy, which is continuing to have serious effects on output and employment in the textile and clothing sectors.
5. Action is required to counteract the effects on the food processing sector of lower raw material prices in Britain because of her decision not to devalue the Green Pound. This is having a serious effect on segments of meat processing and confectionery industries.
6. A cut in manufacturing employers' social taxes to provide a single major boost to improving the competitiveness of Irish firms.

If these conditions are fulfilled and, assuming that there will be no deterioration in the current rate of growth in international trade or major disruptions such as a new oil crisis, it seems possible that the rate of growth in industrial output could be boosted closer to 15% in 1978.

In conclusion, I would urge that the expansion of output and employment in the exposed market sector of the economy - manufacturing, mining, agriculture, tourism and exportable services - should be regarded as the primary objective. Undue emphasis on the non-productive, sheltered sector would run the risk of reducing the resources available for expanding the productive base which is the only sound foundation for a healthy economy. Investment and capacity expansion is the key to sustained growth.

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