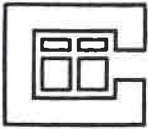


Confederation House
Kildare Street, Dublin 2
Telephone 779801
Telex 24711
T'grams Confindus Dublin



Registered in Dublin
Registered No. 8706

PRESS RELEASE

The Confederation of Irish Industry

Speech by Liam Connellan, Director General, Confederation of Irish Industry at Dublin Viking Rotary Club Lunch at the Clarence Hotel on Wednesday, 22 September 1982 at 1.00 p.m.

CREATING EMPLOYMENT

UNEMPLOYMENT

The Confederation of Irish Industry shares the grave concern of the public at large about the current rising trend in unemployment. With a net inflow of 15,000 young job-seekers into the workforce each year over the next decade, and little prospect of sufficient new job creation to keep pace with this inflow, a fundamental re-examination of current economic policies is called for. We must find ways of bringing about a very significant rise in the level of sustainable employment. By sustainable employment I mean employment that is self-financing in the long run. The resources invested in creating a job opportunity must be fully regenerated. This occurs when the output created by inherent productivity of the work done surpasses the initial costs of investment. Employing two people to do work which could be effectively done by one is of benefit to no-one in the economy. By not fully remunerating the costs of borrowed funds, inefficient activities impose a drain on the rest of our resources and reduce our ability to create sustainable employment. In the private sector profits are merely the excess of the value of output created over the costs of funds borrowed and the other costs incurred in production. When a private firm cannot cover these costs, as has happened to all too many private firms over the last three years, it is forced into liquidation. The unproductive use of resources in the public sector only becomes apparent over time with the increased burden of taxation. We must ensure that none of the scarce resources of our society are used inefficiently in either the public or private sectors.

THE SERVICES SECTOR AND EMPLOYMENT

Ireland, as in other developed countries, has about half of national output accounted for by the services sector. The services sector consists of both the public sector services and the extensive number of private service activities, including activities such as transport, distribution, communications and banking. All of these activities are directly dependent on the output of the productive base and can be expanded only as the value of output in the productive base increases, except where service activities are directly earning foreign revenue.

The productive base consists of primary activities such as agriculture and industry. The nature of our productive base has changed substantially in the past 25 years and industry now accounts for 78% of the value of all productive output. Thus Ireland is now an industrial economy in the sense that living standards and employment depend on the health of our industrial sector. The Industrial Development Authority has estimated that for every new industrial job created, an additional position in the service sector can be supported. Private service activities will only increase in response to demands generated by the expansion of income in the productive sector. Public sector services generally are not subject to the same economic pressures.

Over the past two years there has been a net gain of 9,000 public sector employees, while industry had net losses of 20,000 and private services net losses of 10,000. Increases in the public sector employment of this magnitude have imposed an intolerable overhead burden of taxation and costs on the private sector and are a significant cause of redundancies. The services sector, both public and private, could expand once a profitable and growing industrial sector is well established. The problem with putting the cart before the horse is that literally you can not go forward. Worse still it causes the industrial sector to decline.

COMPETITIVENESS

For three years now, the Confederation of Irish industry has been sounding warnings about the continual loss of competitiveness of the Irish economy. Massive increases in Government expenditure have diverted resources from productive uses to areas where tests of profitability and value do not apply. This has greatly increased the burden of taxation, induced inflation and set all-time records in the interest rates private borrowers have to pay. Other countries are also facing difficult conditions but none of our main trading partners has our combination of huge Government debt, high inflation, record interest rates and massive balance of payments deficit. Our interest and inflation rates have been as much as ten percentage points higher than many of our major competitors in the past year. This squeezing out of the productive sector is not surprising when Government soaks up such a high proportion of available resources. On the financial markets for instance, the Irish Government borrowed 59% of all available credit in the economy. As recently as 1977 that proportion had been only just half of that at 30%. Total public debt is continuing to escalate at a rate in excess of £150 million per month. Privately financed investment as a proportion of output has fallen by 44% in the last three years.

How are we to restore the damage that has been done? Before the major losses of competitiveness against EMS countries we had been pursuing a sensible industrial policy which offered attractive profit based incentives to locate here. Incentives cannot compensate for basic losses of competitiveness. Last year 20,000 new industrial jobs were created but these were swamped by job losses of 25,000. This year the gap is expected to be such that a net loss of 9,000 industrial jobs will occur. The Industrial Development Authority has warned in its recent Annual Report, that "We must reduce across the board costs to industry to competitive levels in the next 12 to 14 months. If this is not achieved, the underlying rationale for investment in Ireland will be undermined."

INDUSTRY A MAJOR CONTRIBUTOR TO THE EXCHEQUER

Industry is a major contributor to the Exchequer. It accounts for over three quarters of the productive output of the economy and supports the greater part of total employment which provides the taxation base.

Industry and its employees directly contribute about one third of total revenue, and industry supports service activities which contribute at least a further third of tax revenue.

The burden of inflationary costs and taxation is now so great that the industrial base itself is being severely damaged.

And inflation can be reduced rapidly. At present imported products contribute only about 3% to our annual inflation rate. The remainder is domestically generated. Our inflation rate is falling rapidly and is expected to be about 14% by November. The reduction must be continued into 1983. A policy of containing cost increases in line with our main competitors, and reducing the current budget deficit by cutting day to day Government spending will reduce inflation rapidly to single figures. It is essential that there is a clear realisation of the fact that inflation is now almost completely within our own control.

By reducing the inflation rate living standards will be maintained at a higher level than would otherwise have been possible. Living standards throughout the economy depend on the health of our industrial base. This has been damaged by inflation rates far in excess of our major competitors over the last three years, leading to lost orders and redundancies.

Incentives to industry which reduce, for instance, the rate of taxation on profits, are of little use if inflation has increased costs to such an extent that no profits are being made. For more

than two years now we have witnessed on average two factories closing down every week; and over the last year almost 100 people have joined the unemployment list every day. If we want sustainable jobs, we must first create conditions for profitable investment. Incentives are inadequate if levels of competitiveness are out of line with competitors. Industry has to bear a very substantial burden of both a direct and indirect nature.

The Confederation's call for reduced current public spending is aimed at cutting inflation so that more orders can be obtained for Irish goods even in depressed international markets, and so that output and employment can begin again to grow.

Industry is concerned that the poor and most vulnerable people in our society are protected in this process. While calling for the introduction of charges for many services currently provided free to all, we have recommended the introduction of a means test to ensure that services can continue to be provided free to those below a certain income level. It does not make sense that the development of productive output and badly needed jobs should be hindered by the cost burden of providing free public services to everyone, irrespective of means.

CONCLUSION

The economy is in serious difficulty. Industrial output has stopped growing and job losses in industry and private services are escalating. The overhead burden of public expenditure continues to grow, thus reducing the productive base further. This process can only be reversed by bringing down inflation and restoring competitiveness to Irish industry - an objective which can only be achieved by major reductions in the inflationary burden of Government spending.

END