15

Speech by Liam Connellan, Director General, Confederation of Irish Industry at Meeting of Junior Chamber Nenagh on Wednesday, May 26, 1982 at 8 p.m. at the Ormond Hotel.

URGENT NEED TO CUT INFLATION

The signs of some modest growth in industry during the coming months must be interpreted with caution. Earlier this week, the OECD indicated that the outlook for economic recovery in Europe and North America remains bleak.

The degree of recovery in Ireland will depend, not only on the international economic climate, but also on our ability to control inflation. Over the last six months export prices and import prices for manufactured products increased at an annual rate of only 7½%.

The rate of inflation in our major trading partners is falling. On Friday last, it was announced that Britain had achieved single figure inflation over the last twelve months. Inflation in the United States is 7%; in Germany 5%; and in Japan 3%.

The declining rate of international inflation has two major implications for the Irish economy. Firstly, it means that imported inflation is now running at a very low rate and, mainly because of this, inflation in Ireland over the remainder of the year is likely to fall by about a third from the present level of 20%.

The second major implication is that the competition faced by Irish products on the home market and on export markets continues to intensify. When Irish inflation persists at a rate significantly ahead of our major trading partners, it is inevitable that the output of established industries declines. Were it not for the contribution of new overseas firms over the last twelve months, there would have been a considerable fall in industrial output. This can be seen from the performance of the predominantly "new" industrial sectors such as electronics, where the output expanded by about a third or chemicals which showed a 9% increase in output, while there was no growth in the output of the clothing and footwear industries; the output of woollen textiles fell by 20% and that of the paper and printing industry by 6%.

It is essential that the rate of inflation in Ireland is quickly reduced to single figures. This means there is no scope for additional taxation increases or little scope for other public sector charges which would add further to inflation during 1982.

Inflation Mainly Domestic

Over the last twelve months the major part of Irish inflation has been domestically generated. In other words, it has been within our own control. Import prices have accounted directly for only about a fifth of current inflation. The remainder has been due to a combination of high income increases; indirect taxes to fund the increased public sector pay bill; the rise in unemployment payments; and a reduction of the current deficit. High cost inflation has led to a loss of orders and increased unemployment which, in turn, led to more inflation and further cost increases.

The main cause of the increasing burden of taxation has been the inexorable increase in day-to-day public spending. The proportion of national output absorbed by day-to-day spending has increased from 29% in 1970 to an estimated 49% this year. Higher taxation can only be avoided by curtailing public expenditure to the level which can be financed by current levels of taxation.

These issues are vitally important to industry. Levels of taxation and inflation have a direct bearing on industrial costs. For example, over the last year, taxation in industry has been increased by advancing Value Added Tax and Corporation Tax payments; increased PRSI payments; increased Capital Taxation; increased taxation on petrol and diesel oil, and on company cars; and there have been major increases in charges for electricity and post and telecommunications. The cumulative impact of these increases has had a severely damaging effect on industrial competitiveness.

Prospect of Lower Inflation

Irish industry must compete internationally. To do this the rate of inflation in Ireland must be reduced to international levels. Inflation can be reduced by one third before the end of 1982 and it can be reduced to single figures in early 1983 - if the Government does not add more points to inflation in order to pay for increased public expenditure.

The primary, social and economic objective must now be to bring the Irish rate of inflation down to the level in our major trading partners of about 7%. This will enable the sectors of the economy, such as manufacturing industry and agriculture, which are exposed to international trading to compete for orders at home and abroad. It will enable the productive output of the economy to expand as the world economy emerges from the recession. It will enable sustainable employment to be created.

We must understand that additional taxes, causing additional inflation, will cause higher unemployment as Irish firms lose business.

We must be confident in our ability to control inflation and increase output and employment. Everyone benefits when Irish goods become more competitive. We must work together to achieve this end. We must all agree that the first priority is to obtain more orders for Irish products which will increase employment and cut the dole queues.

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