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PRESS RELEASE

The Confederation of Irish Industry

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Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry at the Dundalk Chamber of Commerce Annual Dinner at Ballymascanlon House Hotel, Dundalk, on 10th November 1976 at 8.30 p.m.

INTRODUCTION

This evening I would like to take a look at current developments in our economy and to make some comments on the path towards recovery and growth.

At the moment, industrial output is slightly higher than its pre-recession level. However, this recovery is more than accounted for by new firms from abroad, which started production during the last two years. The output of industry which was operating in the spring of 1974 is still very much lower today than its pre-recession level. Total industrial employment is 16,000 lower, since labour intensive firms have had to reduce their work forces because of the combined impact of the recession and falling competitiveness. Unemployment, at 108,000, is at a record level for this time of year and, because of additional taxation measures introduced in order to pay for higher levels of current public expenditure, our inflation rate is now running, approximately, 5 percentage points ahead of Britain.

The recent Green Paper and the NESC Report "Prelude to Planning" both emphasised that the economy can only be developed by stimulating the growth of the productive sector and, in particular, the manufacturing sector. Due to a combination of the drift from agriculture, a growing labour

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force, and a high unemployment level, it has been estimated that 30,000 net new jobs per annum are required, outside agriculture, each year over the next decade in order to reduce the unemployment rate to 4% - if there is not to be a reversion to emigration.

At least 15,000 of these net new jobs must be provided by the manufacturing sector. Growth in manufacturing employment of this magnitude requires a 15% annual growth rate in the volume of output, since productivity must be continually improved to keep up to date with international change in technology. This growth rate in manufacturing output is twice as high as the rate achieved in the decade prior to the recession from which we are now emerging. However, it can be achieved if it is regarded as the priority aim. Each job in manufacturing will generate the need for, at least, one further job in the services sector.

It is useful to examine how the trading performance of Irish industry has developed during recent years. Since 1970, inter-European trade has grown by about 8% per annum. During this period, the volume of Irish industrial exports grew by about 10% per annum. However, when the contribution of new firms, which came on stream since 1970, is excluded, it is estimated that exports from existing industry have grown much more slowly - by about 5% per annum, or 3 percentage points less than the growth in European trade. It is no coincidence that, during the same period, Irish hourly earnings increased by about 2% faster per annum than international competition.

Existing Irish industry has, therefore, lost its share of European trade, more or less, in proportion to its higher rate of labour cost increase. I recognise fully that labour

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cost is not the only factor influencing the total cost of production. This is made up of a combination of, at least, three major factors : The quality of the machinery available; the cost of labour,and the management skills which are applied to combining these and the other resources of the firm to the best effect. However, purchase of new machinery can only be based on economic grounds and, since the average return on money invested in Irish industry is not much more than half the interest rate payable on loans, major improvements are unlikely until further investment can be justified economically. Irish managers are as hardworking, competent and innovative as their counterparts anywhere, but must strive continually for further improvement. It can safely be assumed that our competitors are striving equally hard to improve their management skills. This leads us to a consideration of the third area, that of labour cost.

I am not advocating a low wage economy. Ireland is not a low wage economy. Five years ago, the average hourly earnings of industrial workers in Ireland were 16% less than those in the U.K. Today, this gap has all but disappeared and, indeed, in many industrial sectors average hourly labour costs in the Republic are significantly ahead of those in regions such as Northern Ireland, Scotland, Wales and the North of England. This has major implications for a small open economy, which must sell its products in the more densely populated areas of Britain and the Community. If raw materials must be imported to Ireland, processed at higher cost, and then re-exported to the more densely populated areas, can production here be justified? When tariff barriers were high, the industrial output of firms manufacturing for the domestic market was not very sensitive to a more rapid movement of labour cost here than in other countries. Now that we operate in a free trade area with 55 million people, and within eight months, shall be operating within a free trade area with 250 million people, it must be recognised that industrial output is extremely sensitive to small changes in the relative cost of production.

MAINTAINING COMPETITIVENESS

Approximately half the output of Irish industry is sold abroad and if industry is to grow at the required rate, this proportion must increase. It is assumed that intra-European trade will grow by about 10% in volume during 1977. It seems a reasonable assumption that, if the cost competitiveness of Irish industry can be maintained, the growth in volume of exports from existing Irish industry will be about 10%.

When allowance is made for a 2% growth in sales on the home market, combined in equal proportions with a 10% growth in export volume, it is estimated that the total volume of output from existing industry could grow by about 6% during 1977. To this should be added a further 4% for the contribution of new firms from abroad, giving a total growth in industrial output of 10%, and a rate of new job creation, by the end of the year, of 10,000 per annum (allowing for a 5% growth in productivity). However, it is estimated that maintenance of competitiveness with Britain for 1976 and 1977 taken together, would require a zero gross pay change until the end of 1977.

During the last week, two approaches to pay increases for 1977 have been put forward.

> The Government has suggested a zero gross pay change, in combination with an expenditure of £50 million on personal tax concessions; and adjustments in employees' social welfare contributions in order to benefit the more lowly paid. These proposals would increase average take-home pay by about 3%.

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On the other hand, the Employer-Labour Conference is reported to have opened with a demand for an initial gross pay increase of, at least, 7% on average.

The single, most important objective must be to maintain and, indeed, improve the competitiveness of industry so that manufacturing output can be expanded at a 15% rate, thereby allowing substantial increases in employment. It is, therefore, essential that the zero gross pay change approach, with tax concessions and social welfare adjustments, should be adopted in order to develop productive output and employment. This is in line with the recommendation of the NESC Report "Prelude to Planning" which stated "The main aim of the 1977 budget should be to make the maximum contribution towards an increase in industrial competitiveness."

RECOMMENDATION

I would strongly recommend that, in order to achieve a zero gross pay change to the end of 1977, tax cuts should be increased to £75 million, giving a $4\frac{1}{2}$% increase in take-home pay. The effects of this approach compare more than favourably with those of 7% increase in gross pay with no offsetting tax cuts.

A zero gross pay change to the end of 1977 would result in a growth of 10% in the volume of industrial output during 1977 and would lead to the creation of new jobs at the rate of 10,000 per annum by the end of the year.

With a 7% pay increase,industrial output would grow by about 3%. However, this would result in a decline at the rate of about 4,000 per annum in manufacturing employment, as firms phased out production lines which become uneconomic, and also, found it necessary to replace people by machinery.

The annualised cost to Government, over a one to two year period, of the tax relief approach would be no higher than that for the 7% pay increase, with no offsetting tax cuts approach. In the tax relief case, Government would have offsetting revenue from additional income tax receipts, due to higher employment; additional social security contributions; and a saving on unemployment payments. In the second instance, the Government would incur icnreased expenditure on public sector pay and higher unemployment payments, and in addition, would receive lower social security contributions. These costs would be balanced, in part, by increased income tax revenue, due to higher salaries.

TAKE-HOME PAY IMPLICATIONS

I now wish to examine the affects of each approach on take-home pay for a manufacturing labour force of 200,000, of whom 10,000 are currently unemployed. (This is, approximately, the net number of people who lost their jobs in manufacturing industry since the beginning of last year).

a) If the zero gross pay change , combined with a 4½% increase in take-home pay as a result of tax concessions, approach is adopted, the 10,000 unemployed would become re-employed.

   The effects on average take-home pay would, therefore, be as follows :

   190,000people would receive tax concessions equal to 4½% on take-home pay, and 10,000 would receive increases in take-home pay of, at least,15% on becoming re-employed (difference between after tax income and social security benefits) plus the 4½% tax relief, totalling 20%. Combining these two, the overall labour force would receive, on average, an increase of 5.3%.

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b) If the second approach of a 7% gross pay increase, without compensating tax concessions is adopted, employment will fall by 4,000.

Thus, only 186,000 would receive a gross pay increase of 7% equal to an estimated increase of 4.9% after tax is deducted. The 4,000 who become unemployed would suffer a decline of, at least, 15% as they move on to social welfare benefits, and the 10,000 originally unemployed would experience a further 10% decrease in benefit, as they drop to lower rates of pay-related. Combining these, the total labour force of 200,000 would receive an average increase of 3.9% - or 1.4 percentage points lower than under the first approach.

However, this does not accurately reflect the situation, since the average inflation rate for the year would be, at least, one percentage point higher under this second approach and, therefore, real income would be of the order of 2.4 percentage points lower.

It seems clear, therefore, that a zero pay change, in combination with

i. personal tax concessions which will allow a 4½% increase in take-home pay, and

ii. some restructuring of employee social welfare contributions in order to benefit those who do not pay tax

would offer a solution which would, at the same time, be more beneficial to industry, its employees and the unemployed. It would allow competitiveness to be maintained, the industrial base to be developed and confidence to be restored in the economy.

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SPECIFIC ADDITIONAL MEASURES

The Confederation has also proposed additional measures to bridge the gap between the 10% growth rate which is achieveable by maintaining competitiveness, and the 15% growth rate which is necessary to generate net new jobs at the rate of 15,000 per annum. These include a combination of expenditure on essential construction infrastructure, social tax reductions for labour intensive industries, additional funds for CTT in order to assist export marketing, removal of taxation from profits which are ploughed back into industry for further investment and a reduction in the recently imposed hydrocarbon tax on manufacturing industry.

I believe that some combination of these measures would provide the desired result. The required funds must come from a reallocation, rather than from an expansion, of Government expenditure, already well in excess of £2,000 million. Government has stated that it is prepared to expend £100 million on a combination of personal tax concessions and a job creation programme in return for a zero gross pay change agreement.

Since taxation rates have already reached their limit, further funds can only be obtained by reallocation of Government expenditure, greater efficiency and more selectivity in the provision of services.

CONCLUSION

The international trading outlook for 1977 is for moderate growth. Since Ireland supplies less than 1% of the total goods consumed in the EEC, output and employment can be expanded, even during a period of sluggish growth in international trading. Industry can and will respond to the challenge of expansion and job creation. All of us, working together, can solve the unemployment problem. Let us have the confidence to create a bigger cake and, afterwards, to agree on its division in the light of the investment and employment needs of the economy.

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