Speech by Liam Connellan, Director General, Confederation of Irish Industry at CII Mid-West Regional Council at 2.30 p.m. on Wednesday, 19 November 1980 at Cruises Hotel, Limerick.

MANUFACTURING PROFITS ARE BEING SQUEEZED

Profits are essential to provide money to finance investment. When profit margins decline, industry has less money available for machinery and working capital. Over the last year, there has been a considerable reduction in manufacturing profits due to the impact of the recession and rapidly rising costs.

Since investment is essential for growth and industrial growth is the only way to develop a modern economy, this decline in profitability is a major cause for concern. How has it happened? Industry is caught in a squeeze between the low prices available in the market place and rapidly rising costs. For example, wholesale prices in Ireland have risen only by 9% in the year to June, and there are indications that this rate of increase has declined since. Export prices have risen by about 10%. This has occurred because of intense competition, caused by the recession and also the low rate of cost inflation in major competing countries such as Germany, the Benelux, Scandanavia, the United States and Japan. On the other hand, Irish domestic costs have been rising at an annual rate of about 17%. The majority of these costs are related to the rate of pay increase, which is also reflected in the cost of services such as postage, electricity, and transport.

The prices which Irish manufacturers can get for their products are determined by international competition. Ireland joined the European Monetary System in the expectation of developing the disciplines which would result in low inflation. Industry supported this decision, and continues to support maintenance of the value of the Irish currency within the European Monetary System. This means that the prices which Irish manufacturers can obtain for their products will continue to remain in the 5% to 10% range.

The main action required for industrial survival must, therefore, be to reduce our rate of cost in line with that of other EMS countries. A reduction in the general rate of inflation to European rates must become a top priority.

Industrial Costs

The rate of industrial cost increase must be brought into line with that of the low cost inflation countries of the EMS. This requires :

1. Rapid improvements in productivity. Every element of inefficiency in the economy is eventually reflected in the cost of internationally traded goods. Inefficiency contributes to the rate of inflation for which people tend to seek compensation in order to maintain living standards. The costs of the sheltered services sector, both public and private, end up directly or indirectly as a charge on industrial products.

   There is need for a massive and sustained drive to raise productivity levels in all sectors of the economy. This requires managerial attention to detail and the elimination of inefficient or restrictive work practices.

It also requires an enthusiastic acceptance of change, and a continuing questioning of traditional practices. Industry is prepared to play its part fully in taking measures to achieve higher efficiency. It has no choice but to do so. It wants the same ethos to permeate every part of the services sector, both public and private.

2. Reducing hydrocarbon taxes. Irish industry has to pay the highest tax on industrial oil in the European Community. Because of our peripheral geographical location the tax exclusive price of oil is already high by international standards. The 12% to 15% surcharge on industrial oil,which was imposed in the 1980 budget,removed £40 million from industry in 1980. This was enough to finance the working capital required for 8,000 industrial employees. Abolition of this tax would enable industry to become more competitive, obtain more orders, increase output and reduce job losses.

3. Vulnernable industries. The most seriously affected industries at present are those which are most labour intensive. These include industries such as textiles, clothing, footwear, furniture, parts of food processing and engineering. These industries have also suffered most from recent pay increases because of the high proportion of product costs which pay represents.

I would recommend that the employers' contribution, for labour intensive manufacturing firms, should be reduced from 10% to 3% in order to improve the competitive position of these industries.

There is precedent for the application of differential employers' social contributions in other European countries.

4. Increase investment in labour intensive industries.
The gap in productivity between industrial sectors in Germany and Ireland is greatest in labour intensive industries. By narrowing the gap and reducing Irish unit costs, the competitiveness of these sectors can be greatly improved, and can make a significant impact on employment. One of the principal reasons for the gap in productivity is the low level of investment per capita in these sectors in Ireland. (See attached Table). The position can be improved only by creating the conditions which will make investment in these sectors profitable.

There is need for a crash reequipment programme which will quickly raise the productivity levels of labour intensive industries in Ireland much closer to Continental levels. This reequipment will reduce unit costs, improve competitiveness, increase output and secure employment.

Conclusion

These measures will help to stimulate industrial growth and to halt the decline in employment of established industries, now approaching 2,000 a month. Every 10,000 people who are unemployed cost the Government about £40 million in unemployment payments and tax revenue foregone. The cost of reducing operating taxes in manufacturing industry and increasing incentives for reequipment investment must be balanced against the huge cost of unemployment payments and of creating replacement jobs,

Industry wants to get back on the road to recovery. Since prices are determined by international competition, a recovery of industrial growth can best be stimulated by cutting costs.

I would strongly urge Government to cut operating taxes on industry during this period of recession in order to bring forward the recovery. The cost of doing so will be financed, in large measure, by higher tax revenue and lower unemployment costs, as employment begins to increase. The recovery of growth in industry is a prerequisite for a resumption of growth in the whole economy.

END

INVESTMENT PER EMPLOYEE - GERMANY AND IRELAND

	GERMANY	IRELAND	RATIO
	Investment/Employee 1977 (£)	Planned Investment/Employee 1975-77 (£) *	
Food, Drink & Tobacco	2081	783	2.7:1
Textiles	847	330	2.6:1
Clothing & Footwear	370	261	1.4:1
Wood & Furniture	1032	336	3.1:1
Paper & Printing	1268	402	3.2:1
Chemicals	2600	828	3.1:1
Metals & Engineering	1098	826	1.3:1
Other	1184	451	2.6:1
TOTAL	1331	695	1.9:1

* Irish figures relate to average IDA planned investment for domestic new industry, re-equipment and small firms in the period 1975-1977. No adjustment has been made for inflation in 1975 and 1976, but as the figures relate to average planned investment in these two years it is estimated that this is a reasonable indicator of what actually took place in 1977.