

Speech by Liam Connellan, Director General, Confederation of Irish Industry at IMI Western Region Meeting at the Salthill Hotel, Galway, at 1 p.m. on Monday, 15th November 1982.

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COST INFLATION RESPONSIBLE FOR MAJOR LOSS IN IRISH SHARE OF THE BRITISH MARKET

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The rate of unemployment in the Irish economy is the highest for many decades and the blame can be placed, to a major extent, on a factor within our own control - the high rate of Irish cost inflation.

Since Ireland joined the European Monetary System three years ago, industry has warned that increases in costs above the level of our competitors were leading to a loss of orders for our products. Lost orders lead quickly to lost jobs. The only way many firms have been able to survive over the last three years has been to reduce the size of their operations in line with their ability to obtain orders.

Despite the warnings of industry that high cost increases lead to lost orders, and hence to lost jobs, Irish costs have continued to increase at a rate well in excess of our competitors. The effects are all too obvious. There has been a net loss of employment in industry of 20,000 people in just two and a half years. This net job loss takes into account many thousands of new jobs created during the period. Without these, the total job losses in manufacturing industry would have been much worse.

The point I want to emphasise today is that a significant proportion of these losses need not have occurred. They were caused solely by excessive inflation.

It has frequently been argued that, while costs in Ireland were undoubtedly rising much faster than those in other countries of the European Monetary System, we could at least enjoy an advantage in trade with Britain because of the high value of sterling. It was argued that, since Britain accounts for about 40% of our trade, high cost increases would be tolerable. This argument ignores the fact that, when Irish manufacturers sell products to Britain, they are competing not only with home based producers in Britain but also with exporting firms from all other European countries and the rest of the world.

As a result of our high inflation rates, Ireland's share of the British market has declined seriously in the past three years. Between 1978 and the present the sterling value of British imports increased by 42% but imports from Ireland increased by only 36%. On the other hand, imports from low inflation EEC countries increased rapidly: by 60% from Germany, by 66% from Belgium and by 78% from the Netherlands. It is significant that the higher inflation EMS countries such as France, Denmark and Italy, although doing better than Ireland which had the highest inflation rate, also suffered losses in their share of the British import market.

The performance of Irish exports on the British market can also be analysed at a more detailed level. Ireland exports 250 different product categories to the United Kingdom out of over 1,000 product categories which are internationally traded. An examination of the performance of the countries we compete against in the British market in each of these 250 categories shows, even more clearly how our excessive increases have needlessly lead to job losses. We have lost market

share in 164 categories while making progress in only 81 - losses out numbering gains by two to one. In these same markets the Germans, with unit wage cost increases only one quarter as high as in Ireland, increased their market share in 95 product categories, while losing share in only 39, a favourable ratio of gains to losses of five to two. The Belgians, whose unit wage costs increased only one sixth as fast as in Ireland, did even better, gaining market share at our expense in 64 segments and losing in only 21 - a favourable ratio of three to one.

This leads to a third point of great concern in industrial development policy. The recently published Telesis Report recommended that particular emphasis should be placed on the expansion of indigenous firms so that they can sell their products on world markets. It was noted that in 1980, Irish owned industry sold 75% of its total exports on the British market. The Telesis Report recommended that this exporting base should be used as a jumping off point to increase sales to the rest of the European market.

This is most unlikely to happen while Irish industry continues to lose competitiveness so severely against European competitors on the British market.

To summarise, there is now evidence that Irish industry as a whole, has lost a significant share of the British import market to our lower inflation EEC competitors over the last three years. A more detailed analysis of the 250 product categories in which Ireland trades with Britain reinforces this conclusion. These findings and the direct relationship which clearly exists between higher cost inflation and lower market share, with its consequences for job losses, are of exceptional importance in the fight against rising unemployment.

The process of declining cost competitiveness has not stopped. This year Irish inflation is twice as high as that in Britain. Next year British inflation is expected to increase by only 4%, industrial productivity is increasing at least as fast as ours, and sterling is expected to continue on its present weak trend. Every percentage point that Irish costs rise faster than those in Britain and the low inflation European producers will lead to an even greater loss of orders by Irish manufacturers. The outlook for employment in the Irish economy is the most severe we have yet faced. We must clearly recognise that a major cause of this job loss has been the high rate of cost increase in Ireland. A small open economy has no other choice but to contain its rate of inflation strictly within the limits set by its major partners and these limits have now fallen to very low single figures.