



PRESS RELEASE

The Confederation of Irish Industry

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry to the FOREX Club (Foreign Exchange Dealers) at the Clarence Hotel, Dublin 2, at 6 p.m. on Tuesday, 6 March 1979

CONSTRAINTS ON INDUSTRIAL OUTPUT

Industry has Performed Well

During 1978, the output of industry in Ireland grew by about 9%, a rate faster than that in any other EEC Member State. In the first nine months of 1978 industrial employment expanded by 5,600 or at an annual rate of 7,500. This rate represents an annual rate of growth of almost 4% of the manufacturing labour force, indicating a productivity increase of about 5%. This productivity gain is broadly in line with the average achieved in other EEC Member States and indicates the current pace of technological change.

1978 was the first year in which Irish industry operated in a full free trade area of 500 million people without tariff protection.

But it could have performed better

The industrial growth rate of 9% was lower than that which could have been achieved for two reasons :

1. Average hourly earnings in Ireland in 1977 expanded at a rate which was 7% faster than in Britain, a market accounting for about half of Ireland's imports and exports. This was followed by a continued more rapid growth in average hourly earnings than in Britain during 1978. Average earnings in Irish industry are now higher than those in Britain in many industrial sectors. Since Irish firms operate at a greater distance from the main population centres, these excess transport and wage costs must be compensated for by higher productivity. Unfortunately,

there is very little evidence to demonstrate that productivity in established Irish industry has grown more rapidly than in Britain. As a result, many firms have had to cut back on production which had become unprofitable, with consequent effects on output and employment.

2. Industrial disruption : During 1978, there was a large number of industrial disputes in public services which are vital to the operation of industry, for example,
 - telecommunications
 - air transport
 - electricity

There can be little doubt that if Irish cost developments had been broadly in line with our competitors in 1977 and in 1978, and if the disruptions in vital public services had not taken place, industrial output could have been 2% or 3% higher and employment about 3,000 higher.

Some Problems must be Solved

These are :

1. Getting down the rate of inflation
2. Interest charges have become uncompetitive
3. Industrial dispute procedures often disregarded
4. Telecommunications development urgent
5. Road congestion wasting time and scarce energy
6. Manpower requirements changing rapidly

1. Getting down the rate of inflation

At present the Irish economy is at a crossroads because of the probable introduction of the European Monetary System. Adjustment to this system demands a major change

in attitude from everyone working in the economy. For the first time, Ireland can directly influence the exchange rate of the Irish pound and, therefore, the inflation rate.

This is particularly important at present when pressures on oil prices and supplies are likely to have adverse effects in every Member State of the European Community.

Ireland must not lose the opportunity of bringing its inflation rate down to the average level of 5% prevailing in most EMS economies. This can be done without sacrificing living standards and would ensure greater equity in the distribution of the taxation burden.

When inflation is high, industrial profits are used up in financing the working capital needed to maintain production and, frequently, not even that is possible and jobs are lost. High inflation gives people who work in industry illusory increases because prices are rising rapidly and an increasing proportion of total income is taken by taxation. In addition, the State's appetite for taxation or borrowing increases as it adjusts public service salaries and attempts to maintain the volume of public expenditure.

When inflation is low, profits earned by industry can be used for expansion and to create additional jobs. The State can keep within its budgeted expenditure on salaries and fulfil its capital expenditure without the need for higher taxation. A lower proportion of people's incomes is taken in taxation, and social welfare recipients enjoy higher living standards than would otherwise have been possible.

2. Interest rates have become uncompetitive

Lower inflation should mean falling interest rates. It is vital that the Central Bank should take immediate steps necessary to ensure that the imposition of exchange controls against Britain does not result in a short-term increase in Irish interest rates. The Irish industrial borrower cannot afford to pay up to 3% more than his British counterpart for funds as many must now do. I recognise that major changes cannot be introduced without some difficulties but the Central Bank must ensure that funds are made available to industry at competitive rates. If this is not done, industrial investment and employment will suffer.

3. Dispute procedures often disregarded

The continuance of industrial disruption in the public service is causing severe difficulties for industry. Public servants have been given a degree of security far in excess of that enjoyed by private sector employees. They have a clear obligation to follow agreed industrial relations procedures for the resolution of disputes. Without prejudging the result, I find it difficult to understand why the Government's offer of independent arbitration in the post office dispute has not been accepted. The people who suffer most are always the thousands of unemployed whose job prospects are diminished because of the damaging effect on industrial output and employment.

4. Telecommunications development urgent

I would point out again that Ireland has only 15 telephones per 100 of population, compared with 30 in the rest of the Community and 68 in Sweden. I recognise that numbers are not the only criteria. We also need a high quality system. The Confederation is firm in the view that an industrial operation of this nature is not suitable for location within the Civil Service structure. The expertise is available

internationally to provide us with a system of the highest quality. It should be availed of as a matter of urgency.

5. Roads congestion wasting time and scarce energy

The congestion in Dublin and around major ports must be eliminated. Lost time and scarce energy wasted due to delays in getting to work, or by commercial transport firms in gaining access to ports and distribution centres, eventually emerge as additional costs on Irish exports. For example, lorries average 40 miles per hour on continental roads and 25 miles per hour on Irish roads; it takes three hours to travel by car from Dublin to Galway when it should take two; it takes four hours to travel from Dublin to Cork when it should take 2½, if the roads were up to international standards with major towns bypassed.

This country needs an efficient major road network which will cut costs, increase efficiency and reduce regional disparities. The Government has promised the publication of a major road plan in the near future. Let us hope that it will also contain a schedule for action.

6. Manpower requirements changing rapidly

The changing structure and rapid development of industry is creating demands for many more mechanical, electrical and production engineering graduates; electronic technicians, draughtsmen, toolmakers and fitters; and data processing personnel. Already the computer manufacturing industry is larger than such traditional industries as furniture and footwear.

It is vitally important that the universities, colleges of technology, vocational and training organisations adapt quickly to ensure that the education and training currently provided is relevant in quantity and quality to the needs of the 1980s.

We cannot afford the luxury of consuming resources to provide people with qualifications and skills which are obsolescent or irrelevant, when industrial expansion may be constrained because of shortages of key personnel.

Conclusion

Industry has demonstrated that it has the capacity to perform in line with the requirements of the economy. The international trading environment has become much more uncertain in recent weeks because of pressures caused by oil supplies and prices. It is, therefore, even more important that the growth in industrial output is maintained by keeping Irish cost increases competitive and avoiding disruption in the public service. The Confederation shares with the Irish Congress of Trade Unions the goal of creating the greatest possible number of sustainable jobs in the economy. The possible introduction of the European Monetary System within the coming weeks provides Ireland with a unique opportunity to reduce the rate of inflation, thereby increasing the reward for working rather than for owning assets; and to create many thousands of additional jobs. The European Monetary System provides a special challenge to industry and the trade union movement to work together for the good of the whole community and to create urgently needed jobs.

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