

Speech by Liam Connellan, Director General, Confederation of Irish Industry at Annual Dinner of Mullingar and Districts Chamber of Commerce, at the Bloomfield House Hotel, on Friday 5th March 1982 at 8 p.m.

RISING PUBLIC COSTS PUTTING PEOPLE OUT OF WORK

After twenty years of expansion in output and employment, industrial activity has plateaued since 1979. Industrial output has stopped growing; the contribution from new industries has been offset by the closure and contraction of existing firms and employment in manufacturing has dropped by 9,000 and 7,000 in 1980 and 1981 respectively.

When the output of the manufacturing sector stopped growing, total employment in the economy began to decline and unemployment increased dramatically by 34,000 in 1980 and 19,000 in 1981.

During the first two months of this year, manufacturing output has remained weak and unemployment continued to rise to new record levels. Major firms in paper manufacture, meat processing, and textiles have indicated likely closure, while many other firms in industries as diverse as furniture, pottery, mechanical engineering and electrical goods have announced significant reductions in staffing levels.

Much of this reduction in manufacturing employment has been due to the impact of the international recession, which has persisted for longer than most commentators expected. Indeed,

the United States business index last month fell to a lower level than it had reached in the autumn of 1980, which, until now, had been regarded as the low point of this recessionary cycle.

A great part of our difficulties in Ireland have been due to the declining competitiveness of many Irish manufactured products.

There are many factors which influence competitiveness other than price - these factors include design, quality, packaging, delivery dates, after sales service, and marketing effort. However, effort to improve in all of these directions requires money for investment earned through profitable sales. Dwindling profit margins, due to escalating costs, make investment in these areas almost impossible.

Impact of Pay Cost Increases

The main clearly identifiable change which has taken place over the last three years, has been the escalation of Irish costs at a much more rapid rate than our competitors.

Pay accounts for 77% of non-agricultural income in the economy. Pay costs are, therefore, by far the major component in Irish domestic costs. The following developments are of major importance :

1. Over the last three years, Irish pay costs increased twice as fast as the average in Germany, France, Belgium, the Netherlands, and Denmark.

2. The squeeze on Irish manufacturing margins increased in 1981. In the second half of the year sterling weakened against the Irish pound and the costs in Irish pounds of British goods stopped rising on the British and Irish markets. As a result, many Irish manufacturers could not increase prices and were frequently under pressure to reduce them.

3. The labour cost per unit of output is the most important criterion. In the spring of 1980, Irish labour costs, per unit of input, were 86% of the German level, but by autumn 1981, had increased to 95%. What will the ratio be at the end of 1982?

These figures relate only to direct labour costs within the factory and do not take account of the higher transport, telecommunications, and energy costs imposed by our location on the periphery of the EEC. It is easy to see how many Irish goods have become uncompetitive.

Imports have grown much faster than exports and hundreds of Irish factories have had to contract production and reduce employment. About 80 factories have closed in each of the last two years.

There is ample evidence that many established industries have already been priced out of export markets and, that if our costs continue to rise faster than those of our competitors, there will be no resumption of industrial growth. It is foolhardy to continue increasing domestic costs twice as fast as our competitors and, as a result, raising the Irish inflation

rate through higher prices and higher taxes. Irish inflation is now largely within our control. To the extent that it rises above the 7% to 8% rate expected in our main competing markets in 1982, more people will lose their jobs. Whatever Government takes over next week must cope with this reality. Industry itself can control its direct labour costs, but it has no control over the cost burden imposed by the State.

Costs Imposed by Government

Government must play its role in cutting cost inflation by controlling its administration costs and other expenditure within the 7% to 8% limits of our main competing markets. One cannot ignore the fact that our main trading partner, Britain, has set a 4% limit for the growth of the total public sector pay bill in 1982. It is not good enough that the cost of vital services to industry should increase at rates far in excess of those in our main competing countries. These increases are responsible for putting people out of work in manufacturing firms exposed to international competition.

This applies irrespective of which administration takes office next week. The following increases are implicit in either the proposed budget or the alternative budget :

- . Increase of about 30% in the absolute of the employers' social insurance contribution

- . An increase in postal and telecommunications revenue of 39% in 1982 compared with 1981 which will make most Irish postal charges the highest in the EEC.

- . An increase of 34% on petrol tax and 44% on diesel oil tax.
- . A continuation of the hydrocarbon tax which makes current Irish energy costs the highest in the European Community.

I accept the desirability of having an economically viable and competitive oil refinery in the country. However it is essential that the energy cost burden on industry, already the highest in the European Community because of our geographical location and hydrocarbon taxes, should not be increased further. Irish industry needs its essential energy requirements of oil and electricity at competitive European prices.

- . The imposition of a £15 - £20 million bank levy, which would reduce the lending capacity of the banks by up to £300 million in line with current Central Bank regulations.
- . The bringing forward of VAT payments on imported materials or components for use in products manufactured for the home market.
- . Additional taxes on business travel and insurance.

In this way the cost increases incurred in the sheltered public sector of the economy are transferred to industries exposed to international competition, many of whom will be forced to cut production and employment as a result. The additional cost burdens proposed are equivalent in magnitude to the impact of a further 6% increase in manufacturing pay costs.

These extra cost burdens can result only in a further loss of manufacturing output and employment. As more people from the wealth producing sectors lose their jobs, public expenditure will rise further to meet mounting unemployment payments.

Cost increases in the sheltered sector of the economy should be less than, rather than more than, can be paid by the exposed sector.

Furthermore, it does not make sense that the State should legislate for implementation of pay increases similar to the public sector pay agreement in vulnerable industries such as clothing. 80% of Irish clothing imports come from other EEC countries - and almost 60% from Britain where pay costs are increasing at less than half the Irish rate. We would strongly urge that the freedom to negotiate appropriate pay increases in these vulnerable industries should remain with the firms involved and their employees, in the interests of maintaining output and employment. In this case implementation of legislation would increase costs, and reduce employment.

Conclusion

Industry must keep its cost increases to 7% or 8% in 1982 if it is to maintain competitiveness with countries such as Britain, the United States, Japan, Germany, Belgium, and the Netherlands. This is the only way that inflation can be reduced and the rapid rise in unemployment halted. If the cost burden on industry is not controlled within the limits set by international competitiveness, industrial growth will not resume and unemployment will continue to escalate. These factors must be clearly understood by whatever Government takes office next week.

Industry has demonstrated the capacity to expand output and increase employment during the two decades prior to 1979. During this period costs increased broadly in line with our competitors. I see no reason why output cannot again expand at a rate which will support steadily increasing employment in the economy in the 1980's. This can only be done if Irish cost inflation is reduced to the level of our competitors. I would strongly urge that the primary objective of the incoming Government should be to reduce inflation in order to create sustainable employment.

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