

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry at the Luncheon Meeting of Waterford Chamber of Commerce at the new Granville Hotel, Waterford, on Monday, 3 November 1980 at 1 p.m.

CREATING THE CONDITIONS FOR RECOVERY

INTRODUCTION

In the latter half of the 1970s, the output of Irish manufacturing industry expanded at about 8% per annum, which was much faster than elsewhere in the European Community. The established sector of Irish industry continued to expand since cost competitiveness was broadly maintained. There was, also, a significant increase in industrial output each year from new overseas firms.

The expansion of manufacturing output is the only way to achieve sustainable growth in the Irish economy. When manufacturing output falls, this affects average living standards in the economy. The brunt of this fall is greatest on manufacturing firms which have to contract or close; and on the people who lose their jobs as a result.

The output of manufacturing industry has been falling since April and is now probably 3% to 4% below the April level. New overseas firms have continued to set up in Ireland and it is, therefore, clear that the fall in output of established industry has been much greater.

The recent fall in industrial output has been due to :

- a) The recession in developed countries, following the transfer of wealth to OPEC countries over the last year.
- b) The decline in competitiveness of large sections of established industry.

This decline in competitiveness has been caused by the much more rapid rate of cost increase in Ireland than in our main competing countries. For example, Irish pay costs have risen by about 34% over the last two years compared with about 16% in competing countries, such as Germany, Benelux, the United States and Japan.

The National Understanding, which was accepted last week, means that a similar rate of cost increase will continue until the third quarter of 1981. The effect of this high cost increase is that established Irish manufacturers have lost their share of imports to the British market, which is still our main market.

WHAT CAN BE DONE TO CREATE CONDITIONS FOR RECOVERY IN MANUFACTURING INDUSTRY?

I want to repeat again that I do not know any other way to achieve sustained development of a modern economy than by expanding manufacturing output. In Ireland, this must be achieved in two ways : by the continued attraction of new overseas firms, and the resumption of a 4% to 5% annual growth in established industry. Established industry must start the process of recovering market share on home and export markets.

I would strongly urge that the following three actions should be taken to reduce unit costs and create the conditions for recovery:

1. Improve Productivity

The Confederation gives its strong support to efforts to improve productivity in all sectors of the economy. The average output per person in Irish manufacturing industry is only 60% of that in Germany.* Higher productivity in Germany has been achieved by decades of investment and access to a large industrial market; better technology; and more advanced industrial organisation. Countries such as Germany continue to improve productivity by about 5% per annum. The gap in productivity between Germany and Ireland is greatest in the labour intensive sectors such as furniture, clothing, footwear, paper and printing. These are also the sectors which are most severely hit by the current recession. An intensive, accelerated reequipment programme is necessary in these sectors to reduce unit costs, protect employment, and lay the foundation for recovery and future expansion.

2. Hydrocarbon Tax

Last February, the Government increased the tax on industrial oil at a cost of £40 million. This was equivalent to the working capital required to maintain 8,000 people in employment. This made oil for industry in Ireland the highest taxed in the European Community and was equivalent to an additional imposition of 4% on annual payroll.

The following table shows the tax charged per gallon of fuel oil in Ireland and our major trading partners :

* See attached chart.

Britain	0.3½p
France	0.
Italy	0.3p.
Netherlands	1.5p
Germany	1.7p.
Belgium	0.7p.
Ireland	7p.

The imposition of this tax diminished the cost competitiveness of every Irish manufacturing firm and contributed to thousands of job losses, not only in manufacturing industry, but also in associated service industries. It has also added millions of pounds to the Government's liability for unemployment payments over the last year.

Furthermore the tax exclusive cost of hydrocarbon EEC oils in Ireland is, for geographical reasons, higher than in most EEC countries.

The tax on industrial oils should be abolished so that Irish manufacturers can compete on a more equal energy cost basis with other EEC countries.

3. Employment Taxes

The employers' social contribution is a tax on employment. The high pay increases of the last two years have had a particularly severe effect on employment in labour intensive manufacturing firms. These effects should be mitigated now by making a significant reduction in the employers' social contribution of these firms from the current level of 11% of to 3% of payroll. This reduction would offset about half of the excess by which Irish labour costs have exceeded those in Germany, the United States and Japan over the last two years, and would enable Irish labour intensive manufacturers to stabilise their share of export markets during 1981. The net cost of this proposal would be low, since lost taxation revenue would be offset by lower

unemployment payments.

CONCLUSION

The greatest task facing the economy is to create urgently the conditions now for the recovery of the manufacturing sector. The current decline in manufacturing output is due, not only to the recession, but also in large measure to the decline in competitiveness, particularly of established firms. By improving productivity, and reducing operating taxes, manufacturing industry can recover lost market share and again begin to expand output and employment. The sustained growth of the economy can only be achieved by increasing manufacturing output. I would strongly urge that the above measures are introduced now to create the conditions necessary for expansion in a very competitive international trading environment.

PRODUCTIVITY

NET OUTPUT PER EMPLOYEE 1977

£

	<u>GERMANY</u>	<u>IRELAND</u>	<u>RATIO</u>
Food, Drink and Tobacco	22,543	10,443	2.2
Textiles	10,370	6,925	1.5
Clothing & Footwear	8,494	3,761	2.3
Wood & Furniture	12,840	4,300	3.0
Paper & Printing	13,358	6,717	2.0
Chemicals	25,926	15,903	1.6
Clay, Glass	15,062	9,529	1.6
Metals & Engineering	14,099	8,590	1.6
Other	14,000	10,407	1.3
<hr/> TOTAL	<hr/> 15,358	<hr/> 8,783	<hr/> 1.7

24th October 1986 6.

PAPER PUSHERS OR DECISION MAKERS - THE MANAGEMENT OF PEOPLE

Perceived

- AIMS
1. To assist in creating the conditions for optimum economic and social development
 2. To draft and implement legislation.

About one quarter of the workforce employed. Normal statistical distribution of people types.

Public service advises on, interprets, and executes policy.

- Management
- gets work done through other people who "do".
 - plan, organise, communicate, motivate, decision making, control.

Perceptions

Integrity	Control function dominant
Dedication	Cross check syndrome
Well educated	Tendency to "do" rather than delegate
Reliability	A closed system
Consistency	Paper suffocation
Hard working	Conservative.

Desiderata : More emphasis on why things are done, what needs to be done, with what benefit, and at what cost.

Less emphasis on "doing"

Decision Making : Why? What? How? Who? When?

Examples : Postal Security
Telecommunications Training
Transport Education
Roads Public ownership
Advance factories Motor taxation/Insurance
Training centres Price control
Water and Sewage Radio & T.V.
