

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry, to Wexford Rotary Club, at White's Hotel, Wexford, at 1 p.m. on Monday, 8 September 1980.

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HIGH COST INCREASES CAUSE UNEMPLOYMENT

In the eighteen months since Ireland joined the European Monetary System, the Irish pound has remained stable and the EEC, with the exception of Britain, has achieved the objective of creating a zone of relative monetary stability.

Membership of the EMS offered a number of attractions for Irish industry, including the prospect of convergence of inflation rates and interest rates. It was expected that this convergence would be achieved if Irish domestic costs increased broadly in line with those of other Member States. Membership also offered the opportunity of adopting a European approach to the solution of Irish economic problems. It has taken an exceptionally long time to make worthwhile progress in bringing the Irish rate of cost increase and the Irish rate of inflation down to the levels obtaining in the EEC.

The Impact of Costs on Trade

I now wish to consider the impact of the high rate of cost increase in Ireland on trading with Continental EEC countries, Britain, and on the home market.

First, let us look at the position vis-a-vis Continental EEC countries. In 1979, Irish pay costs increased by 17% compared with about 7% in Germany, Belgium and the Netherlands. In 1980, per capita earnings in Ireland have already increased by 15% compared with about 8% expected for the whole year in the above countries. On the other hand, the prices which Irish manufacturers can get for their products in countries such as Germany, Belgium and the

Netherlands have been increasing at an annual rate of only 5% to 7%. A large number of Irish companies have not been able to absorb pay cost increases of 15% to 17% in order to contain price increases to 5%. It is not surprising that CTT has recently reported increasing price resistance to Irish products on export markets. As a result many orders have been lost.

Secondly, let us look at the British market. Prices have risen more rapidly on the British market. As a result British imports have increased by about 20% over the last year. However, British imports from Ireland increased by only half this amount and Ireland has lost market share to low cost increase countries, such as Germany, Belgium, the Netherlands, Japan and the United States.

Thirdly, let us look at the Irish market - our home market. Factory gate prices in Ireland rose by less than 10% in the year to June 1980, and, in fact, did not increase at all between March and June. Manufacturers now expect prices to rise more slowly than at any time since 1977/78 when inflation was running at about 8% per annum.

High rates of pay cost increase, - exacerbated by the impact of a £40 million hydrocarbon tax imposition in the February budget, have made it extremely difficult for manufacturers to compete with the low rate of price increase possible, if their products are to remain competitive. Order books have, inevitably, suffered and consumer imports of clothing, footwear, furniture and other consumer products have continued to take an increasing share of the Irish market.

If Irish products are to compete on the home and export markets, annual cost increases must be contained in the 5% - 10% range. If this does not happen, established industry will continue to lose market share both at home and abroad.

Look at what happened over the last year. If Irish industry had succeeded in maintaining its share of British imports over the last year, this would have meant an additional £140 million sales, equivalent to the productive output of 7,000 people.

If Irish imports of clothing, footwear and furniture products had held, but not increased their share of the home market, this would have meant additional sales of £30 million for Irish manufacturers of these products, enough to maintain about 2,500 people in direct manufacturing employment.

At least 9.500 jobs were lost in Irish industry over the last year because Irish manufacturers lost market share on the British and Irish markets, due to exceptionally high cost increases. This process will continue for as long as Irish costs rise faster than those of our competitors.

The Effects of High Cost Increases

The effects of incurring high cost increases, which could not be passed on to customers, were that :

1. Despite the rapid and welcome growth of new industries from abroad such as electronics, industrial output has shown almost no growth over the last year, and the volume of output of many industrial sectors, such as textiles, clothing, footwear and furniture, has declined significantly.
2. Irish industry has lost and is continuing to lose its share of the British market, which remains our most important market.
3. Competing imports continue to make major inroads on the Irish market.

4. Manufacturing order books are at the lowest level since mid-1975.
5. Employment in industry is falling. In addition, total unemployment continues to rise by close to 4,000 per month.

Action for Recovery

Actions for the recovery of output and employment require that :

1. The rate of cost increase in Ireland must be brought into line with those of our major competitors in Continental Europe, the United States and Japan. Already this year, per capita earnings in Ireland have increased by 15% compared with 1979 - far faster than in competing countries. A pay pause is essential to restore the competitive position of Irish industry, and Irish cost increases in 1981 must not exceed those of our main competitors.

The rate of inflation would then fall rapidly in 1981. There is ample evidence from the slow growth of wholesale prices on the Irish market, the low rate of price increase on export markets, and the prices at which products are being imported to Ireland, that inflation can be reduced if domestic cost increases slow down.

On the other hand, high cost increases cannot be passed on by manufacturing industry, and will result in lost orders, rising unemployment, and higher taxation.

2. In addition to actions required to improve the cost competitiveness of Irish products, there is need to support vigorously the intensive marketing effort of manufacturers in Ireland to recover the share of the Irish market which has been lost over the last eighteen months. This marketing campaign can and will be successful, if Irish costs become competitive. Despite the impact of the international recession, Irish manufacturers can expand output and employment by becoming more competitive in quality and price.

It is vitally important that the opportunity is grasped now to reduce the rate of inflation, improve competitiveness and increase employment. International trade is still growing. The markets are there. Throughout the 1970s, Irish industry out-performed most other EEC countries in expanding output and employment. It has demonstrated the ability to market effectively abroad when its prices were competitive. Industrial output and jobs can begin to increase again if we all face up to the direct link which exists between costs and employment.

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