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Economic Aspects of Industrial Relations

by

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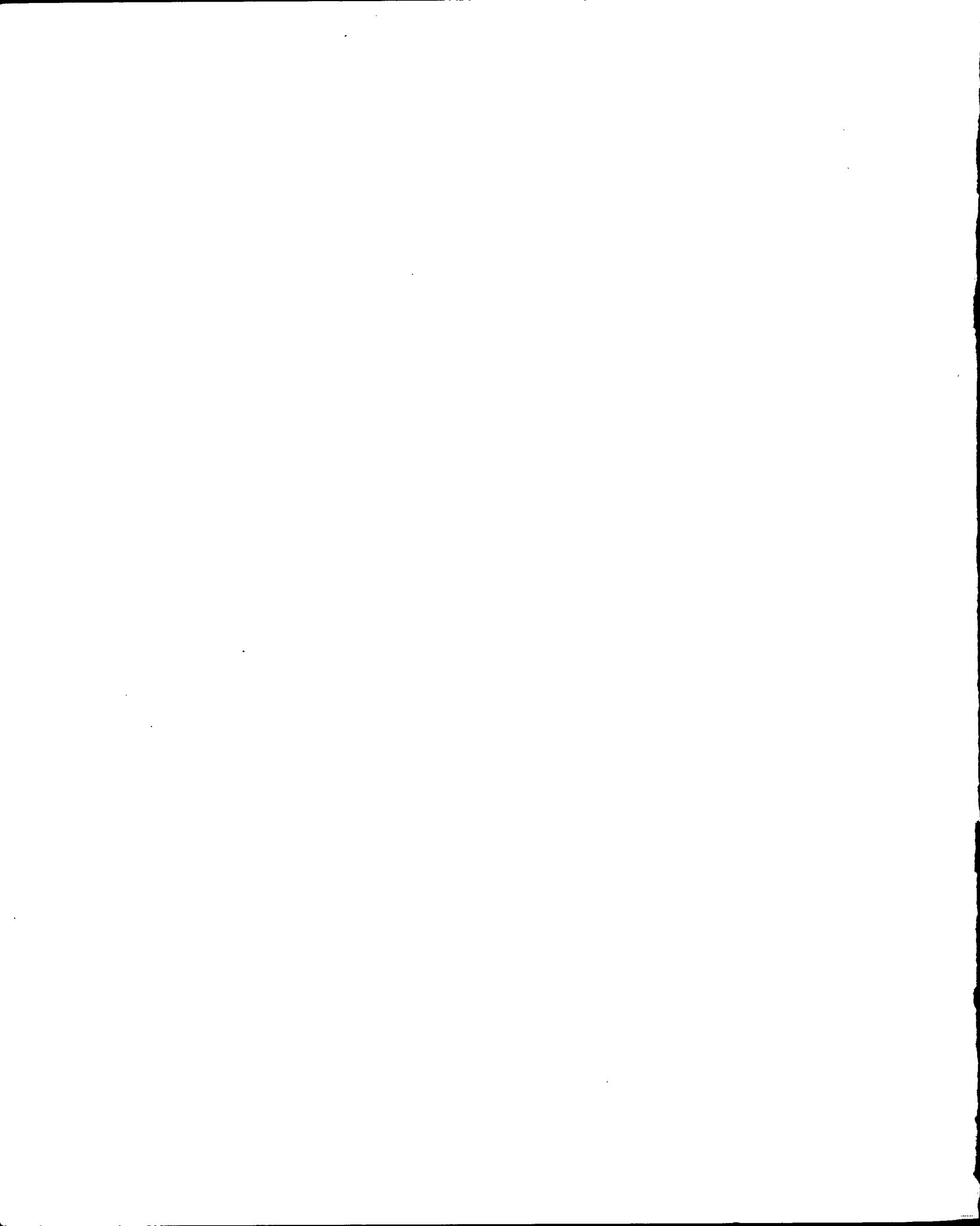
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Economic Aspects of Industrial Relations



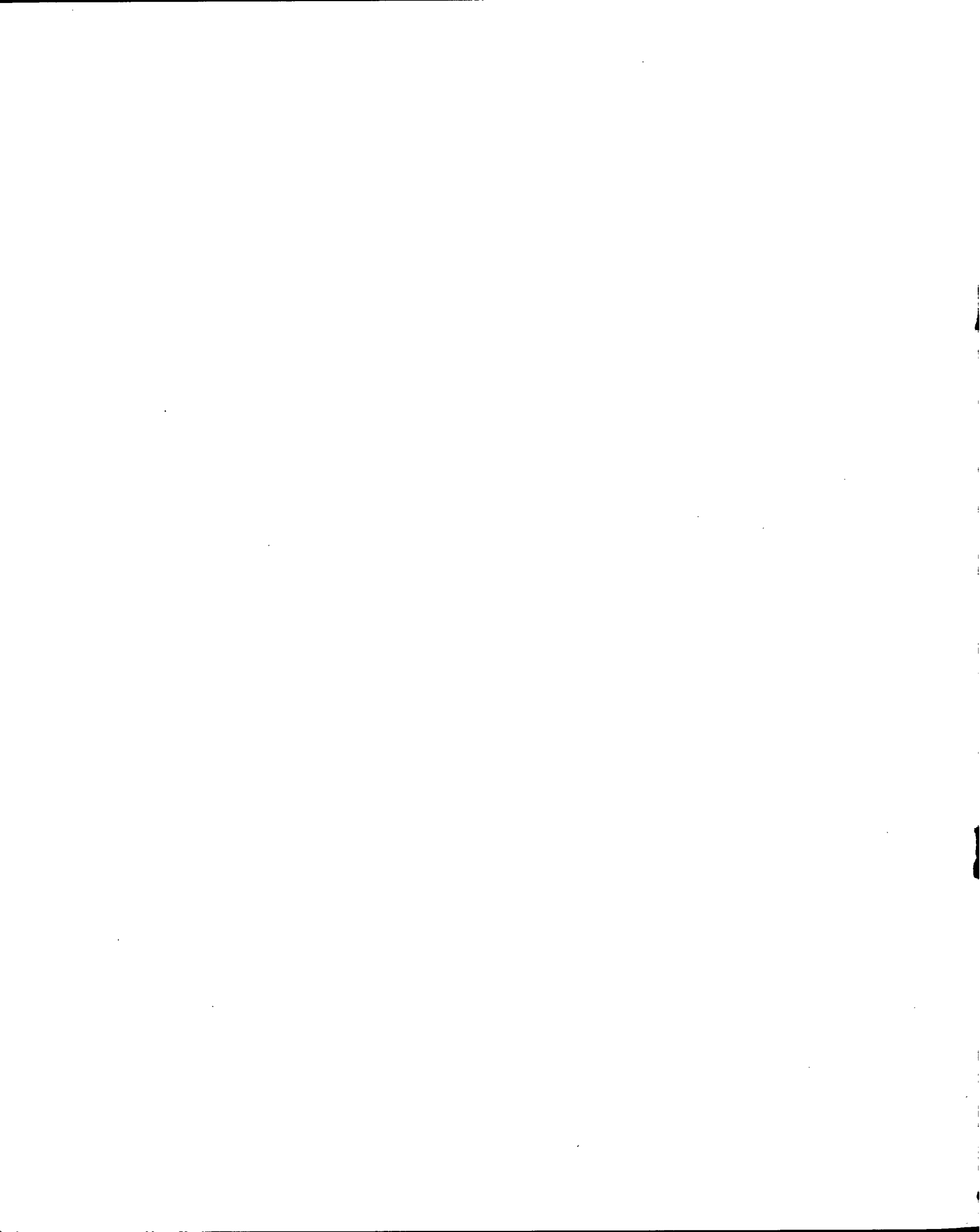
INTRODUCTION

This paper has a threefold purpose. The first is to set out, in as simple a manner as possible, the salient economic facts underlying labour-management relations; the second is to trace the development of the wage rounds as a method of wage-setting; the third is to examine the need for, and the possibility of, pursuing a wages policy in Ireland.



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Economic Aspects of Industrial Relations

by DAVID O'MAHONY*

I: THE ECONOMIC SETTING

Wages and salaries, like all forms of income which arise in the course of current production, are at once both income and cost. As income they constitute the share of output which accrues to employees and as cost they form part of the expenses of production. This dual income/cost aspect of employee remuneration is the main concern of the present chapter.

The Labour Force

At the outset, however, it is necessary to refer briefly to the employee labour force. As Table 1 shows, employees constitute a relatively smaller proportion of the labour force in Ireland than in any other country in Western Europe, the difference between Ireland and the United Kingdom being particularly marked. This is due to the comparatively large agricultural sector in the Irish economy where the labour force is very largely made up of self-employed persons.

TABLE 1: EMPLOYEES AS PERCENTAGE OF LABOUR FORCE IN SOME EUROPEAN COUNTRIES

Country	Labour Force	Employees	(2) % (1)
	(1)	(2)	(3)
	('000)		%
Austria (1961) ..	3,369	2,388	62
Belgium (1947) ..	3,481	2,486	71
Denmark (1955) ..	2,136	1,577	74
France (1954) ..	19,494	12,542	64
Germany (1961) ..	25,909	20,056	77
Ireland (1961) ..	1,108	650	59
Italy (1962) ..	21,110	13,735	66
Netherlands (1960) ..	4,169	3,309	79
Norway (1960) ..	1,406	1,097	78
Sweden (1960) ..	3,244	2,702	84
Switzerland (1960) ..	2,514	2,155	86
U.K. (1951) ..	22,610	19,858	88

Source: I.L.O., *Yearbook of Labour Statistics*, 1963, Table 4. C.S.O., *Census of Population*, 1961, Vol. IV, Table 7.

Over the years, as may be seen from Table 2, the relative importance of employees has been increasing significantly. In 1926 employees constituted only

*The author was a Research Officer of the Economic Research Institute. The paper has been accepted for publication by the Institute. The author is responsible for the contents of the paper including the views expressed therein.

44 per cent. of the total labour force as compared with 59 per cent. in 1961. This change in the structure of the labour force is attributable to the combined effects of an increase in the number of employees and a reduction in the labour force as a whole. If agriculture is excluded we find that both the number of employees and the total labour force increased; as a result the structural change in the non-agricultural labour force was not as marked as that which took place in the labour force as a whole. Nevertheless even in the non-agricultural sectors the proportion of employees rose by about one-seventh over the period.

TABLE 2: EMPLOYEES AS A PROPORTION OF THE LABOUR FORCE

Year	All Sectors			Excluding Agriculture		
	Labour Force	Employees		Labour Force	Employees	
	(1)	(2)	(2) % (1) (3)	(4)	(5)	(5) % (4) (6)
	'000	'000	%	'000	'000	%
1926	1,305	578	44	633	458	72
1936	1,339	613	46	695	500	72
1946	1,298	668	51	704	544	77
1951	1,272	713	56	771	627	81
1961	1,108	650	59	715	588	82

Note: Employees include the Army, Gardai, Clergymen, nuns, etc., of whom there were about 37,000, in all, in 1961.

Source: C.S.O., *Census of Population* 1946 and 1951, *General Report* Table 94. *Census of Population* 1961, Vol. IV, Table 7.

Wages and Salaries as Income

Before we consider the income aspect of employee remuneration it is perhaps well to point out that the subject of the contract between employer and employee is the wage or salary rate, i.e., so much per hour, day, week, month, piece, etc., and not income or earnings.¹ Labour earnings in the aggregate depend not only on the basic wage and salary rates and the numbers employed but also on the

¹Workers may, of course, have more or less definite expectations about earnings and their willingness to accept any given basic rate may depend on what they expect to make having regard to over-time, "plus" rates, broken time, etc.

number of hours worked, the incidence of over-time, the operation of bonus and incentive schemes, and a host of other factors. A given proportionate change in rates is not necessarily accompanied by the same proportionate change in earnings so that we cannot, as a general rule, estimate the effect of a given change in rates in terms of realized employee remuneration, nor can we normally say to what extent changes in recorded aggregate labour income are due to changes in contractual rates or to the many other factors which determine earnings.² Indeed, the earnings of a particular class of workers or of the whole employee labour force (or even of an individual employee) may fall following an increase in rates, or—and this is more often the case—they may rise although rates remain unchanged. Thus when we are considering realized earnings we are dealing with something which is the consequence of a multitude of determining factors rather than with the effect of a single cause.

The proportion of the national income accruing to employees is relatively low in Ireland compared with other Western European countries. This is hardly surprising because, as we have already seen, employees account for a higher proportion of the labour force in those countries than in Ireland. Indeed, what is surprising is not that employees' share of income in Ireland is low but that it is so high. As Table 3 shows it is very similar to that which prevails in Belgium, Denmark and the Netherlands, although employees form a considerably higher proportion of the labour force in these three countries than in Ireland.

A more striking illustration of the high proportion of income accruing to employees in this country is given in Table 4 where a comparison is made between Ireland and several other European countries in respect of the income and employment of wage and salary earners in the manufacturing and certain other sectors. A relatively higher proportion

²We could, of course, explain past changes in earnings, were sufficient data available, but usually they are not.

of the income generated in these sectors accrues to employees in Ireland than in any of the other countries listed when account is taken of the proportion of the labour force formed by employees.

A large employee share in income and a consequent small capital share does not of itself mean that the rate of return on capital is low. If the quantum of capital required to produce a given level of output (i.e. the capital output ratio) is low a high labour share is compatible with a high rate of return on capital. If, however, the capital output ratio is high and if capital's share in total income is small as a consequence of labour's receiving a large share, then the rate of return on capital is necessarily low also. Such evidence as there is suggests that the capital-output ratio in industry in Ireland and the U.K. are about the same.³ It may be inferred, therefore, that

TABLE 4: INCOME AND EMPLOYMENT OF WAGE AND SALARY EARNERS

Country	Share in Net Output or Employment		
	Wages and Salaries as % net income (1)	Wage and Salary Earnings as % labour force (2)	(1) ÷ (2) (3)
Denmark (1952) (a)	59.7	84.0	0.71
Finland (1950) (b) ..	67.0	87.5	0.77
France (1954) (c) ..	69.9	86.5	0.81
Germany (FR) (1950) (b)	57.9	88.0	0.66
Ireland (1951) (d) ..	75.7	89.3	0.85
Italy (1951) (d) ..	50.3	78.4	0.64
Netherlands (1950) (c)	57.2	86.1	0.66
Norway (1953) (e) ..	55.2	86.4	0.64
U.K. (1951) (c) ..	66.3	94.4	0.70

Source: U.N. (E.C.E.) *Economic Survey of Europe* in 1956, Table 2, Chapter VIII.

(a) Mining and manufacturing.

(b) Mining, manufacturing and public utilities.

(c) Manufacturing.

(d) Mining, manufacturing, public utilities and construction.

(e) Manufacturing and public utilities.

³See Nevin, *The Capital Stock of Irish Industry*, E.R.I., 1963, Table 3, and Table 12 *infra*. See also Geary, *Towards an Input-Output Decision Model for Ireland*, paper read before the Statistical and Social Inquiry Society of Ireland, 31 January, 1964.

TABLE 3: COMPENSATION OF EMPLOYEES AS PERCENTAGE OF NATIONAL INCOME

Country	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Austria	59	58	58	60	60	61	62	60	61	—	—
Belgium	54	54	53	54	56	58	57	58	58	—	—
Denmark	55	57	58	57	57	58	58	58	—	—	—
France	57	58	58	59	59	60	61	61	63	—	—
Germany (FR) ..	60	60	60	60	61	61	61	61	62	—	—
Ireland	50	52	51	54	52	53	52	53	53	54	55
Italy	50	51	51	52	52	52	52	52	52	—	—
Netherlands ..	54	54	54	55	57	58	57	57	59	—	—
Sweden	63	63	66	65	65	66	65	67	68	—	—
Switzerland ..	62	61	61	62	62	61	62	62	63	—	—
U.K.	71	71	73	73	72	73	73	74	75	—	—

Source: I.L.O., *Yearbook of Labour Statistics* 1961 and 1963, Table 19. C.S.O., *National Income and Expenditure* 1962, Table A1. *Economic Statistics* 1964, Table 9.

the rate of return on capital is somewhat lower in Ireland than in the U.K. seeing that the share of employee income is significantly higher in Ireland.⁴ If this is so, the incentive to invest in Ireland is in, some degree, wanting.⁵ Thus the relatively large labour share in income may be one of the reasons for the comparatively low level of investment, and as investment is one of the prerequisites of employment it may also be one of the reasons for the chronic employment problem.

Before the war employee remuneration accounted for about 50 per cent. of the national income while the number of employees came to less than 50 per cent. of the labour force so that employee income per head was slightly in excess of the national average. Nowadays, however, employee income per head is lower than the national average owing mainly to the fact that agricultural income *per head* has risen more rapidly than income per head in the case of the occupied population as a whole. Thus in 1961 employee income came to 53 per cent. of the national income but employees constituted 59 per cent. of the labour force. In this respect Ireland is now more in line with other European countries than it was before the war.⁶ It may be remarked in passing that the tendency for income per head to rise more rapidly in the agricultural sector than in the economy in general is a phenomenon which appears to be characteristic of developing countries.

As Table 5 indicates, the share of employee income has risen since 1938 largely, if not indeed entirely, because of the increase in the proportion of employees in the labour force. When account is taken of the change in the structure of the labour force there has been little change in the proportion of income accruing to employees over the years.

What appears to emerge from this table is that employee income per head normally amounts to about nine-tenths of the national average for the non-agricultural sectors.

While the share of employee remuneration undoubtedly tends to fluctuate somewhat from year to

⁴Direct estimates of the profitability of Irish and U.K. industry were made by Nevin in *The Cost Structure of Irish Industry, 1950-60*, E.R.I., 1964, and reveal that profits are higher in Ireland as percentage of capital stock and lower as percentage of turnover. The author states that his capital stock estimates for the U.K. approximate to a gross replacement value whereas those employed for Ireland approximate more closely to a net value. He adds that the difference between gross and net valuation could easily account for—and indeed reverse—the suggested relationship between the profitability of industrial capital in the two countries.

⁵In the absence, that is to say, of the incentives provided by the State in the form of grants, tax remissions, etc.

⁶See U.N. (E.C.E.) *Economic Survey of Europe in 1956*, Table 10, Chapter VIII. Despite the improvement in the relative position of agriculture, income per head in that sector was lower than labour income per head in 1961. The former came to about 66 per cent. and the latter to about 90 per cent. of the national average.

TABLE 5: INCOME AND EMPLOYMENT OF WAGE AND SALARY EARNERS COMPARED WITH TOTAL INCOME AND EMPLOYMENT (EXCLUDING AGRICULTURE AND INCOME FROM ABROAD)

Year	Income (1)	Wages and Salaries (2)	(2) % (1) (3)	Employees as % of labour force (4)	(3) ÷ (4) (5)
	£ million		percentage		
1938	110	70	63	(73)	(.86)
1947	185	126	68	(78)	(.87)
1948	205	140	68	(79)	(.86)
1949	219	150	68	(80)	(.85)
1950	226	164	73	(81)	(.90)
1951	238	180	75	81	.93
1952	262	188	72	(81)	(.89)
1953	286	203	71	(81)	(.88)
1954	296	210	71	(81)	(.88)
1955	303	220	73	81	(.90)
1956	311	231	74	(82)	(.90)
1957	310	231	75	(82)	(.91)
1958	323	240	74	(82)	(.90)
1959	354	251	71	(82)	(.87)
1960	393	271	69	(82)	(.84)
1961	418	297	71	82	.87
1962	461	330	72	(82)	(.88)
1963	498	353	71	(82)	(.87)

Note: The figures in brackets in col. (4) are estimates derived from the data relating to industrial status furnished by the Census of Population. The bracketed figures in col. (5) are calculated from the estimates shown in col. (4).

Source: C.S.O., *Irish Statistical Survey 1962*, Tables A1, and B1; *National Income and Expenditure 1957*, Table A1; *Economic Statistics 1964*, Table 9; *Census of Population 1946 and 1951*, *General Report*, Tables 94 and 96; *Census of Population 1961*, Vol. IV, Table 8a.

year, Tables 3 and 5 warrant the conclusion that it is fairly constant in the long run. In other words, a significant change in labour income is unlikely to take place in isolation from a similar change in other forms of income. Thus a continuous increase in wages and salaries can be sustained only by an approximately equal increase in other aggregates of income, while a continuous increase in total income is inseparable from a more or less corresponding increase in labour income. The constancy in labour's share of total income appears to be a universal phenomenon for which there is as yet no satisfactory explanation, though it has for long perplexed economists.⁷ Nevertheless, even though we do not fully understand why the major constituents of income change at approximately the same rate we can explain in commonsense terms why they rise and fall together. The relationship between labour incomes and profits is particularly important in this connection. Obviously, a continuous increase in output is not likely to be achieved unless more capital is brought into use and unless there is either an increase in output per head or in total employment (or both). Profits increase as a result of the greater use of capital, while labour earnings rise when output per

⁷An exhaustive discussion of the subject is to be found in *The Behaviour of Income Shares*, National Bureau of Economic Research, Inc., 1964.

head and the numbers employed are rising. On the other hand, a fall in production implies that capital equipment is not being fully used and that employment or output per head or both are declining. Consequently, both profits and labour earnings fall.

If production is static and if there are no structural changes taking place in the economy, labour income in real terms could increase only as a result of a decline in the share of other factors in total income. But if this were to happen a situation would be likely to arise in which some firms were making losses because in the circumstances under consideration an increase in labour's share would be most likely to occur at the expense of profits. Sooner or later such firms would have to go out of business with the result that the level of production could not be maintained and employment would decline. Hence labour incomes could not keep on rising at the expense of profits. Labour incomes in money terms do, of course, rise under conditions of unchanged production, (or rise more rapidly than production when the latter is also rising) but such a rise is not likely to be sustained unless the increases in costs brought about by the rise in employee remuneration can be passed on to consumers in the form of higher prices to the extent that profits in real terms are maintained.

On the other hand, a continuous rise in profits unaccompanied by a rise in labour earnings is improbable. Over a period profits are not likely to rise unless production is increasing but, as we have seen, an expansion in production cannot be achieved

unless output per head or the employee labour force increases. In each case a rise in labour earnings tends to follow at least as long as there is competition among entrepreneurs in the labour market.⁸

Over short periods profits inevitably fluctuate more than other forms of income as they are the residual item. Moreover, owing to the disparity between the absolute value of wages and of profits a small increase in the former relative to total income may be associated with a very large decrease in the latter. The point to be stressed, however, is that wages and salaries cannot keep on rising in the face of continuously falling profits, nor can profits keep on rising in the face of falling or even static wages and salaries.⁹ It goes without saying that we are referring here to realized changes in labour incomes and not to changes in wage and salary rates.

Wages and Salaries as Cost

Table 6 represents the structure of costs in the economy as a whole in that it shows how the expenses that enter into the selling price of all final goods and services sold at home and abroad are made up. It will be seen that there are two broad categories of cost: factor cost and non-factor cost. The former are

⁸Changes in the terms of trade do, of course, also affect real income but they are more likely to result in windfall profits (or losses) than in increases (or decreases) in real wages unless they move in one direction only over a prolonged period.

⁹It may be noted, though the point cannot be developed here, that this long-run relationship between wages and profits at the level of the economy holds irrespective of the manner in which the economy is organised.

TABLE 6: COST STRUCTURE OF THE ECONOMY

Year	Factor Costs				Non-factor Costs		
	Labour	Company Profits (a)	Farmers' Incomes (a)	Other Factors (a)	Depreciation	Indirect Taxes (b)	Imports (c)
	Percentage						
1947	31.4	7.0	14.5	7.9	2.7	7.1	29.4
1948	32.5	6.2	15.5	7.4	2.8	6.9	28.7
1949	33.3	6.4	16.3	7.6	2.9	7.4	26.7
1950	32.8	6.2	14.0	7.4	3.0	7.3	29.3
1951	31.5	5.7	13.5	6.9	2.9	6.4	33.1
1952	32.7	5.3	15.8	6.7	3.1	9.0	27.4
1953	32.5	5.5	16.1	6.4	3.2	9.7	26.6
1954	33.8	5.7	14.7	6.7	3.5	9.5	26.1
1955	32.6	5.5	15.2	6.3	3.5	9.1	27.8
1956	34.9	5.6	13.8	6.5	4.2	10.4	24.6
1957	33.7	5.1	15.1	6.6	4.4	10.8	24.3
1958	33.1	5.6	13.5	6.7	4.4	11.2	25.5
1959	33.1	5.9	13.7	6.6	4.4	10.8	25.5
1960	33.6	6.5	13.2	6.7	4.4	10.0	25.6
1961	33.5	6.5	12.8	6.7	4.3	9.2	27.0
1962	34.4	6.6	12.4	6.8	4.3	9.0	26.5
1947-49	32.4	6.5	15.4	7.6	2.8	7.1	28.1
1960-62	33.8	6.5	12.8	6.7	4.3	9.4	26.4
1947-62	33.1	6.0	14.4	6.9	3.6	9.0	27.1

(a) Unadjusted for Stock Appreciation;

(b) Net;

(c) Goods.

Source: Derived from C.S.O., *National Income and Expenditure* 1962, Tables A1, A2, B1, B2; *Irish Trade Journal and Statistical Bulletin*; Irish Statistical Survey 1957, Tables A1 and A2.

merely the obverse of the factors' incomes while the latter include those items of cost such as imports, depreciation and indirect taxes which do not correspond to factor income. Labour cost, which amounts to about one-third of total cost, is the largest single item, the only other comparable to it in order of magnitude being imports. This table again reflects the constancy of the factorial shares and shows that the proportion of total cost attributable to non-factor expenses is also fairly constant.

Prices rose very much during the period covered by the table. The fact that they had no appreciable effect on the relative shares of the main constituents of cost indicates that price changes and the process by which earnings and the other expenses are adjusted go hand in hand with each other.

Even though labour cost accounts for only about one-third of total cost it cannot be inferred from Table 6 that an annual rise of say 10 per cent. in labour earnings would be compatible with a rise of only about 3 per cent. in total costs, for the simple reason that all the principal components of cost tend to change at roughly the same rate over time. If labour costs were to rise at the rate of 10 per cent. per annum and if total costs were to rise by only 3 per cent. the share of the other items of cost would fall but this does not appear to be possible. A continuous rise in the earnings of labour is not likely to be sustained without a corresponding rise in the earnings of the other factors, particularly profits, for the reasons given in the preceding section, nor without a corresponding rise in non-factor costs of which imports comprise the major proportion. Thus a given rise in labour earnings is not likely to be sustained without a corresponding rise in aggregate costs.

Whether or not a rise in aggregate cost will be accompanied by a rise in price depends on the behaviour of total output. If aggregate costs rise by 10 per cent. and if total output remains the same unit costs and prices will also rise by 10 per cent. If, on the other hand, total output goes up by 10 per cent. unit costs and prices will be the same as before. If total output increases by, say 5 per cent., and aggregate costs increase by 10 per cent., then unit costs and prices will rise by $(110 \times 100 \div 105) - 100$ or 4.8 per cent.

This is not to imply that there is a cause-effect relationship between either labour cost and aggregate cost or labour cost and price. All it means is that in the long run labour cost and aggregate cost change at about the same rate no matter where the change originates and that changes in the level of prices are determined by the relationship between total cost and total output.

Though the general picture presented by Table 6 is one of comparative stability, significant deviations

from the "normal" do occur from one year to the next. Such deviations are to be expected for a variety of reasons, e.g. variations in the over-all tempo of activity from year to year combined with the downward "stickiness" of wages and salaries, changes in labour's bargaining power, changes in the terms of trade, the imposition of taxes and the granting or removal of subsidies. The fact that these variations take place means that a more rapid rise in labour earnings than in production may be counterbalanced for a short period by a less rapid rise in other costs with the result that aggregate costs may not rise any more rapidly than production and unit costs may remain stable. On the other hand, to keep changes in earnings in line with changes in output is of itself no guarantee that costs will remain stable since import prices and indirect taxes may rise and thereby cause total costs and unit costs to rise also.

Apart from short-run deviations from the normal it may be inferred from Table 6 that there is a slight tendency for the share of labour cost to rise. This is to be expected in view of the changing structure of the economy and is a reflection, in particular, of the downward trend in the share of farmers' incomes.

Since imports are not part of our national product the cost of producing the latter is different from the cost structure shown in Table 6. Similarly, indirect taxes do not enter into the factor cost of the national product whereas they are a component of prices.¹⁰ Consequently, labour cost bears a much higher proportion of the cost of producing the national product as such than of the cost of producing the supply of goods and services entering the market. Table 7 shows the labour cost of producing the net output of the major components of the economy. It should be noted that although employee remuneration is a

TABLE 7 : LABOUR COST OF NET DOMESTIC PRODUCT BY SECTORS OF ORIGIN (a)

Year	Agriculture	Industry	Distribution and transport	Public Administration and Defence	Other
	Percentage				
1953	12.6	77.2	65.2	100.0	63.2
1954	14.3	76.7	64.7	100.0	62.8
1955	13.0	78.2	65.7	100.0	61.9
1956	14.3	78.1	68.1	100.0	61.8
1957	13.0	78.2	69.4	100.0	62.0
1958	13.3	77.7	70.3	100.0	61.2
1959	13.0	76.4	67.5	100.0	61.2
1960	12.8	75.5	66.3	100.0	60.4
1961	12.1	75.0	67.4	100.0	61.3
1962	11.7	75.1	67.6	100.0	61.5

(a) Unadjusted for Stock Appreciation.

Source : Derived from C.S.O., *National Income and Expenditure 1962*, Table A2.

¹⁰We add indirect taxes less subsidies to national product at factor cost to get national product at market prices. It may also be noted that some indirect taxes, e.g., excise duties, do not enter into export prices.

very small proportion of the cost of producing the net output of agriculture owing to the relatively small numbers of employees in that sector compared with the agricultural labour force, the remainder of agricultural income is to a very considerable extent labour income as it represents the return to farmers for their own labour.

In Table 8 the share of wages and salaries in the cost of producing the *net output* of all industries and of the transportable goods industries respectively as covered by the Census of Industrial Production is shown for the period 1936-1961. The share of wages and salaries as revealed by this table is low by comparison with Table 7 because net output for the purposes of the Census of Industrial Production includes not only factor remuneration but certain other costs as well, e.g., advertising. The difference between the shares as shown in the two tables is a rough measure of the incidence of these other costs. Table 8 is still further confirmation of the tendency for the share of wages and salaries to remain fairly constant over long periods despite short-run deviations from the "normal". The fall in labour's share during the war years is attributable to a decline in labour bargaining power due to the official control of wages and salaries on the one hand and the stagnation in economic activity on the other.¹¹

¹¹Labour's share in net output appears to be fairly constant also at the level of the industry and even of the firm.

Wages and Salaries and the Balance of Payments

It will be seen from Chart I that there is a general tendency for employee income, on the one hand, and imports and exports, on the other, to move together.¹² This is not surprising as in the long run imports, exports and labour incomes are all related to national income in a fairly stable fashion. It follows, therefore, that in the long run changes in labour income are not likely to be associated with abnormal surpluses or deficits.¹³

From one year to the next, however, the relationship between movements in wages and salaries and in external transactions has not been particularly close. This is especially the case in regard to imports. Thus, for example, imports fell slightly between 1948 and 1949 whereas wages and salaries rose, they rose much more rapidly than wages and salaries from 1949 to 1951 but fell again in 1952 though wages and salaries continued to rise.

The short-run effects of changes in wages and salaries as far as the balance of payments is concerned depend on the extent to which production changes and on the behaviour of costs and prices abroad. In the examples which follow the consequences of an

¹²See Appendix II for explanatory notes on this and subsequent charts.

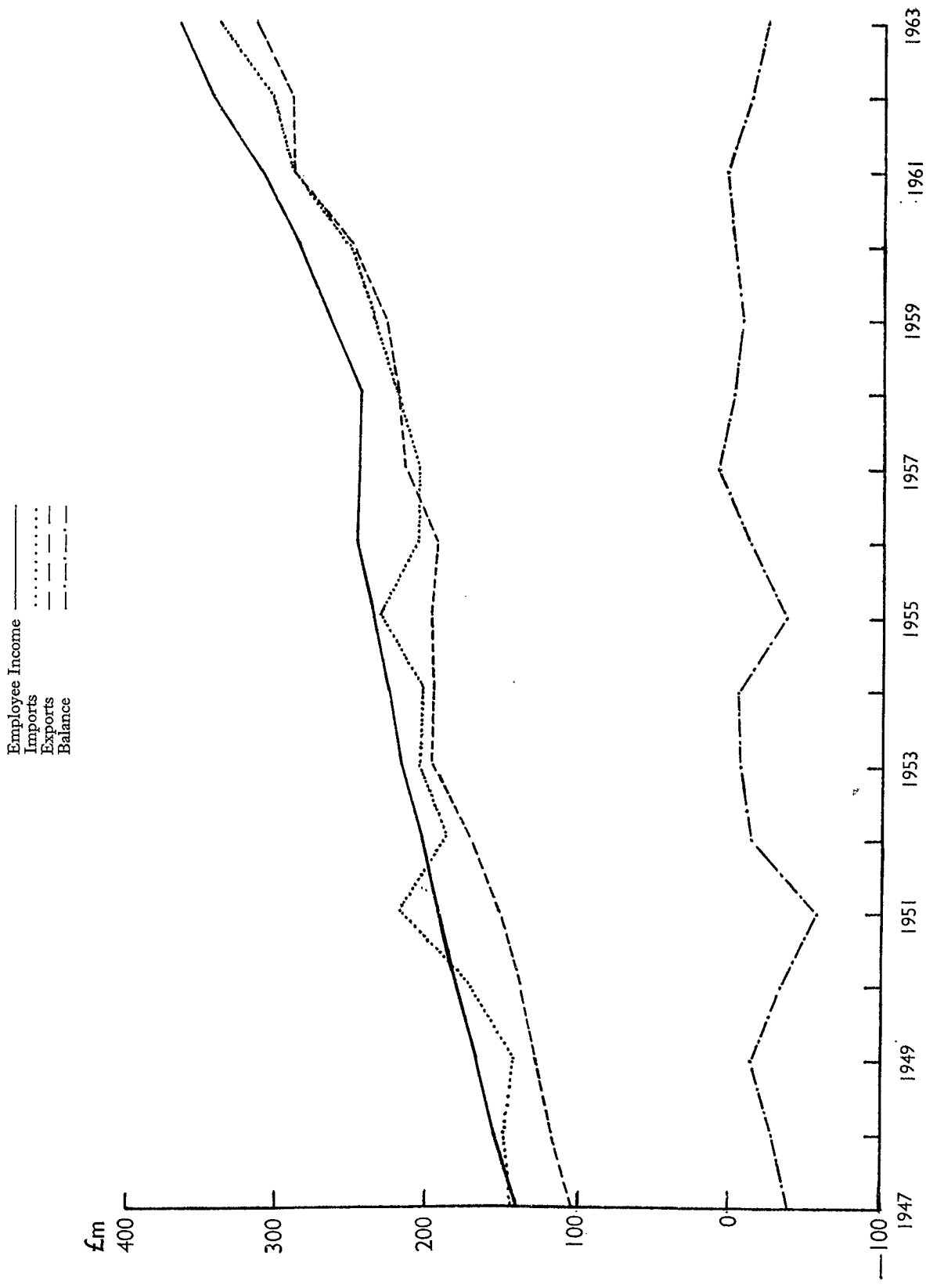
¹³See Leser, *Imports and Economic Growth in Ireland*, E.R.I., 1963, for a discussion of the relationship between imports, exports and G.N.P.

TABLE 8: SALARIES AND WAGES AS PERCENTAGE OF NET OUTPUT

Year	Transportable Goods Industries			All Industries		
	Net Output £m.	Salaries & Wages £m.	%	Net Output £m.	Salaries & Wages £m.	%
1936 ..	24.9	11.9	47.8	33.9	18.7	55.2
1937 ..	25.4	12.5	49.2	34.7	19.6	56.5
1938 ..	25.3	13.0	51.4	36.0	21.4	59.4
1939 ..	27.7	13.6	49.1	—	—	—
1940 ..	28.9	14.1	48.8	—	—	—
1941 ..	30.6	14.0	47.7	—	—	—
1942 ..	30.3	13.9	45.9	—	—	—
1943 ..	32.6	15.3	46.9	41.6	22.2	53.4
1944 ..	33.5	16.5	49.3	42.6	23.7	55.6
1945 ..	37.8	18.1	47.9	48.3	25.7	53.2
1946 ..	42.8	21.2	49.5	56.2	31.2	55.5
1947 ..	49.8	25.7	51.6	66.8	39.1	58.5
1948 ..	54.9	29.4	53.6	77.0	46.2	60.0
1949 ..	61.5	32.2	52.4	87.1	51.3	58.9
1950 ..	68.6	36.1	52.6	97.5	56.8	58.3
1951 ..	74.5	40.5	54.4	105.2	63.6	60.5
1952 ..	77.7	42.4	54.6	110.2	67.1	60.9
1953 ..	89.2	47.1	52.8	124.5	73.1	58.7
1954 ..	91.9	49.7	54.1	129.5	76.9	59.4
1955 ..	97.2	52.7	54.2	135.5	81.0	59.8
1956 ..	99.4	55.1	55.4	138.6	83.0	59.9
1957 ..	100.3	55.7	55.5	136.0	79.9	58.8
1958 ..	107.7	58.8	54.6	146.5	83.8	57.2
1959 ..	121.8	62.9	51.6	162.0	89.2	55.1
1960 ..	131.1	69.4	52.9	174.3	97.7	56.1
1961 ..	150.7	77.2	51.2	198.1	108.6	54.8
1936-61 ..	—	—	51.3	—	—	—
1943-61 ..	—	—	—	—	—	57.5

Source: Derived from C.S.O., *Statistical Abstract* 1963, Table 116.

CHART I.—EMPLOYEE INCOME, IMPORTS, EXPORTS AND BALANCE OF PAYMENTS, 1947-63



increase in wages and salaries in three possible situations are traced. In each case it is assumed for the sake of simplicity that the balance of payments is in equilibrium to begin with.¹⁴

Example 1. Wages and salaries increase relative to production so that labour cost per unit of output rises. External costs and prices go up at about the same rate as domestic labour cost per unit. Consequently, it is possible to cover the increased production costs by higher prices both at home and on the export markets. Neither an external surplus or deficit is likely to arise because the value of both exports and imports is likely to increase to about the same extent.

Example 2. Wages and salaries increase as in Example 1 but external costs and prices remain unchanged or rise more slowly than domestic costs. The increase in costs cannot be covered in full by price increases so that profit margins cannot be maintained. Some firms will, therefore, try to economize in the use of labour while others may go out of production altogether with the result that employment falls. The fall in earnings consequent on the fall in employment plus the fall in profits may be less than the original increase in wages and salaries. Hence there may be a net increase in money income. This will tend to result in an increase in imports—the extent of which will depend in part on the consequences of a shift in income away from profit in favour of wages and salaries. The fall in the profitability of business may mean that investment will be considered less attractive with the result that investment expenditure, which has a relatively high import content, may fall in relation to total expenditure, or, on the other hand, investment may increase in an attempt to substitute capital for labour. At all events some increase in imports is likely while exports at best will remain unchanged and quite possibly will fall with the result that a deficit will emerge.

Example 3. Production increases relative to wages and salaries so that labour cost per unit falls. External costs and prices remain unchanged. Irish products, therefore, become more competitive both on the home and export markets. If there are unused resources available total production and exports will tend to rise. Imports which compete with home production will tend to fall, while other imports, (e.g., raw materials) will tend to rise. On balance

¹⁴It must be stressed that these examples, being designed to isolate the effect of wage and salary changes from all the other factors which influence the balance-of-payments position, are highly simplified. In the real world other things do not remain the same so that the consequences of wage and salary changes, as traced in the examples, may be counteracted by other influences.

there may be a net increase in imports which, however, is unlikely to be as large as the increase in exports. An export surplus is, therefore, likely to arise. If, however, there are no idle resources available to expand production exports can be increased only at the expense of home sales. This would be likely to lead to higher domestic prices and so to pressure for higher wages and salaries with the result that the fall in labour cost would be short-lived.¹⁵

These examples do not exhaust all possible situations but they are perhaps the most important because the most typical.¹⁶ There is no disturbance of equilibrium in case 1. In case 3 an export surplus will be eliminated through a rise in imports so that equilibrium will be reached at a higher level of external transactions than before. In case 2 a deficit could be eliminated in either of two ways. As long as domestic labour costs continue to increase as compared with labour costs and prices abroad exports are not likely to rise. In these circumstances equilibrium is likely to be restored only as a result of a fall in imports. Imports, however, are not likely to fall unless income and, therefore, employment also fall. Accordingly, the restoration of equilibrium is likely to involve a lowering of the level of external transactions and of the level of economic activity as a whole. On the other hand, entrepreneurs may react to the initial rise in labour cost by substituting capital for labour and by the more efficient use of labour generally with the result that output per head may be increased and labour cost per unit and total money income reduced to their former level thereby restoring the equilibrium level of external transactions. Thus both ways of restoring equilibrium involve a reduction in employment.

We have already seen that as realized earnings are the outcome of many influences and not merely of basic wage and salary rates we cannot forecast the effects of a rise in rates, e.g., during a wage round, on imports and exports. What we can be reasonably sure of, however, is that if labour cost in Ireland is rising in relation to labour cost and prices elsewhere and if everything else remains the same there will be a short-run adverse effect on the relationship between imports and exports because the former will tend to rise and the latter to fall. In the long-run this unfavourable effect will be eliminated but at the cost of a lower level of employment and possibly also

¹⁵Owing to the possibility of price discrimination the effects of improvements in domestic costs as compared with external costs and prices are probably more marked than when the opposite occurs, i.e., relative cost improvements probably lead to a greater increase in exports than relative cost disimprovements to reductions in exports.

¹⁶It may be worth mentioning that it does not appear to be possible to have an increase in labour costs per unit against the background of unchanged external costs and prices and of an initial position of external equilibrium and at the same time maintain profit margins unless income and price elasticities are quite abnormal.

of production and income than would otherwise prevail.

Two important conclusions emerge from this discussion. The first is that the long-run effect of changes in the relationship between employee incomes and output on the level of external transactions is more significant than the short-term effect on the balance of payments. The second is that the process whereby equilibrium is restored, in the case of an external deficit arising as a result of a relative deterioration in labour cost, is likely to involve a reduction in employment. In other words employment is one of the elements which maintains the long-run stability between income and employee remuneration on the one hand and between income and external transactions on the other—other things, including exchange rates, being equal.

Labour Cost and Exports

Although, as we saw in Table 6, labour costs amount to only about one-third of total costs it is the only element of cost which is likely to have a significant effect on costs here as compared with costs abroad. Changes in import prices cannot affect the relationship between domestic and external costs (and prices) because they are, in fact, external prices.¹⁷ The same, to a very large extent, holds true

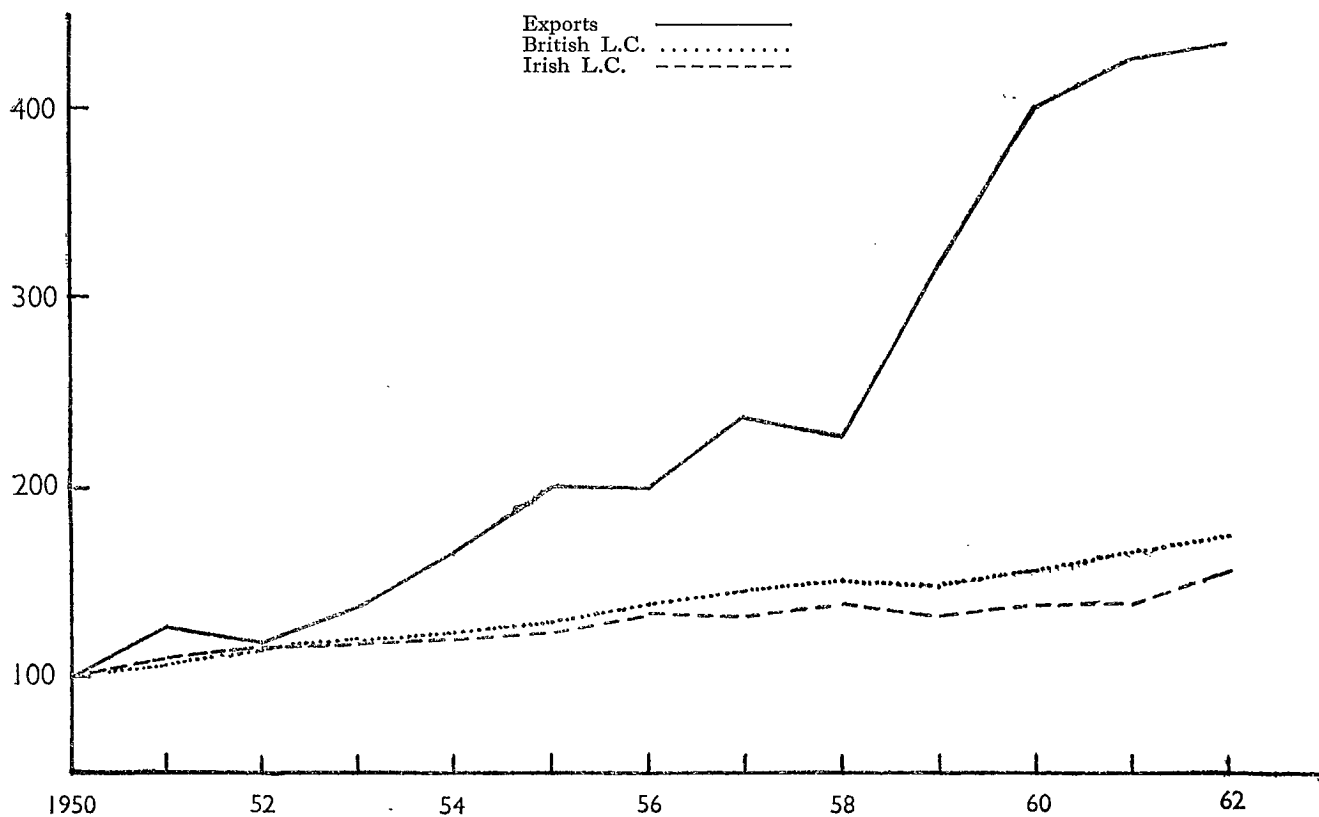
of agricultural prices because they are determined externally for all practical purposes.¹⁸ The other costs, though domestically generated are too small to have a significant effect on unit costs.

Chart II shows how the rise in exports of raw materials and manufactured goods from Ireland since the early 1950's has been accompanied by a fairly continuous improvement in Irish labour costs per unit of output compared with those of Britain—our principal market and competitor. The more favourable labour cost situation relative to that of Britain which enabled Irish exports to become more competitive is not, of course, the only factor related to the expansion of exports during the past decade or so and particularly since 1958. Other factors, such as tax incentives, the advent of new firms to the export trade and the possibility of quoting keener prices for exports than for home sales were instrumental in securing the export increases but there can be little doubt that the relative improvement in labour costs did, in fact, facilitate the expansion of

¹⁷Unless exporters to Ireland engage in price discrimination.

¹⁸Even though changes in import prices cannot affect the relationship between domestic and external prices and even though agricultural prices tend to be determined externally changes in the terms of trade do occur. The reason is, of course, that agricultural and non-agricultural prices change in relation to each other and that Irish exports are predominantly agricultural while imports are predominantly non-agricultural.

CHART II.—IRISH EXPORTS (RAW MATERIALS AND MANUFACTURED GOODS (VALUE))
IRISH AND BRITISH LABOUR COST PER UNIT



exports and of the economy in general since 1958. As industrial exports increase compared to production the relative labour cost position is likely to assume greater significance while tax incentives and dual pricing systems are likely to become less important.

Irish and British Wages and Earnings

As Ireland and Britain form what is virtually a common market for labour owing to the unrestricted access enjoyed by Irish people to the British labour market it is to be expected that rates and earnings in the two countries should be closely related.

It is extremely difficult to compare Irish and British rates as it is seldom possible to discover the rate which prevails at any given time for a particular type of labour in each country. From such data as could be assembled, however, it appears that basic rates in Ireland are sometimes considerably higher than in Britain and that they are scarcely ever more than marginally lower.¹⁹

Average earnings in Britain, at least in industry, tend to be higher than in Ireland.²⁰ This is a reflection of differences in the structure of particular industries, in the composition of the labour force and in the incidence of over-time and other opportunities of earning more than the basic rates. All these factors result in a relatively greater proportion of higher paid workers in Britain than in Ireland as Table 9 shows.

At first sight it may seem strange that there should be any divergences of rates and earnings between Ireland and Britain seeing that the two form a

¹⁹See Appendix I for details. It must be pointed out, however, that the British rates quoted in the Appendix are for the most part the minimum rates laid down by national agreements and that they are generally exceeded by local agreements. The Irish rates provided for in collective agreements are also known to be exceeded in some cases. But it is not known by how much actual rates paid exceed agreed rates either in Britain or in Ireland.

single labour market. It must be remembered, however, that not only is the market not perfect (no market ever is) but also that the movement of labour between Ireland and Britain tends to bring about equality of the *net advantages* of working here and in Britain rather than identical rates or earnings in purely monetary terms. Area differentials exist even within Britain itself as may be seen from Table 10 which shows that earnings generally tend to be highest in Southern England.²¹

Where the essential unity of the Anglo-Irish labour market shows itself most clearly is in the long-run tendency for wages in Ireland and Britain to change at very much the same rate and for the change in Irish wages to be more closely related to changes in British wages than to changes in output per head in Ireland.²²

The existence of a common Anglo-Irish labour market means that the employment opportunities available to Irish workers are very much greater than would be the case if Ireland formed a self-contained national labour market, and places Irish entrepreneurs in direct competition with British entrepreneurs for Irish labour. Consequently, the bargaining power of Irish labour is greater than it would otherwise be and this may be one of the reasons underlying the relatively large share of income going to Irish labour. Moreover, owing to the disparity in the sizes of the Irish and British economies British labour market conditions tend to determine what Irish entrep-

²⁰Compare Nevin, *Wages in Ireland 1946-62*, E.R.I., 1963, p. 9.

²¹See also Robertson, *The Economics of Wages*, Macmillan, 1961, pp. 67-70, and C. E. V. Leser, "Earnings in British Regions", *Scottish Journal of Political Economy*, Vol. I, No. 3 pp. 268-272, October 1954.

²²See Nevin, *Wages in Ireland*, *op. cit.*, p. 10. It is as yet too early to say whether the divergence between the rate of increase in Irish and British wages which has become evident in the past few years is the beginning of a breakdown in the normal long-run relationship or merely a temporary deviation from that relationship.

TABLE 9: DISTRIBUTION OF WEEKLY EARNINGS (ADULT MALES)(a)
(OCTOBER 1960)

Range of Earnings	Ireland		Britain	
	Transportable Goods Industries		Manufacturing	
	%	Cumulative %	%	Cumulative %
Less than £7	18.0	18.0	0.37	0.37
£7 but less than £8	10.4	28.4	0.54	0.91
£8 " " " £9	14.9	43.3	2.17	3.08
£9 " " " £10	13.8	57.1	4.39	7.47
£10 " " " £11	12.9	70.0	6.32	13.79
£11 " " " £12	10.3	80.3	8.09	21.88
£12 " " " £13	6.0	86.3	9.40	31.28
£13 " " " £14	4.2	91.5	10.00	41.28
£14 and over	8.5	100.0	58.72	100.00

(a) 18 years and over in Ireland; 21 years and over in Britain.

Source: Derived from C.S.O., *Irish Trade Journal and Statistical Bulletin*, September 1962, p.167. Ministry of Labour, *Statistics on Incomes, Prices, Employment and Production*: (H.M.S.O.) September 1962, Table B15.

TABLE 10: IRISH EARNINGS AS PERCENTAGE OF U.K. REGIONAL EARNINGS, PER HEAD PER WEEK (a)
(OCTOBER, 1961)

Industry	London and South Eastern	Eastern and Southern	South Western	Midlands	Yorks and Lincolnshire	North Western	Scotland	Wales	Northern Ireland
Bacon Curing, Meat and Fish Products	65.0	76.7	78.2	72.5	80.6	71.1	81.9	81.9	93.4
Cocoa, Chocolate and Sugar Confectionery	78.0	73.2	73.9	75.3	77.0	87.3	90.1	78.4	—
Brewing and Malting	83.6	93.5	105.5	84.6	96.0	95.5	92.9	98.7	—
Vegetable and Animal Oils, Fats, Soaps and Detergents	65.9	63.5	60.9	78.3	78.9	66.7	77.8	—	—
Spinning and Doubling of Cotton, Flax and Man-made Fibres	—	—	—	63.2	66.5	72.4	71.3	—	87.5
Jute	—	—	—	—	—	—	81.4	—	—
Made-up Textiles	79.6	88.8	86.9	75.1	—	83.3	89.8	—	99.9
Leather Goods	64.0	57.8	—	64.0	58.6	69.1	73.4	—	—
Overalls, and Men's Shirts, Underwear, etc.	69.1	74.5	78.5	74.0	79.4	77.8	—	—	84.2
Footwear	73.2	80.4	71.5	77.3	79.9	81.8	77.2	—	—
Bricks, Pottery, Glass, Cement, etc.	65.1	65.3	74.8	70.6	71.0	71.7	75.3	71.9	86.0
Paper and Board	69.7	63.5	76.5	79.7	80.2	73.1	83.3	79.6	—
Laundries	76.1	77.4	84.2	76.8	85.1	81.9	86.5	81.6	97.8

(a) U.K., men—manual workers; Ireland—males over 18.
Source: Ireland—data supplied by C.S.O.; U.K.—Statistics on Incomes, Prices, Employment and Production, *op. cit.*, December 1962, Table B 10.

reneurs have to pay in order to attract and retain labour.

The difference between earnings in Britain and in Ireland may be regarded as a measure of Irish workers' preference for working in Ireland rather than in Britain.²³ Given such a preference this difference is not likely to widen appreciably because should it do so workers would tend to emigrate to Britain to a greater extent than would otherwise be the case and entrepreneurs would eventually be forced to increase wages, even without trade union pressure, in order to retain their employees.²⁴ On the other hand, should the difference be narrowed, e.g., as a result of trade union pressure, and should output per head not rise more rapidly than in Britain, production would tend to become less

²³This point is further developed in Chapter III, pp. 42 and 43

²⁴It may be objected that what really causes emigration is not so much the possibility of earning higher wages in Britain as the relative lack of employment opportunities here. This line of argument, however, implies that employment opportunities and wages are unrelated to each other, whereas they are probably closely related in the circumstances of this country, as is argued in Chapter III.

profitable and in some cases unprofitable. Unemployment would, therefore, tend to rise and the unions would find it difficult to continue to maintain the pressure for more than a short time. In this case the normal difference would tend to be restored through a more rapid rise in earnings in Britain than in Ireland.

Accordingly, it may be concluded that the difference between Irish and British wages is not likely to widen appreciably for any considerable length of time—the preference of Irish workers for working in Ireland being given—and that if it were to narrow appreciably employment would tend to be less than it would otherwise be, unless output per head were to rise more rapidly in Ireland than in Britain. In other words, Irish and British earnings will tend to rise at about the same rate if workers' preferences remain the same but there *could* be a narrowing of the difference between wages in the two countries without any consequent loss of employment even in the long-run if output per head were to rise sufficiently rapidly in Ireland.

TABLE II: AVERAGE OUTPUT PER HEAD, AVERAGE EARNINGS PER HEAD AND LABOUR COST IN IRELAND COMPARED WITH BRITAIN IN SELECTED INDUSTRIES (1958)

Industry	Average Output per head		Average Earnings per head		Irish Labour Cost as % of British Labour Cost
	Ireland	Britain	Ireland	Britain	
	(1)	(2)	(3)	(4)	(5) = $\frac{(3)}{(1)} \times \frac{(4)}{(2)}$
	£				Percentage
Bacon, Meat etc.	840.8	940.8	419.4	468.7	100.2
Butter etc.	859.6	1,440.4	409.1	536.4	127.9
Grain Milling	908.9	1,856.7	418.6	625.6	136.7
Bread, Biscuits etc.	642.2	809.6	375.5	461.3	102.6
Sugar	826.5	904.3	517.2	670.2	84.3
Cocoa etc.	640.7	944.8	359.3	451.7	117.4
Margarine	1,503.2	1,769.2	513.0	596.2	107.1
Brewing & Malting	1,813.7	1,976.0	535.6	581.3	100.4
Aerated Waters	806.4	1,377.8	391.1	501.6	133.5
Tobacco	1,628.7	1,912.0	496.7	526.0	110.9
Woollen & Worsted	590.5	742.9	329.6	445.1	93.2
Jute, Canvas etc.	526.2	709.2	313.2	421.6	100.0
Hosiery	574.1	727.4	332.0	436.6	96.4
Boot & Shoe	555.2	699.3	366.6	473.0	97.6
Furniture etc.	477.2	832.6	345.5	557.2	108.2
Paper etc.	767.1	1,286.2	391.8	627.3	104.7
Printing etc.	720.7	1,071.2	455.1	671.7	100.7
Tanning etc.	854.5	896.8	472.2	565.8	87.4
Leather etc.	457.1	633.3	261.7	388.9	95.2
Fertilizers	968.5	1,557.4	479.9	680.9	113.2
Oils, Paints etc.	1,019.1	1,476.8	462.6	606.2	110.4
Soap etc.	845.8	1,879.5	452.1	647.3	154.9
Glass etc.	586.4	869.0	393.9	519.3	112.4
Cement etc.	1,104.4	1,045.3	436.7	615.8	67.1
Metal Trades	697.9	1,212.7	412.4	672.6	106.5
Electrical Machinery	689.1	1,042.2	366.4	611.0	90.7
Vehicles	876.5	1,047.2	502.4	682.0	88.0
Total Manufacturing	728.5	1,008.7	388.9	572.4	94.1
Construction	621.7	791.5	428.6	560.8	97.3

Sources: Derived from C.S.O., *Statistical Abstract*, 1961. Table 109. H.M.S.O., *Report on the Census of Production*, 1958, Part 133, Table 1.

International Labour Cost Comparisons

When account is taken of differences in output per head the lower Irish earnings do not give Ireland any appreciable advantage in respect of labour cost as compared with Britain. In some industries labour cost in Ireland is even a good deal higher than in Britain as may be seen from Table 11, where labour cost in various industries in Ireland and Britain are compared.

This comparison is extended to a number of European countries in Table 12 where, however, the whole manufacturing sector in each is compared rather than individual industries. The inference to be drawn is that Irish labour cost is only marginally lower than even that of high wage countries such as Sweden, whereas it is much higher than French labour cost—though earnings in France are significantly higher than in Ireland.²⁵ Irish labour costs show up more favourably when account is taken of social charges as these are lower in Ireland than in the other countries mentioned.²⁶ There can be little doubt, however, that Irish labour is not anything like as cheap as international comparisons of earnings suggest.²⁷

²⁵Irish labour cost per unit of output exceeded even that of Sweden by 1962.

²⁶See Nevin, *Wages in Ireland, op. cit.*, Table 2.

²⁷The possible reasons for the relatively low level of Irish labour productivity are dealt with in a number of the C.I.O. reports.

TABLE 12: LABOUR COST IN MANUFACTURING IN IRELAND AND SOME EUROPEAN COUNTRIES, 1960

Country	Average Output per head	Average Earnings per head	Relative Labour Cost
	£		
Ireland	829	434	100
Denmark	1,240	690	106
Netherlands	1,206	573	91
Norway	1,388	683	94
France	1,704	540	60
Sweden	1,633	977	106

Source: Derived from U.N., *Statistical Yearbook* 1961, Table 65.

Moreover, although labour cost per unit rose less in Ireland than in the United Kingdom over the period 1950 to 1962 as Table 13 shows, it rose more than in any of the European countries listed with the exception of Sweden.²⁸ Thus Ireland became less competitive as compared with most Continental countries. On the whole, however, seeing that the United Kingdom is not only our largest market but also our principal competitor, the movement in labour cost from 1950 to the early 1960's was not unfavourable.

²⁸It may be remarked in passing that Sweden has the most highly centralized system of collective bargaining of any country in Europe.

TABLE 13: PRODUCTIVITY AND LABOUR COST PER UNIT OF OUTPUT IN MANUFACTURING, 1950=100
1. Production

Year	Ireland	France	Germany	Italy	Netherlands	Sweden	U.K.
1950 ..	100	100	100	100	100	100	100
1951 ..	103	114	120	111	105	110	104
1952 ..	100	114	127	115	105	109	100
1953 ..	109	115	141	127	114	115	106
1954 ..	113	128	158	138	126	125	113
1955 ..	118	140	183	152	135	135	121
1956 ..	115	157	197	162	141	141	120
1957 ..	114	170	210	173	143	147	123
1958 ..	117	180	217	180	144	147	121
1959 ..	120	183	232	201	159	156	129
1960 ..	138	205	258	233	181	172	139
1961 ..	151	216	273	256	182	185	139
1962 ..	155	224	280	273	188	190	138

2. Employment

Year	Ireland	France	Germany	Italy	Netherlands	Sweden	U.K.
1950 ..	100	100	100	100	100	100	100
1951 ..	103	104	109	101	101	103	103
1952 ..	100	103	113	101	97	101	102
1953 ..	105	101	116	101	100	98	103
1954 ..	107	102	122	103	104	99	106
1955 ..	109	102	131	104	107	101	108
1956 ..	107	104	141	106	109	101	109
1957 ..	104	107	147	108	109	101	109
1958 ..	105	108	149	106	106	99	107
1959 ..	107	106	152	106	108	100	108
1960 ..	111	107	159	113	112	105	112
1961 ..	116	108	165	121	116	107	113
1962 ..	118	109	167	124	117	106	113

3. Output per Head ($1 \div 2 \times 100$)

Year	Ireland	France	Germany	Italy	Netherlands	Sweden	U.K.
1950 ..	100	100	100	100	100	100	100
1951 ..	100	110	110	110	104	100	101
1952 ..	100	111	112	114	108	100	98
1953 ..	104	114	122	126	114	105	103
1954 ..	106	125	120	134	121	108	107
1955 ..	108	137	140	146	126	113	112
1956 ..	107	151	140	153	129	118	110
1957 ..	110	159	143	160	131	120	113
1958 ..	111	167	146	170	136	125	113
1959 ..	121	173	153	190	147	131	119
1960 ..	124	192	162	206	162	138	124
1961 ..	130	200	165	212	157	139	123
1962 ..	131	206	168	220	161	143	122

4. Earnings per Hour

Year	Ireland	France	Germany	Italy	Netherlands	Sweden	U.K.
1950 ..	100	100	100	100	100	100	100
1951 ..	110	128	114	110	108	121	108
1952 ..	117	148	122	115	110	144	117
1953 ..	124	153	127	118	112	150	124
1954 ..	127	162	130	122	125	156	132
1955 ..	133	174	138	129	130	168	144
1956 ..	142	187	152	138	135	183	153
1957 ..	146	201	167	145	149	194	164
1958 ..	153	226	178	151	157	206	169
1959 ..	158	240	189	155	161	215	176
1960 ..	170	257	210	162	174	228	192
1961 ..	180	276	232	173	183	246	203
1962 ..	203	297	255	199	191	244	212

5. Labour Cost per Unit ($4 \div 3 \times 100$)

Year	Ireland	France	Germany	Italy	Netherlands	Sweden	U.K.
1950 ..	100	100	100	100	100	100	100
1951 ..	110	116	104	100	104	121	107
1952 ..	117	133	109	101	102	143	119
1953 ..	119	134	104	94	98	142	120
1954 ..	120	130	100	91	103	144	123
1955 ..	123	127	99	88	103	149	129
1956 ..	133	124	109	90	105	155	139
1957 ..	133	126	117	91	114	161	145
1958 ..	138	135	122	89	115	165	150
1959 ..	131	139	124	82	110	164	148
1960 ..	137	134	130	79	107	165	155
1961 ..	138	138	141	82	117	177	165
1962 ..	155	144	152	90	119	171	174

Note: In the case of the U.K. earnings relate to adult male workers; in all other cases they refer to both male and female workers.

Sources: U.N., *Monthly Bulletin of Statistics*, March 1964, Table 53, February 1964, Tables 6, 10 and 49, and previous issues. National Institute of Economic and Social Research, *Economic Review*, August 1962, Table 22, November 1963, Table 44.

II: THE WAGE ROUNDS

Though the wage rounds are a purely post-war phenomenon we now tend to look on them as a normal feature of the economic process. Since the end of the war collective bargaining in this as in several other countries has indeed been concerned with very little else. In all, nine rounds can be distinguished and negotiations were conducted within the framework of general agreements con-

cluded between the central trade union and employers' organisations in five of them.

The First Round

Following the withdrawal of the Emergency Powers Orders under which wages had been controlled during the war, in 1946, the trade unions were free for the first time since 1941 to seek wage

increases through the ordinary methods of collective bargaining. Immediately what later became known as the first round of wage negotiations began and lasted until the Spring of 1947.

Provision had been made in Part VII of the Industrial Relations Act, 1946 whereby the Labour Court could, if necessary, facilitate the transition from the Emergency controls to collective bargaining. It was not found necessary to avail of these provisions to any considerable extent and collective bargaining was resumed in almost all employments in a reasonably orderly manner and with no more disputes than could have been expected in the circumstances.

Prices had risen a great deal during the war and the main objective of wage negotiations was to secure wage increases which would offset the increase in the cost of living. The newly established Labour Court, though unwilling to lay down criteria for wage adjustments, did state the considerations which would guide it in making recommendations and gave its views on what wage increases it considered desirable on general economic grounds. It rejected the idea of raising wages to the same extent as the increase in the cost of living index as compared with 1939, viz., 66 per cent, on the grounds that an increase of this magnitude would have been what it described as a "premature and unrealistic policy". What it decided to do in regard to its own recommendations was to give the lower paid workers substantial increases—in some cases to the full extent of the rise in the cost of living index—and to award relatively lower increases to the higher paid workers.¹

This policy appeared to meet with a "fair measure of general acceptance" according to the Court.² It was recognized, however, that ultimately something more would be needed as a criterion for judging wage increases and the Court itself pointed out the need for the development in the course of time of recognized general principles of wages policy, in the light of which particular disputes could be more readily resolved than if each dispute were treated as if it were quite unrelated to others.³ This is probably the first time that a wages policy was advocated in this country.

The Second Round

After a period of relative stability in 1946 the cost-of-living index rose substantially in 1947 and brought with it further demands for wage increases in August of that year. These culminated in the demands made by the road passenger service workers

¹Labour Court, *First Annual Report*, p. 7.

²*Ibid.*, p. 8.

³*Ibid.*, pp. 15-16.

in C.I.E. whose claims eventually came before the Labour Court. The claim was for 30/- a week increase and a reduction of working hours to 40 per week. An increase of wages of this magnitude would have meant a rise of between 32 per cent. and 37½ per cent. In its recommendation which was published in the middle of September the Court said that if the claim were conceded it would inevitably be followed by claims for much higher wages in other employments in which wages had been raised in the preceding months. For that reason the claim required examination in the light of the economic crisis facing the country. The crisis referred to was the deficit in the balance of payments. The problem of wages in the Court's view needed careful consideration "not by one section of workers or by one or two trade unions only but by all workers' and employers' organisations and by the whole community". Meanwhile, the Court decided that it could not "prejudge the solution of a difficult problem by recommending that wage rates established only a few months ago should be raised to a new level".⁴

In October 1947 the Government confronted by the rising cost of living and the widening of the trade gap decided to maintain such control over prices as would ensure that price increases other than those justified by cost increases would not occur and to offset higher prices in the case of essential commodities by means of subsidies. It also proposed to embark on a wages policy designed to relate wages to the cost of living and was prepared to implement this policy by legislation if it could not secure its adoption by voluntary agreement.⁵

It was the Government's view that its proposals in regard to wages should be accepted voluntarily and that trade unions should agree not to support demands or strikes to enforce wages higher than would be justified by the cost of living criterion or to support demands which would have a similar effect as wage increases on the total labour cost of any industry. The Government also decided that the Minister for Industry and Commerce would enter into discussions with the trade union organisations with a view to having such an agreement defined and recorded. If, however, for one reason or another the trade unions could not agree to these proposals the Government signified its intention of introducing legislation to put them into effect. What was meant by having the proposed agreement "defined and recorded" is not clear nor is it clear who the parties to the agreement were to be. It is possible that what the Government had in mind was that the unions would agree among themselves to accept its proposals or that they would enter into an agreement with the

⁴*Ibid.*, p. 9.

⁵Statement by the Taoiseach in Dáil Éireann, *Parliamentary Debates*, Vol. 108, 1947, Cols. 387 ff.

Government itself or that the agreement would be made with the employers.

At all events negotiations were subsequently opened between the Minister for Industry and Commerce and the two Trade Union Congresses but were broken off by the Government in view of the dissolution of the Dáil and the impending general election. In the circumstances the Government proposed that the discussions be adjourned until after the election.

The Federated Union of Employers and a number of other employers' organisations immediately reacted to the departure of the Government from the scene by proposing that an approach should be made to the Labour Court with a view to arranging a meeting between the employers' organisations and the Trade Union Congresses.

Following on this approach by the employers the Labour Court conveyed the suggestion for joint discussions to the Congresses and offered to provide a chairman and meeting place.

The first joint meeting was held on December 1, 1947. There was no fundamental difference of opinion between the parties as to the need for a general wage agreement. Nevertheless, the discussions were prolonged by the difficulty of finding a formula "which would be readily intelligible but neither too rigid nor too simple for application in a wide variety of circumstances".⁶ A further difficulty arose from the fact that separate discussions took place between the employers' organisations and each of the Congresses separately. At one stage agreement appeared impossible but the Chairman (the late R. J. P. Mortished) by his tactful and diplomatic conduct of the negotiations succeeded in building up a certain confidence in each other on the part of the negotiators and ultimately by March 1948 complete agreement was reached. The terms of the agreement were published in the form of a "Joint Statement on Principles to be observed in Negotiations for the Adjustment of Wages". It may be summarised as follows:—

- (a) The rise in the cost of living justified a claim for an adjustment of existing wages. Wages were not, however, the sole determinant of the standard of living of the workers. The parties had a duty, in so far as they were able, to try to establish a proper relation between wages and prices.
- (b) Every effort was to be made to (i) avoid any unjustifiable increase in prices, (ii) adjust wage increases within limits which would give a reasonable assurance that they would not result in an inflationary rise in prices, (iii) avoid

losses in production caused by stoppages of work and (iv) maintain, and whenever possible, increase, output by greater efficiency and productivity on the part of managements and workers.

- (c) The amount by which existing wages should be increased was to be determined by negotiations in the usual way. However, save in exceptional cases, no claim was to be made for an increase in the wages of adult male workers to more than 11/- over the existing weekly wages with increases for female and juvenile workers in accordance with existing practice. If employers were not prepared to concede a claim for an increase within this limit, the onus of showing exceptional circumstances in justification would be upon them. Similarly, if workers claimed an increase exceeding this limit, the onus of showing exceptional circumstances would be upon them.⁷
- (d) The opening of negotiations for the revision of wage rates which had been fixed by formal agreements should not be debarred by reason of the terms of the agreement concerning its duration or the length of notice to be given before revision.
- (e) All negotiations were to be conducted as speedily as possible, and no stoppage of work was to take place until all the available procedures for settlement by negotiations, including reference to the Labour Court, had been exhausted.
- (f) Wages adjusted in accordance with the principles laid down might require further revision from time to time to meet changes in the cost of living.
- (g) The agreement might be terminated by any of the parties giving three months' notice through the Labour Court.
- (h) Each of the parties would furnish lists of their affiliated and associated bodies which accepted or rejected the agreement.⁸

Clause (c) which is the kernel of the agreement is subject to at least two interpretations. The first is that the figure of 11/- per week was intended as the

⁷No indication was given as to what might be taken into account in determining whether "exceptional circumstances" existed or not.

⁶Labour Court, *Second Annual Report*, p. 5.

⁸Labour Court, *Second Annual Report*, pp. 16-19.

standard increase to be applied automatically but subject to variations upwards or downwards in exceptional circumstances. This appears to have been the trade union interpretation. It would imply that the 11/- was to be the norm around which bargaining would centre and that negotiations were to be concerned with establishing the existence of the exceptional circumstances which would justify departures from the 11/- increase.

The second interpretation is that the 11/- was to be a maximum, again with exceptions, and that negotiations were normally to be concerned with establishing an increase between zero and this maximum. This was the employers' interpretation and appears to be the one which prevailed.⁹

It may be noted that the rise in the cost of living was the only factor envisaged as justifying a general increase in wages. The acceptance, however, of the principle of an increase in money terms (in either of its interpretations) rather than a proportionate increase indicates that the maintenance of the existing relative living standards of the various groups of workers was not envisaged. This was in accordance with the policy of the Labour Court which as we saw declared its intention of giving lower paid workers substantial increases while giving higher paid workers lower increases.¹⁰

It may be noted also that the agreement recognized the connection between costs and prices and expressed the willingness both of labour and management to increase efficiency. Provision was not made, however, either for dealing with prices or for harnessing the declared willingness of both sides to increase efficiency to that end.

The acceptance of the agreement by the Executives of the Congresses and of the employers' organisations at the actual negotiations could be only provisional. Final acceptance had to await the approval of the Congresses and employers' organisations themselves. This was given in the case of the Congresses at special Conferences held after the text of the agreement had been circulated to the affiliated unions for their consideration. Moreover, the mere fact that the Congresses accepted did not of itself mean that the affiliated unions would also do so. Acceptance or rejection was a matter for each union individually. Ultimately, 32 unions accepted in full and one accepted with reservations. Thirty-eight branches of the Federated Union of Employers and two other employers' organisations accepted in full and seven F.U.E. branches and three other employers' organisations accepted in part.

In retrospect it now seems that the factors which most probably brought about the initial negotiations

⁹Irish Trade Union Congress, *Trade Union Information*, Vol. 3, No. 2, June 1950.

¹⁰See above p. 15.

were that (a) the employers recognized that a second round of wage increases would have to be agreed to, but, as they had just completed the first round, they were anxious to have it carried through with as little trouble as possible and wished to have some degree of uniformity in the new increases; (b) the trade unions preferred negotiated wage settlements to Government Order or legislation; (c) the employers' suggestion of discussion gave the Congress Executives an ideal opportunity of avoiding the latter and held out hope of making a better settlement than they could get by resuming negotiations with the Government later, especially as such negotiations might have resulted in a radical departure from the principles of collective bargaining. In the final analysis what seems to have induced the unions to accept the agreement was the fear of legislation. The change of Government which subsequently took place was not anticipated.¹¹

Following the publication of the Joint Statement the second round began—or rather continued—having been in abeyance since the Government's announcement of its intention to take action in the previous October.

The Labour Court concluded that it could be taken that the average increase secured by organised male adult industrial workers worked out at somewhat less than 11/- per week and was probably something between 8/- and 10/-.¹² The Court pointed out that this could not be expressed as an average percentage increase as the wages varied at the beginning of the period from about 55/- per week for unskilled workers in country districts to over 140/- per week for skilled workers in Dublin and Cork. The increases for female and juvenile workers were generally about half those for adult males.¹³ The second round was virtually completed by the end of 1949. We may, therefore, date this round as occurring between March or April, 1948 and the Autumn of 1949 with some preliminary moves made between August and September, 1947.

The second round increases went far towards bringing wages into line with the rise in the cost of living as compared with 1939 and led the Labour Court to draw attention again to the need to develop criteria by which wage increases could be judged in the light of the general economic situation. It was becoming clear said the Court that "the time was approaching when employers' and workers' organisations would have to devote more attention to the

¹¹At the special conference of the Irish Trade Union Congress a motion to postpone the conference until after the election was defeated.

¹²See also, Irish Trade Union Congress, *Trade Union Information*, *op. cit.*, where it is stated that the average rise amounted to between 9/- and 10/- for men and about 4/6 in the case of women.

¹³Labour Court, *Second Annual Report*, p. 7.

cost of production aspect of wages and consider them in relation to problems of price, output and efficiency".¹⁴

The Third Round

Early in 1950 pressure began to develop among the workers for further wage increases.¹⁵ This led the C.I.U. to issue a circular to its member unions in April seeking their views on the position. The replies received resulted in its requesting the Labour Court on 30 May to convene a conference between representatives of the employers who were parties to the Joint Statement and the Congress itself in order "to explore the position generally and to endeavour to reach agreement on the most desirable policy to be adopted in the future adjustment of wages".¹⁶

The C.I.U.'s action was quickly followed by the Irish Trade Union Congress. A meeting of the Executives of its member unions recommended the termination of the agreement embodied in the Joint Statement and called on the National Executive of the Congress to "consider means of implementing the desire of workers for wage increases with the least possible dislocation of the national economy". Later it too proposed a meeting with the employers.¹⁷

Acting on behalf of the Congresses the Labour Court conveyed their proposals to the Federated Union of Employers. On 12 July the latter announced that it was willing to meet the Congresses but without prejudice as it did not admit that there was any reason to re-open wage negotiations. Meantime it was becoming increasingly clear that the pressure for further wage increases was growing among the workers.

Meetings were held between the parties—the two Congresses again meeting the employers separately—but by October agreement had not been reached. Both the C.I.U. and the I.T.U.C. then gave notice of their intention to terminate the Joint Statement agreement and on 31 December it ceased to have effect.¹⁸

In a statement on the course of the negotiations which the Labour Court published on 24 October 1950 it was stated that both Congresses wished to have the 11/- formula abolished or amended so as to permit a further general increase in wages, while the employers did not wish to alter the terms of the Joint Statement in any way. The Court's statement went on to summarise the reasons put forward by

the trade union spokesmen for the general increase they were claiming.

Inter alia these were that:—

- (a) there had been an increase in the cost of living since the 1948 agreement was made which was not reflected by the official Index Number of Retail Prices (Essential Items);
- (b) increases in wage rates over a long period had not kept pace with the increase in the cost of living, even as reflected in the official index;
- (c) there had been increases in total national income, in profits, in production and productivity which showed that wages could be increased;
- (d) there was, therefore, strong pressure from the membership of the workers' trade unions for increases in wages;
- (e) it would be desirable to conduct negotiations on the basis of certain agreed principles as was done in 1948 so as to prevent unnecessary industrial strife.

The employers' arguments against a general increase were that:—

- (a) the official cost of living index had to be accepted as the only valid criterion of changes in prices and the cost of living unless and until it was repudiated by the Government;
- (b) the official index had not changed appreciably since 1948 so that there was no case for a revision of the 1948 agreement in accordance with the provision that future adjustments in wages were to be made if the cost of living changed;
- (c) there had been an improvement in the workers' standard of living since 1948 as evidenced by their expenditure on holidays, entertainment, etc.;
- (d) the position regarding profits, production and productivity varied from case to case; prices were controlled so as to prevent excessive profits; the increases in productivity and production were due to the enterprise of employers and it had not been shown that workers individually were entitled to claim credit for any appreciable increase;

¹⁴*Ibid.*, p. 8.

¹⁵I.T.U.C., *Trade Union Information*, *op. cit.*

¹⁶Labour Court, *Fourth Annual Report*, p. 3.

¹⁷Labour Court, *ibid.*

¹⁸*Ibid.*, p. 4. Most of the unions who were parties to the agreement had served notice of termination earlier in the year.

- (e) it was not the proper function of the national organisations of employers and workers to determine the general standard of living nor to fix a general level of wages ;
- (f) a directive on national wages levels was a device that could and should be resorted to only on occasions of general crisis and then only with the greatest caution and in relation to the "major question of the cost of living";
- (g) the employers' and workers' organisations could deal only with wages paid in organised employments and not with those of the large numbers of other persons such as unorganised wage and salary-earners, civil servants, local authority officials, police, persons living on fixed incomes, pensioners, etc., whose interests might be seriously damaged as a consequence of increases in the wages of organised workers;
- (h) the action taken in 1948 had been justified by very exceptional circumstances which no longer prevailed;
- (i) employers were quite prepared to consider any cases in which the circumstances could be held to justify an increase in wages but the claims in such cases would have to be put forward and made the subject of negotiations by the appropriate organisations on each side.¹⁹

The Labour Court specifically denied that there was any reason for refusing to accept the official Retail Price Index as an unbiased and reasonably accurate measure of the changes it purported to measure.²⁰ In contrast to the previous round, however, the trade union claim did not rest solely on the cost of living. As the Labour Court's summary shows it was also based on the contention that there had been increases in total national income, in profits, in production and productivity. It is clear from trade union sources that what this really meant was that labour's share in national income should be increased. This view was strongly held and advocated

¹⁹*Ibid.*, pp. 20-22.

²⁰*Ibid.*, p. 23. The Court also stated that as part of the case made by each side in the discussions turned upon the validity of the official index number of retail prices it invited the assistance of Dr. R. C. Geary, Director of the Central Statistics Office (and now Director of The Economic Research Institute). Two meetings were held at which Dr. Geary, with two of his colleagues, gave a full and detailed account of the method of computation of the index number and replied to a very large number of questions put to him from both sides. The representatives of both employers and workers expressed their gratitude for the valuable assistance given to them by Dr. Geary. *Ibid.*, p. 22. See also Geary, *The Official Cost of Living Index Number and its Critics*, Cork University Press (1951), for the definitive account of the compilation of the index number.

in trade union circles at official level at the time.²¹ It appears to have originated in a rather curious way. Towards the end of 1948 the Minister for Finance furnished figures relating to wages and salaries to the two Trade Union Congresses from which it appeared that the workers' share of non-agricultural domestic income in 1947 had fallen very considerably as compared with 1938 whereas that of profits and related incomes had risen. Later it transpired that these figures referred only to wages and salaries coming within the scope of income tax and that there was no pronounced shift one way or the other in the share of labour incomes as a whole.²²

For their part the employers continued to hold that the cost of living was the only valid criterion on which to base wage increases, on the grounds that increases in production were due to management rather than to the workers so that the latter were not justified in claiming higher wages because production had risen. Another noteworthy facet of the difference between the employers and the unions is that the workers favoured general agreements such as had been concluded in 1948 whereas the employers did not, on the grounds that the actions of organised workers and employers might damage the position of the unorganised sections of the population.²³

Commenting on the breakdown of the negotiations the Labour Court expressed regret in a forthright way that an agreement had not been reached which might have provided a background against which claims for increases in wages could be viewed. In the absence of such an agreement it feared that excessive claims would be pressed or reasonable claims resisted and that the outcome of negotiations in particular cases where the circumstances were exceptionally favourable to one side or the other would be taken as setting a headline for other cases where the circumstances were different.

As far as its own position was concerned the Court pointed out that it was not required to deal with wages in general but to assist the parties to individual disputes to reach a mutually satisfactory settlement in each case. It felt, however, that it was its duty to call attention in advance to certain considerations which should be kept in mind when wage claims were being formulated and to indicate its attitude on certain general issues raised by the discussions which had broken down. Accordingly, it set out the

²¹See I.C.T.U., *Trade Union Information*, September 1949, June 1950, July-August 1950, September 1950.

²²For a full account of this episode see I.T.U.C., *Trade Union Information*, September, 1950.

²³In an article published in the November 1950 issue of *Trade Union Information* it is stated that "one of the advantages of a national agreement would have been that the whole strength of the trade union movement could have been marshalled to ensure that the weak or badly organised sections of the working class got a square deal and that there would have been some measure of uniformity in the wage increases won for workers".

considerations which in its view should govern wage determination.

The circumstances that enabled the workers to secure wage increases on the removal of the Emergency Powers Order in 1946 and again in 1948 when the 11/- agreement was made did not exist in 1950 according to the Court. It could not be assumed as a matter of course, it argued, that the process of revising wages at more or less regular intervals could continue almost indefinitely. A point might be reached, it held, where further increases in money wages would have effects on prices and employment which would seriously injure the whole community, including the workers themselves.

During the discussions which had just terminated the workers' spokesmen according to the Court's statement did not propose that wages be increased by any specific amount. While a general increase need not mean an increase for all workers or a uniform increase for all to whom it would apply the Court presumed that it would mean an appreciable addition to the total wage and salary bill of the country. There was no comprehensive and up-to-date economic survey or authoritative statement of the existing position and immediate prospects of the national economy available while the discussions were in progress which would have enabled the parties to judge with confidence whether an appreciable addition to the total of wages and salaries could be made without risk of serious consequences.

The Court—in so far as it could judge from the case made on both sides during the discussions and from such an examination as it had been able to obtain for itself—came to the conclusion that the position in regard to the economy which prevailed at the time appeared to warrant caution rather than an easy optimism. It did not regard the case for a general increase in wages as proved and, therefore, could not pronounce in favour of such an increase. This did not mean, it declared, that workers were not entitled to seek better standards of living even by claiming higher wages if no other better method was open to them or that claims for increases in particular cases could not reasonably be made in the prevailing circumstances. What it did mean was that, in the Court's view, prudence should be exercised in respect of all claims and that attention should be directed more especially to those cases where the claim for higher wages could be based on exceptionally strong grounds.

It was clear, the Court thought, that the case for an increase in wages was strongest where existing wages were low and it suggested that the employers' and workers' organisations should try to reach agreement on a wage level which could be accepted "as a test for determining whether a particular wage is or is not low". If a particular wage were low a

prima facie case would exist by reference to the agreed test for raising it though account would still need to be taken of all the other factors relevant to the particular employment in order to determine whether an increase was practicable and what its amount should be.

Whatever the existing wage the Court held that regard should be had in all negotiations to :—

- (a) The relative levels of existing wages in the particular employment and those in other comparable employments in the locality or industry concerned.
- (b) The extent to which compensation had already been given in increased wages for the rise in the cost of living since before the war and the appropriateness of the wage so increased to the circumstances of the particular employment.
- (c) The extent to which an increase in wages would be likely to result in pressure on management to eliminate wasteful expenditure and improve methods of production.
- (d) The possible effect of an increase in wages in rising prices, particularly of goods in common use.
- (e) The effect of wages upon the ability of industries to meet competition from abroad or to maintain and develop the export trade.

The Court also stated that it would expect both parties to any dispute that might come before it to show that they had given adequate consideration to these matters in the course of their negotiations. It concluded its statement by calling on employers and workers to try to secure greater and more economical production in order to facilitate the raising of the general standard of living in the country.²⁴

Two days after the Court's statement was published the National Executive of the Irish Trade Union Congress stated that it had been decided by the affiliated unions that they would proceed "to secure adequate wages and conditions of employment for their members" and that the "National Executive Council would give all possible support to the wage claims submitted by its affiliated unions"—in "the absence of a general agreement".²⁵

Representatives of the two Congresses were received by the Government at separate meetings shortly after the publication of the I.T.U.C.'s statement. Arising therefrom a recommendation

²⁴Labour Court, *Fourth Annual Report*, pp. 22-25.

²⁵Quoted, *ibid.*, p. 4.

was issued by a meeting of representatives of the executives of unions affiliated to the Congress of Irish Unions to the unions affiliated to that body calling on them to limit their demands for increased wages to a maximum of 12/- per week except in exceptional circumstances. The decision to limit the claims in this manner was said to have been made in order that the economy of the country would not be unduly disturbed, that the standard of living of all the workers would not be endangered by unrestrained wage demands and consequent industrial strife, and that all workers in the country might benefit by disciplined action by Irish unions. The figure of 12/- was said not to "meet the existing situation but represented the contribution the Congress was prepared to make for a stabilized economy".²⁶

Following an interview between the Government and the F.U.E. negotiations were re-opened by that body with the I.T.U.C. and an agreement was eventually reached which laid down in a general way the conditions which should govern the granting of wage increases as follows:—

- (a) Wage demands should be considered in an atmosphere of goodwill and with due regard to the merits of the claim, the circumstances of the industry or trade affected and the necessity for consideration of the more needy section of the community.
- (b) It was desirable that in respect of all wage claims direct negotiations between the parties in the light of the preceding principle should be fully exhausted and that the machinery of the Labour Court should be utilized whenever necessary in order that every effort be made to secure adjustment and avoid economic dislocation.

The Labour Court observed that throughout the discussions which had taken place the leaders of the national organisations of workers and employers showed themselves to be aware of the dangers that might result from the enforcement of demands for unduly high wages. Nevertheless, the general atmosphere was one "of complaints about the rising cost of living, of attacks on the official index number of retail prices, and of accusations of excessive profit-making".²⁷

Meanwhile the third round of wage negotiations, which may be regarded as beginning in the middle of 1950, got under way in earnest by October. It continued throughout the greater part of 1951 and by the end of that year increases had become general.

²⁶Quoted, *ibid.*, p. 5.

²⁷*Ibid.*, pp. 5-6.

The cost of living index rose by almost 10 per cent. between February and November and thereby intensified the pressure for increases.²⁸

In so far as any pattern developed it was very largely set by agreements reached in the engineering, printing and building trades. There was less uniformity than in the previous two rounds. In general the rates of most skilled workers rose by 4d. per hour (14/8 per 44 hour week) but the increases in trades such as printing, building and furniture making were larger. Less uniformity prevailed in the increases received by the semi-skilled and unskilled workers. Many got up to 16/- a week and in some cases up to 18/- as, for example, in the case of builders' labourers but many also got only 10/- or even less. Where men's and women's rates were negotiated together the women's increases tended to be about two-thirds of the men's increase whereas previously they had generally been about half.²⁹

Salaries in the Civil Service and the pay of the Army and Gardaí were raised as from January 1951 while the salaries of national and secondary teachers were raised as from 1 April. In July the minimum wages of farm workers were raised by 7/6 per week.

The Fourth Round

The rise in the cost of living which set in in 1951 continued into 1952 and early in the year a further round of negotiations began to develop. Pressure for higher wages became more marked when it was learned in April that the food subsidies were to be reduced in the following July.³⁰

Once it became evident that a full scale round was going to develop the C.I.U. entered into negotiations with the F.U.E. with a view to reaching agreement on the wages policy to be followed by their members. Negotiations were also opened between the F.U.E. and the I.T.U.C.

In May an agreement was drawn up between the F.U.E. and other employers' organisations and the C.I.U. which recorded the recognition by both sides that the major problems affecting the national economy were: to maintain and expand trade, both internal and external; to maintain employment at the highest possible level; to establish stability in the cost of living and, if possible, to reduce it; to bring the standard of living of the community to as high a level "as the nation in safety" could afford. It was also recognized by both parties that a properly balanced relationship between wages and prices was desirable.

Specifically the agreement provided that claims should not exceed 12/6 per week where it was considered necessary and economically justifiable to

²⁸Labour Court, *Fifth Annual Report*, p. 3.

²⁹*Ibid.*, pp. 3-4.

³⁰Labour Court, *Sixth Annual Report*, p. 3.

make claims and that the agreement could be revised or terminated by three months' notice in writing. Furthermore, it was agreed that negotiations should be conducted speedily and that no stoppage of work should take place until all the available machinery for settlement by negotiation, including reference to investigation by the Labour Court had been exhausted.

In assessing the necessity and economic justification of wage demands regard should be had to:—

- (a) the prevailing rates of wages and amounts and dates of increases given previously ;
- (b) the earning capacity of the jobs concerned, including all opportunities of earnings which were not part of but were associated with the wage structure, apart from overtime pay;
- (c) the possibility of aggravating a recession of trade with its accompanying unemployment.

In a more general way the parties agreed to:—

- (a) try to maintain the highest possible level of employment;
- (b) avoid any unjustifiable increase in prices;
- (c) avoid losses in production by stoppage of work;
- (d) maintain and if possible increase output by greater effort, efficiency and productivity on the part of both managements and workers and to encourage the introduction of incentive schemes;
- (e) discourage restrictive practices by every means.³¹

This agreement differed from the first one in three respects. Firstly, the sum mentioned was clearly a maximum. Secondly, guidance was given to the parties as to what they should take into account in bargaining about the increases to be made. Thirdly, recommendations were made as to the means of increasing efficiency. Like the first agreement, however, it made no provision for implementing the clauses relating to efficiency. Nevertheless, it is unambiguous evidence of the willingness of trade unionism at the highest level to accept responsibility for promoting efficiency and discouraging restrictive practices.

The Irish Trade Union Congress found the agreement unacceptable because the maximum increase of

³¹*Ibid.*, pp. 12-13.

12/6 envisaged was inadequate in relation to the needs of the workers. They objected also to the fact that the agreed figure was a maximum and asserted that it would be impossible to realize the full 12/6 in view of the many qualifying conditions which were written into the agreement.³²

In the event, skilled workers employed by the Dublin Engineers Employers Association secured an increase of 4d. an hour. This settlement was followed in the case of fitters employed by public bodies and industrial firms employing fitters on maintenance work. Claims followed for a similar increase for all other craft workers and were successful in some cases but in most cases settlements were made for 3½d. an hour (or 12/10 per 44 hour week). Semi-skilled and unskilled workers obtained increases ranging from about 9/- to 12/6 per week. Women workers in general obtained increases amounting to about two-thirds those of men.³³

Thus despite the formal non-adherence of the I.T.U.C. to the agreement the fourth round negotiations were conducted very largely by reference to it. The I.T.U.C.'s fears were ill founded because large numbers of workers did in fact secure the full 12/6 and in some cases even more.

By the end of the year the round was almost complete as far as industrial and distributive workers were concerned. The claims of clerical workers were not, however, dealt with until early in 1953 when the decision of the Civil Service Arbitration Board became known on the pay claims put forward by Civil Servants. This provided for an increase of about 11 per cent. on the first £230 and 4½ per cent. on the remainder up to about £1,070 and set the headline for the increases in the private sector, in respect of clerical and administrative workers.³⁴

According to the Labour Court the year 1952, during which the fourth round was for the most part carried through, was remarkably free from strikes or lock-outs.³⁵ This probably indicates a relative lack of employer resistance to general wage claims—a phenomenon which has since been evident in a number of other rounds also.

In the case of disputes involving the printing and bakery industries the Labour Court recommended increases for certain categories of workers in excess of 12/6. Employers' organisations sharply criticised these awards on the grounds that the Court was ignoring the general agreement providing for a maximum of 12/6 and was setting standards which would create precedents for future decisions. The Court's attitude was made known in a statement

³²I.T.U.C., *Trade Union Information*, June, July, August 1952.

³³Labour Court, *Sixth Annual Report*, p. 4.

³⁴Labour Court, *Seventh Annual Report*, p. 3.

³⁵Labour Court, *Sixth Annual Report*, p. 4.

which it published declaring that it was not ignoring the agreement that it must always have due regard to agreements made between associations of employers and of workers and that if in any case a Court Recommendation conveyed the impression that it had not done so, it should be assumed that special factors had to be taken into consideration.³⁶

The Fifth Round

It is difficult to date the beginning of the fifth round. Towards the end of 1954 some of the Joint Labour Committees began to increase their rates so as to bring them more into line with those generally prevailing in other Joint Labour Committee trades. Claims for a reduction in the working week without loss of earnings were made in other industries around about the same time.³⁷ In the Spring of 1955 some settlements for increases in wages were made and by June it was evident that a round was under way.³⁸

For the most part claims were based on the rise in the cost of living, not, however, since the previous (i.e., fourth) round but since before the war. The unions contended that the pre-war level of real wages which had been restored by the third round did not persist owing to the rise in prices since that round had been negotiated.³⁹

There was no over-all agreement between the employers and Congresses during this round. Possibly for that reason there were differences in this as compared with previous rounds. In the earlier rounds the normal rate of increase was established early in the round and the increases were fairly uniform. In the fifth round, however, the size of the increases tended to rise as the round progressed and ultimately reached higher levels than those reached in the earlier rounds. As a result workers who had made settlements in the early part of the round came back for more later so as to bring their wages into line with those agreed upon in the later stages of the round. In a sense, therefore, the fifth round may almost be regarded as two rounds merged into one. Another feature of this round was the relatively greater diversity in the settlements reached in different trades. The revisions of the initial increases continued during 1956 and by the end of the year the round had been completed.⁴⁰

Another aspect of the fifth round, noted by the Labour Court, was the tendency for certain groups of skilled workers to seek parity of wage rates with other workers whom they regarded as analogous to themselves but who were receiving higher wages.

³⁶*Ibid.*, p. 9.

³⁷Labour Court, *Eighth Annual Report*, p. 3.

³⁸Labour Court, *Ninth Annual Report*, p. 3.

³⁹I.C.T.U., *Trade Union Information*, March-April 1955.

⁴⁰Labour Court, *Ninth Annual Report*, p. 3.

The Court did not reject the idea of parity in the case of the particular groups whose disputes came before it but indicated at the same time that it did not accept the responsibility of laying down or enumerating the principle of equality of wage rates for different groups of skilled workers. It expressed the view that such a fundamental change in the existing wage structure of skilled workers should emerge through collective bargaining in the ordinary way.⁴¹

The Sixth Round

The sixth round began in May 1957. A meeting of trade union delegates held under the auspices of the Provisional United Trade Union Organisation adopted a resolution to the effect that trade unions must maintain the right of workers to secure adequate compensation through higher wages to meet increases in the cost of living and that they were willing to enter into discussion with the object of devising machinery for applying an agreed level of wage increases related to the higher cost of living.

Subsequently meetings took place between the P.U.T.U.O. and the Minister for Industry and Commerce and between the Minister and the F.U.E. As a result the F.U.E. agreed to meet the P.U.T.U.O. and negotiations took place which led to the signing of a "Joint Agreement on Guiding Principles Relating to Wage Claims and the Present Economic Situation" in September. The main provisions of the Agreement were:—

- (1) The parties acknowledged that on the basis of the mutual acceptance of the principle of collective bargaining it was necessary that efforts be made to adjust and determine wage claims through the normal negotiating machinery, as agreed upon in Clause 5 (c) of the Agreement.
- (2) Both sides accepted that their responsibilities to the community demanded the avoidance of unnecessary friction and disturbance by the use of every available means of peaceful settlement of wage claims. Both parties agreed that in all wage negotiations regard should be had to existing national economic difficulties and especially to the danger of unemployment arising out of increased costs. They were anxious that increases in wages should not be followed by increases in prices and recognised that in so far as they were able to exercise any influence on restraining price rises employers and trade unions had a duty to do so. Both

⁴¹Labour Court, *Tenth Annual Report*, p. 6. The Court did, however, attempt to develop a wages structure for the Bakery Industry some years previously. See the Court's *Fifth Annual Report*, pp. 8 and 9.

parties also accepted the responsibility of seeking to offset increases in costs by improved efforts and efficiency and greater productivity.

- (3) It was agreed that the prevailing economic difficulties required a combined effort led by the Government, and supported by employers, trade unions, public bodies and State bodies in an immediate drive for tangible improvement in efficiency and production.⁴²
- (4) Both sides accepted that all sections of the community had to play their part in bringing about conditions of stability and an atmosphere of confidence with an expansion of production and a rising level of employment. Trade unions should exercise moderation in formulating wage claims while employers should consider them in an atmosphere of goodwill and understanding.

Clause 5 which was the operative part of the agreement provided:—

- (a) that wage increases should not exceed ten shillings;
- (b) that this figure should not be regarded as an automatic increase generally applicable—but that where it was clear that the granting of this amount would have adverse effects on employment or costs in any trade or industry a lower amount might be negotiated;
- (c) that negotiations should be conducted speedily and that no stoppage should take place until all peaceful means available for settling disputes had been availed of.

The trade unions took the view that the 10/- increase was not to be regarded as a ceiling but that it was to be applicable to all unless adverse effects on employment or costs were certain to ensue in particular cases if it were granted.⁴³ In the event the 10/- became the standard increase for adult men whether skilled or unskilled. In general the increases received by women were from 5/- to 7/6 per week.⁴⁴

The Labour Court commented that, notwithstanding the acceptance by both sides of the responsibility for trying to offset increases in costs by increased productivity and efficiency, the infor-

⁴²The economic difficulties referred to arose out of the recession which set in in 1955 and which lasted until 1958.

⁴³See, circular issued by the P.U.T.U.O. to the trade unions on 26 September 1957, quoted in *Trade Union Information*, September–October 1957.

⁴⁴Labour Court, *Eleventh Annual Report*, p. 3.

mation it had indicated that wage increases were in general conceded “without specific reference to either productivity or efficiency”. In the cases which come before it the Court stated that it had regard to the terms of the agreement and to the manner in which it had been applied as the result of direct negotiations even in the case of parties who were not signatories of the agreement.⁴⁵

As in previous rounds negotiations first took place covering those engaged in manufacturing and distribution. Clerical and administrative workers as a rule came into the round at a later stage and it was not completed until early in 1959—almost two years after it had started.⁴⁶

The Seventh Round

No sooner was the sixth round over than the seventh began. Pressure for further increases began to appear early in 1959 and by July a number of claims had already been served. In a relatively short time the round had become general and practically all industries were affected.⁴⁷

Many claims were for increases of as much as 30/- per week. In support of this amount it was argued that the 10/- increases provided for in the 1957 agreement had been too small as compared with the increase in the cost of living which took place before that agreement was concluded. The increases sought were also designed to raise the standard of living of workers generally. Other reasons advanced were:—

- (a) that wages in some employments had not kept pace with the increase in the cost of living since 1939;
- (b) that wages in some particular employments were low in comparison with other comparable employments;
- (c) that wages in the Republic were in some cases lower than those paid for similar work in Northern Ireland or Great Britain;

⁴⁵*Ibid.*, p. 4.

⁴⁶Commenting on the sixth round Mr. Ruadhri Roberts in a paper read before the Statistical and Social Inquiry Society of Ireland said:—

“It is possible, although by no means certain, that the ‘sixth round’ may have been the last formal agreement. On the one hand, the economic justification for dealing with wage increases in general formulae rather than in particularized negotiations, which would take account of variations between, industries, has been questioned. The post-war ‘rounds’ were, of course, carried by the continuous rise in the cost of living. While other factors such as payment for increased productivity were referred to, the increases received were, in fact, more or less related to the fall in money values indicated by the Retail Price Index.

“On the other hand, skilled workers have been critical in recent years of the effect of fixed rate increases or narrow differentials on their relative earnings.” Roberts, “Trade Union Organisation in Ireland”, *Journal of the Statistical and Social Inquiry Society of Ireland*, Vol. XX, Part II, 1958–59.

⁴⁷Labour Court, *Thirteenth Annual Report*, p. 3.

- (d) that wages were insufficient to enable the workers to maintain a decent standard of living;
- (e) that large numbers of workers had already secured increases.

The Labour Court stated that the increases granted were not related to any compensatory factors such as greater efficiency or increased productivity. Despite the claims for 30/-, however, manual workers in industry and distribution secured increases of only 10/- to 15/- a week for adult men and 6/6 to 10/- for women. Clerical and salaried workers secured percentage rather than absolute increases on their existing incomes but as a general rule they were comparable to those secured by the manual workers.⁴⁸

As in the fifth round the increases secured as the round advanced tended to get larger. This was especially true in the case of clerical and salaried workers and the result was that during 1960 those who had made early settlements sought further adjustments. The tendency towards revision did not apply to manual workers.⁴⁹

The seventh round was noteworthy by reason of the fact that negotiations broke down in several important industries. These included petroleum distribution, Bórd na Móna, the Dublin newspaper and printing industry, radio manufacturing, Córas Iompair Éireann and the woollen and worsted industry. Recourse was had to the Labour Court in all these cases and because of the number of workers involved the Labour Court probably played a greater part in setting the pace in this round than in any previous one.

The Eighth Round

Opinions differ as to when the eighth round started. Some hold that its beginnings are to be attributed to the relatively high increases secured by certain clerical workers early in 1960 to which reference has already been made and which led to the revision of earlier agreements. Claims for such revisions and possibly in some cases claims which were being put forward for the first time in the seventh round continued to be negotiated during 1961 and may have sparked off the eighth round. Others claim that the eighth round began with a demand by the building workers in Dublin for a reduction in the working week. When this was partly conceded by the employers provided the new hours were worked in a five day week during the summer months the workers countered with a further claim for a wage increase. Many building

⁴⁸*Ibid.*, pp. 3-4.

⁴⁹Labour Court, *Fourteenth Annual Report*, p. 3.

employers were already paying more than the agreed rates. Negotiations on this claim broke down and it went to the Labour Court.

Whenever the eighth round started it was in full swing by the middle of 1961. The Federated Union of Employers which at the time was holding discussions with the I.C.T.U. regarding the proposed National Labour/Management Conference therein proposed to the latter that an attempt should be made to work out a national wages formula as had already been done before. Congress, however, found the suggestion unacceptable in view of the pressure from the members of its affiliated unions for wage increases which made it impossible for the unions to accept or implement a wages formula and so the matter was dropped.

During the early stages of the round increases of up to 14/- a week had been negotiated in a number of industries for manual workers. Negotiations having broken down in the electrical contractors industry and in the E.S.B., on the one hand, and in the building trade in Dublin, on the other, recourse was had to the Labour Court. In view of the settlements already reached the Court recommended an increase of 4d. an hour for the workers involved. Both the electricians and builders rejected these recommendations and strikes ensued. Ultimately, the disputes were terminated by settlements providing for 8d. an hour for the electricians and 7d. for the builders.⁵⁰

These two settlements set the stage for the remainder of the round and led to revisions of the earlier settlements of 14/- and under. Revisions continued to be made throughout 1962 but for the most part they had been completed before the middle of the year. In general the pattern of settlements tended to give men increase of 20/- to 25/- and women 10/- to 15/-.

The eighth round was marked by a good deal of industrial unrest and by a tendency to go on strike before peaceful means of arriving at settlements were exhausted. This was perhaps a reflection of the workers' pressure for higher wages referred to by the I.C.T.U. in its reply to the F.U.E.'s suggestion regarding the negotiation of an agreed formula rather than of any unusual resistance on the part of management. It may, however, also reflect greater management resistance in view of the preparations which were being made at the time to enter the E.E.C.

The Ninth Round

In February 1963, the Government issued a White Paper entitled "Closing the Gap" in which it stated that money incomes were rising faster than production and called for general restraint for the time

⁵⁰Labour Court, *Fifteenth Annual Report*, p. 3.

being. The I.C.T.U. thereupon withdrew from the National Employer/Labour Conference under whose auspices it was holding discussions with the F.U.E. and other employers' organisations about industrial relations.⁵¹

When it was announced that a turnover tax was to be imposed in November it became apparent that a new round would emerge. By the Autumn claims had been served on many employers⁵² and the F.U.E. suggested to the I.C.T.U. that discussion should be opened to explore the possibility of working out a wages formula.

Meantime production had risen substantially and on November 11th the Taoiseach wrote to the I.C.T.U. and F.U.E. saying that the gap between incomes and output had been virtually closed and that a further rise in wages and salaries could be envisaged "which would provide compensation to all wage and salary earners for whatever rise in the general price level may follow on the introduction of the Turnover Tax, and also to such further extent as would represent their fair share of the estimated expansion of national resources in the coming year". He also called on the National Employer/Labour Conference to examine the position with a view to the conclusion of a general agreement for the guidance of those with responsibilities for wage and salary adjustments at the level of particular trades and occupations. One of the advantages of such an agreement according to the Taoiseach's statement was "the assistance it would give to workers, who may not have the benefit of trade union organisation, in securing . . . wage improvements"⁵³

Negotiations were opened and an agreement (the fifth) was reached on January 1, 1964. Its main provisions were:—

- (1) Wages and salaries of £1,500 per annum and under were to be increased by not more than 12 per cent. and by not less than 20/- per week in the case of full-time adult male employees;
- (2) Where salaries were greater than £1,500 the increase to be given in respect of that part of the salary which exceeded £1,500 might be the subject of special consideration;
- (3) The agreement was to remain in force for 2½ years but discussions would be opened again in 2 years with a view to reaching a new agreement.

During the negotiations which preceded the conclusion of the agreement lengthy discussions took

⁵¹The Conference first met in the Summer of 1962.

⁵²F.U.E., *Bulletin*, January 1964.

⁵³F.U.E., *Bulletin*, November 1963.

place regarding the basis on which the increases should be calculated. It does not appear that an acceptable basis was obtained although all the relevant statistical data were available. Commenting on this aspect of the negotiations the F.U.E. *Bulletin* stated that "the facts were not in dispute but the emphasis and importance to be attached to them certainly were".⁵⁴ The 12 per cent. increase agreed upon was a compromise between the I.C.T.U.'s claim and the employers' offer. The fact that it was to be a *maximum* indicates that it is not to be regarded as being scientifically derived from production or price statistics since there is no way of knowing what *average* increase will result from the maximum permissible increase.

The fifth agreement differs from previous agreements in several respects. In the first place it provided for a maximum *percentage* increase whereas previous agreements provided for absolute increases. Secondly, it is the only agreement to provide for a minimum increase. Thirdly, it distinguished between wages and salaries above and below a certain figure (£1,500). Finally, it was for a definite duration whereas the other agreements were for indefinite periods.

The circumstances leading up to this agreement were also unusual in so far as the Government played an active rôle in regard to the negotiations especially by intimating that a round was in order. This kind of Government action was not, however, entirely unprecedented because as we have already seen as early as 1948 proposals were made by the Government regarding wages which it was hoped would be adopted by voluntary agreement. It will be recalled too that the Government took part in the preliminary stages of the third and sixth rounds in each of which national agreements were made.⁵⁵

General Conclusions

There is no really satisfactory way either of determining when a wage round begins or of measuring its duration. In principle, it might be regarded as beginning with the serving of claims and ending either with the conclusion of agreements or with the coming into force of the new wage and salary rates. Alternatively, it might be regarded as coinciding only with the period when agreements are actually being made or changes coming into operation. Obviously the first method shows an earlier start and longer duration than the second. The Labour Court reports, on which the foregoing description of rounds one to eight is based, appear to use the first method. Table 14 summarises the Labour Court chronology and shows also the periods

⁵⁴*Ibid.*

⁵⁵It is not possible to say at the time of writing what the outcome of the ninth round will be.

of greatest activity during the rounds in regard to actual changes made. It appears from this table that wage rounds were in progress for about 130-135 months of the 216 months from the Autumn of 1946 to the Autumn of 1964 or for over 60 per cent. of the whole period. The intervals between the rounds varied from about 4 months to 18 months or more and the rounds themselves varied in duration from about 6 months to about 24 months. The shortest interval occurred between the third and fourth rounds and the longest between the fourth and fifth, while the ninth round was the shortest and the fifth the longest. This general picture is hardly compatible with the view that the wage rounds are characterised by a tendency for collective bargaining to be "concentrated in comparatively short periods recurring at fairly regular intervals".⁵⁶

The second column in Table 14 and Chart III, which show the number of principal changes in wages and salaries as reported in the *Irish Trade Journal and Statistical Bulletin* do, however, indicate that

⁵⁶O.E.E.C., *The Problem of Rising Prices*, p. 426, see also Nevin, *Wages in Ireland*, *op. cit.*, p. 2.

those changes are somewhat concentrated within the broad limits of the rounds as shown in the first column of Table 14. The periods of greatest activity are, therefore, more obviously separated and although the interval between them is not very regular they do to some extent bear out the O.E.E.C. description of what constitutes a round. At the same time the Chart also shows that some major wage changes are always being made.

Chart IV shows the growth in average earnings per head (seasonally adjusted) in the transportable goods industries against the background of the rounds since 1950. In comparing the growth in earnings with the timing of the rounds it should be noted that the timing relates to changes in wage rates in all sectors and not merely in the transportable goods industries. The wage rate changes and earnings changes are not, therefore, directly related to each other. Nevertheless it will be seen that earnings rose by a series of more or less recognisable steps coinciding with the rounds during which wage rates rose. It will also be seen that the whole period from 1950 to 1964 falls into two phases—1950-1958

TABLE 14: WAGE ROUNDS 1946-1964

Round	Labour Court Timing		Active Period	Peak
1	Autumn '46 Duration	— Spring '47 — 9 months	—	—
	Interval	— 12 months	—	—
2	March '48 Duration	— Autumn '49 — 18 months approximately	—	—
	Interval	— 12 months approximately	—	—
3	October '50 Duration	— end '51 — 15 months approximately	November '50 — August '51 10 months	April '51
	Interval	— 4/5 months	11 months	18 months
4	Spring '52 Duration	— Spring '53 — 12 months approximately	July '52 — January '53 7 months	October '52
	Interval	— 18-24 months	31 months	36 months
5	Late '54/early '55 Duration	— end '56 — 20-26 months approximately	August '55 — April '56 8 months	October '55
	Interval	— 6 months approximately	18 months	28 months
6	May '57 Duration	— early '59 — 24 months approximately	October '57 — April '58 6 months	February '58
	Interval	— 6 months approx.	18 months	23 months
7	July '59 Duration	— mid. '60 — 12 months approximately	October '59 — January '60 3 months	January '60
	Interval	— 9 months approximately	15 months	21 months
8	Early '61 Duration	— mid. '62 — 15 months approximately	April '61 — April '62 12 months	October '61
	Interval	— 15 months approximately	21 months	
9	Late '63 Duration	— Spring 1964 — 6 months approximately	January '64 — March '64 3 months	

Source: Derived from *Irish Trade Journal and Statistical Bulletin* and *Labour Court, Annual Reports*.

CHART III.—WAGE ROUNDS AND NUMBER OF PRINCIPAL WAGE CHANGES, 1950-64

(Shaded area denotes rounds)

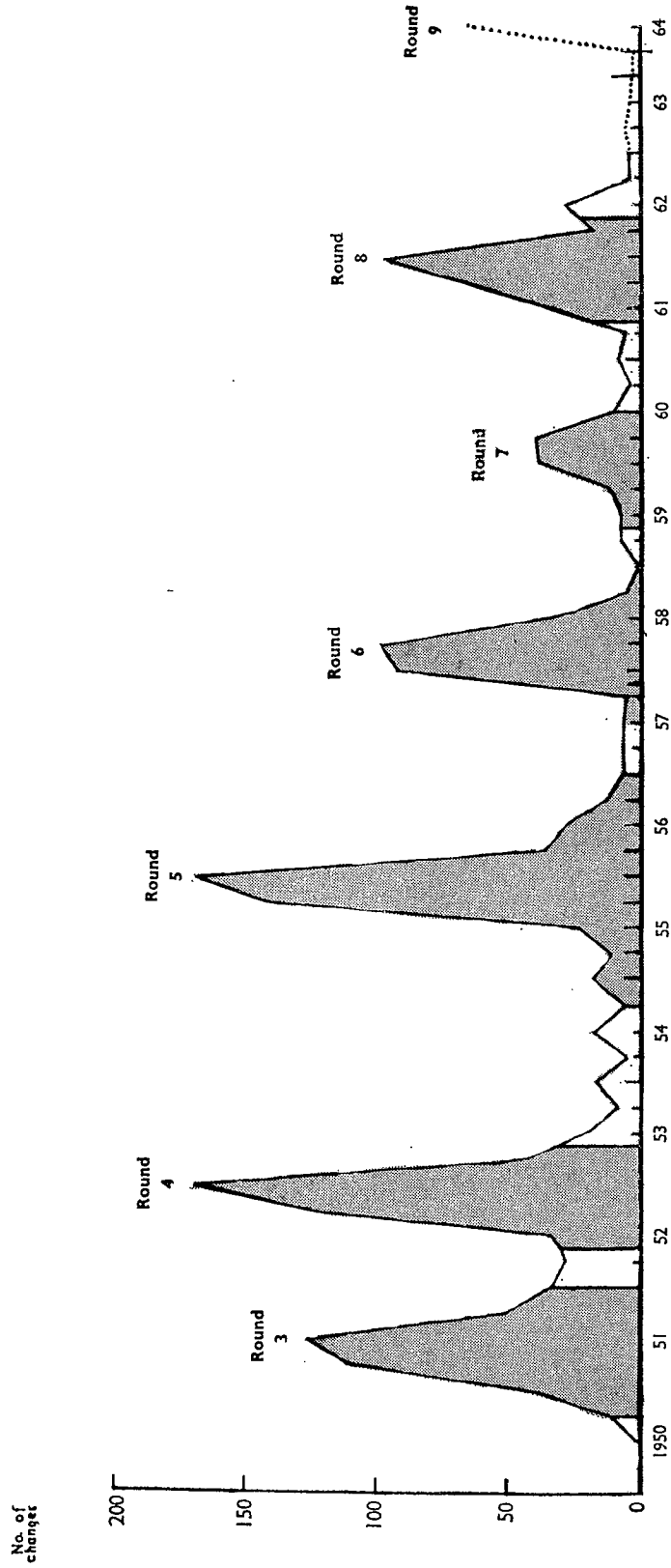
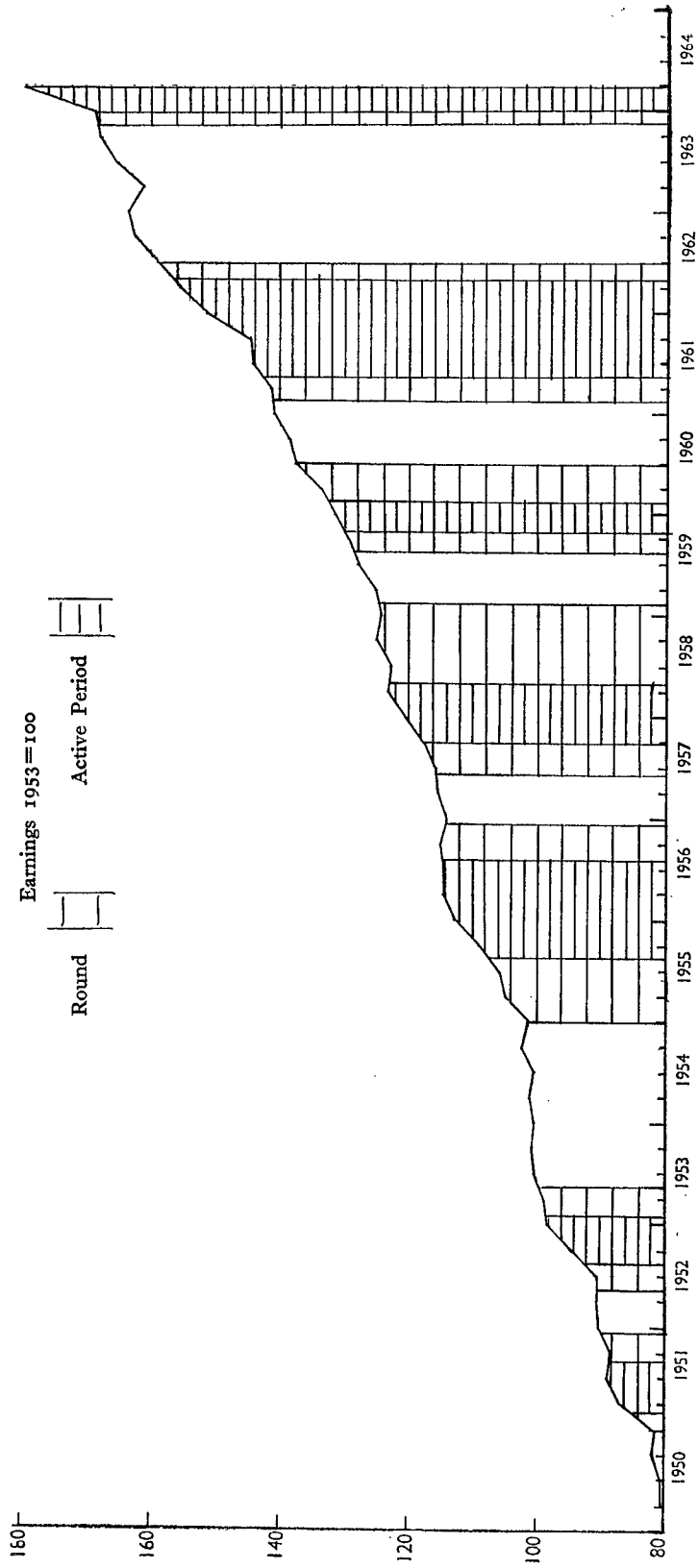


CHART IV.—WAGE ROUNDS AND AVERAGE WEEKLY EARNINGS IN TRANSPORTABLE GOODS INDUSTRIES



and 1959-1964—and that the stepped pattern of the rise in earnings is more obvious in the first phase than in the second.

During the earlier phase the increase in earnings tends to taper off before the end of the round or even before the end of the active period. This may be due to the fact that manual workers generally receive their wage increase *before* other workers. In the second phase, however, the tapering-off process, is less marked. What seems to emerge from the chart is that earnings rose during the first phase solely or almost solely as a result of the increase in rates secured during the rounds but that in the second phase the rise was due to a combination of negotiated increases and wage drift. ⁽⁵⁷⁾

While the data regarding changes in wages published in the *Irish Trade Journal and Statistical Bulletin* are not sufficiently comprehensive to enable the beginning or ending of a round to be dated accurately and while there are too many gaps in the data to enable a continuous series to be deduced in respect of particular occupations, they do permit some tentative general conclusions of a rather negative nature to be drawn. ⁵⁸ The reported changes do not appear to follow any definite pattern. In some rounds the wage changes secured by particular groups of workers occur in the early stages while in others they occur in later stages. Similarly, some rounds seem to be initiated by workers in a strategically situated firm or industry but in others the same firm or industry may enter the round at a relatively late stage. This evidence is undoubtedly rather weak but it does tend to discount the view that certain occupations or industries play a key or leading rôle and that others merely follow them.

No support can be found in these data either for the view that a wage round is a consciously planned campaign conducted with great tactical skill by the executive authorities of the trade unions. At first sight indeed some rounds have all the marks of a carefully executed campaign. They open by way of a softening-up process during which claims are served on firms which offer little resistance. The gains secured are then consolidated by means of recourse to the Labour Court whose recommendations tend to set a certain official sanction on a particular rate of increase. Employer resistance crumbles as a result and the remainder of the round is little more than a mere mopping-up operation. Alternatively, the Labour Court itself may appear to be used simply as a bargaining factor in an effort to get Government intervention in a claim involving an important public enterprise as in the case of the E.S.B. in the eighth

⁵⁷A further study of the relationship between wages, employment, prices and productivity is at present being undertaken at The Economic Research Institute by Mr Callaghan O Herlihy.

⁵⁸An examination of these data was made but for reasons of space the details are not reproduced here.

round. Any settlement secured in this way sets the headline for the rest of the round and renders the mopping-up phase even easier than when the Labour Court alone is relied upon.

Plausible though this interpretation seems to be it does not bear close examination. Apart from the fact that the published data do not support it, there is no way by which the trade unions as a whole can act in a coordinated way, on the one hand, and on the other, the phases of a round as described are found to occur spontaneously in any event without conscious direction. Some claims will inevitably lead to disputes and will inevitably be made the subject of Labour Court recommendations. These in turn will as inevitably be cited and followed. It would be too much to expect employer resistance to be strong once it becomes clear that a round is in progress so that once the unions have secured a sufficient number of increases to make it obvious that a round has started most employers are likely to offer little more than a token resistance.

The absence of key or leading rates in respect of the economy as a whole does not mean that there are no such rates within particular industries. Such rates are to be found in a number of instances. The engineering trades' rates, for example, tend to follow those of fitters and turners while rates in the building industry tend to be determined by those of building craftsmen in Dublin. Moreover, while no single occupation or even group of occupations consistently takes the lead in a round most of the rounds do seem to have begun or at least seriously got under way with claims made by one or other of the skilled trades and manual workers generally tend to secure their increases before clerical and administrative workers.

Individual unions *may* plan the conduct of a round and consciously decide on the tactics to be used. As a general rule, however, there can be little doubt that wage claims originate within the union on the initiative of the rank and file and not on that of the officers. In some unions the claims appear to be dealt with in rotation as they come in from the branches while in others a somewhat more selective approach is followed—the claims which look like being most easily won being taken first so as to establish a precedent for the others.

The formation of the I.C.T.U. industrial committee may perhaps indicate that future rounds will be more consciously planned and organised. Among the objects of these committees are to bring together the unions in each industry in "regular consultation on matters relating to . . . wages and other negotiations" and to "consult on wage negotiations . . ." ⁵⁹

Pressure for wage increase appear to build up among workers from time to time mainly for two

⁵⁹I.C.T.U., *Fourth Annual Report*, 1961/62, p. 55.

reasons. The first is the desire to preserve an absolute standard of living and the second—paradoxically, perhaps—is the desire to maintain a relative one. When prices are rising living standards obviously fall unless incomes at least keep pace with the price increases. At such times workers are very strongly impelled to press for higher wages so as to preserve their existing living standards. During periods of rising wages claims, therefore, rest primarily on arguments related to living costs. Workers (and indeed people in general) are also very much concerned with maintaining what they regard as the customary relationship between their own incomes and those of other people or groups of people. This relationship may be one of parity or it may be one of difference, e.g. different groups of tradesmen may feel that their incomes should be equal and that they should be higher by some fairly fixed amount than those of labourers.⁶⁰ Consequently, if for any reason, the existing pattern of wages is disturbed by reason of an increase in the wages of one group all other groups will seek a re-adjustment too. The existing wage pattern may be disturbed for a variety of reasons, of which wage drift is the most obvious. Wage drift tends to occur when competition for labour is active, i.e. under conditions approximating to full employment, because entrepreneurs tend to pay more than the negotiated rates to attract or retain workers. Full employment does not prevail in Ireland but the effects of full employment in Britain are felt here and Irish and British entrepreneurs are in active competition with each other for Irish labour as a consequence of the freedom of movement of labour between Ireland and Britain. Wage drift also occurs as a result of the operation of bonus and incentive schemes under conditions of rising productivity. Workers who do not benefit from the wage drift naturally seek to increase their earnings by raising the negotiated rates. If they succeed those who benefit from the drift also try to raise their own basic rates so as to maintain the customary relationship between rates and also in order to consolidate and perhaps improve their earnings. Consequently, during periods of expansion workers tend to press their claims on the grounds that conventional parties and differentials must be preserved and union spokesmen tend to rationalize them in terms of productivity increases and of enlarging labour's share in national income.

Wage rounds may be divided into two categories, those conducted within the terms of a national agreement and those unaccompanied by an agreement.

⁶⁰The notion that the wages of different categories of workers should bear a fixed relationship to each other is not, of course, confined to workers. Some employers, for example, held that women's wages should be one-half (or some other ratio) those of men. Moreover, as we saw above, the continuation of the prevailing relationship between men's and women's wages was taken for granted in some of the national wage agreements.

Table 15 summarises the position regarding the agreements in each of the nine rounds. Four of the seven rounds for which data relating to quarterly earnings are available were accompanied by agreements. Collective bargaining in the rounds in which there were agreements was very largely conducted by reference to the terms of the agreements. Hence it is probable that they determined the size of the negotiated increases. In the earlier phase of the 1950-64 period to which reference was made in connection with Chart IV earnings, as we remarked, appear to have risen solely or almost solely as a result of the negotiated increases so that the agreements may be regarded as the determining factor not only of rates but of earnings as well. The 12 per cent. agreement, which was the basis of the ninth round, was made during a period of rapid expansion and considerable wage drift and it is not possible to distinguish the extent to which the rise in earnings is attributable to the negotiated increases and to the drift. Whether or not the negotiated increases would have been different had there been no agreement is, of course, another question. We have already noted that in the long run Irish wages tend to increase at about the same rate as wages in the United Kingdom. It seems justifiable then to regard the rounds as the mechanism by which the process of adjustment between the two sets of wages is carried through and to conclude that the increases would be approximately the same whether there had been agreements or not.⁶¹ It is true that Irish wages rose more slowly during the mid-1950's than wages in the U.K. and that the 1957 agreement (sixth round) was in operation at this period. It would be rash, however, to attribute the *relative* slowing down in Irish wages to this agreement because the divergence between the rate of growth in Irish and United Kingdom earnings began some two or three years *before* the sixth round agreement was concluded and occurred at a time when the Irish economy was virtually stagnant whereas that of the United Kingdom was expanding more rapidly than usual.⁶²

Surprisingly enough the agreements do not seem to affect the duration of a round. The seventh and eighth rounds during which there were no agreements were comparable in duration with the third and fourth during which there were agreements, while the sixth which was accompanied by an agree-

⁶¹The fact that a round is part of the process by which a certain type of relationship is maintained between Irish and British wages in the long-run does not necessarily mean that this relationship is always maintained in the short-run. Inevitably the adjustment process is a rough and ready one so that the "normal" long-run relationship is hardly likely to exist at a particular point in time. Whether or not the narrowing of wage differentials as between skilled and unskilled workers is attributable to the national agreements is an open question in view of the fact that differentials are also narrowing in the UK and on the Continent.

⁶²See also Nevin, *Wages in Ireland*, *op. cit.*, p. 10.

ment was the second longest of all the rounds. Seven rounds and four agreements are, however, scarcely sufficient to warrant even the broadest generalisations in this respect,⁶³ Moreover, as we have seen, two of the agreements were adhered to by only one of the Trade Union Congresses in the days when there were two such bodies.

Though the agreements may have had little or no effect on the duration of the rounds they may well have had the effect of rendering negotiations less contentious and thereby reducing the number of disputes and improving relations generally at the level of the undertaking. It is not possible, however in this paper to examine the incidence of disputes on a monthly or quarterly basis as would be necessary in order to investigate the impact of the agreements in this sphere.

TABLE 15: THE NATIONAL AGREEMENTS

Round	Date	Initiative Taken by	Parties	Main Provisions
1	—	—	None	—
2	1948	FUE	FUE ITUC CIU	11/- — norm
3	1950	CIU	ITUC FUE	Very general. CIU tho' not party to agreement limited claims to 12/-.
4	1952	CIU	CIU FUE	12/6 — limit
5	—	—	None	—
6	1957	PUTO	FUE PUTO	10/- — standard
7	—	—	None	—
8	—	FUE	None	—
9	1964	FUE	FUE ICTU	12% — ceiling 20/- — weekly minimum inc.

The history of the agreements reveals a tendency for both the unions and the employers to change their ground continuously. Though the initiative originally came from the employers in the case of the first agreement concluded in 1948 it then passed to the unions only to be taken up again by the employers in the eighth round when, however, no agreement was concluded. Where the initiative lay in the ninth round is not quite so clear because of the active part played by the Government. On balance, however, it seems to have remained with the employers. Each side appears to have taken the initiative when it seemed in its interest to do so. At the same time the

⁶³At the time of writing it is not possible to date the termination of the ninth round.

agreements unquestionably reveal that both sides were conscious of a national interest which superseded the sectional interests represented by them. They also show that the two sides are able and willing to see each other's point of view. It may be noted in particular that *both* sides recognised on several occasions the desirability of maintaining stable prices and the need to increase productivity. The acceptance by the trade unions of the principle that obstacles to the increase in productivity should be removed while in no way implying that the removal of such obstacles was the *quid pro quo* for wage increases nevertheless testifies to labour's acceptance of the fact that higher wages and increased productivity go hand in hand in the long run.⁶⁴ This may yet prove to be the most important contribution of the agreements (and of the Labour Management Conference) to industrial relations in Ireland because it means that the trade unions, at least at the official level, recognise that the individual firm is the *locale* in which the interests of their members will be advanced.⁶⁵

It is noteworthy that no attempt was made in any of the agreements to ensure that what was agreed upon at national level would be implemented at local level. Indeed it would seem that the possibility of providing for sanctions in cases where the provisions of the national agreements were contravened was not even discussed. There was perhaps no great need to provide for the implementations of the wage clauses of the agreements as the unions and employers' organisations were always in a position to see to their enforcement locally. It was otherwise, however, in regard to the provisions relating to productivity, prices and employment, and the absence of any method of ensuring that they would be implemented cannot but be regarded as a serious defect in the agreements. In view of this and in view also of the doubt as to whether they had any significant effect on the wage level the question arises as to whether they served any useful purpose.

Although the Government directly or indirectly played an active part in the events leading up to the conclusion of several national agreements, it was never in any sense party to them. Hence they are not to be regarded as constituting a wages policy though in some respects they bear a superficial resemblance to one.

Another thing the history of the wage rounds

⁶⁴Labour's participation in the National Productivity Committee is further evidence of this. It would, however, be naive in the extreme to assume that the obstacles to productivity increases can be removed merely by exchanging higher wages for more production. Workers' attitudes and practices regarding output are highly complex and may be quite unrelated to "official" union views and policy. See Pentony, *Psychological Barriers to Economic Achievement*, (forthcoming E.R.I. Paper).

⁶⁵See also O'Mahony, *Industrial Relations in Ireland: The Background*, E.R.I., 1964, p. 43.

shows is that the attitude of the Labour Court to wages questions has changed. In the years immediately after the war the Court took up a positive attitude in the matter of wage questions. It stated its own position clearly and made positive suggestions to labour and management in an effort to establish criteria by which wages could be judged. As time elapsed, however, the Court became increasingly passive and in recent years has ceased to express any views whatever on these matters.

Finally, it may be worth asking if the institutional arrangements through which Irish wages and salaries are set are of any account seeing that Irish wages tend to be very largely determined by the conditions which prevail in the labour market in Britain in the long run. The institutional aspects of the wage setting process are likely to be of direct importance

mainly in the short run, it is true, but that does not mean that they are of no importance even in the long run. Short run disturbances, after all, can have long run consequences. In the short run—during the course of a single round, for example—there can be no doubt that Irish wages can be pushed up too much in relation to those which prevail elsewhere, particularly in Britain, and thereby impair the country's competitive position. On the other hand, it is also possible—though not perhaps very probable—that they could be kept too low in relation to British wages and thereby stimulate emigration until the normal relationship is restored. The important thing, however, is that the loss either of markets or people as a result of short run departures from the normal equilibrium position vis-à-vis Britain may not be regained.

III : WAGES POLICIES

Wages policies, also euphemistically referred to as incomes policies, mean, according to a recent O.E.C.D. report:—

“that the authorities should have a view about the kind of evolution of incomes which is consistent with their economic objectives, and in particular with price stability; that they should seek to promote public agreement on the principles which should guide the growth of incomes, and that they should try to induce people voluntarily to follow this guidance”.¹

The report adds that many member countries are trying to evolve incomes policies “in this broad sense”. Thus wages policies, (with very few exceptions, of which the Dutch wages policy was the most notable), amount to no more than mere exhortation or what the late Sir Denis Robertson aptly described as “ear-stroking”.² The possibility that a wage or incomes policy may be pursued in this country has been indicated on several occasions by the Government; notably in the second programme for economic expansion.³ The purpose of this Chapter is to examine the economic basis of a wages policy in the light of the special circumstances which prevail in Ireland. Before doing so, however, it may perhaps be worth saying a few words about the rôle of wages in the economic process and about wage policies in general.

¹O.E.C.D., *Policies for Price Stability*, Paris 1962, p. 23. See also O.E.C.D. *Policies for Prices, Profits and Other Non-Wage Incomes*, Paris 1964.

²See, for example, Robertson, *Lectures on Economic Principles*, Fontana Library, 1963, p. 449.

³See *Second Programme for Economic Expansion*, (Pr. 7239), paras. 104 and 105.

The Role of Wages in the Economy

Wages are the price of labour and as such they perform the function of allocating labour among its various possible uses. Thus relative wages reflect the relationship between the supply of and the demand for the various types of labour. They change as the underlying supply-demand situation on the labour market changes. It is not easy to appreciate the truth of this statement because of the attempts which are constantly being made to maintain existing parities and preserve existing differentials. Over a long period, however, changes in the over-all pattern of relative wages can be seen quite clearly.⁴ Parities and differentials change despite all the attempts made to maintain them.⁵ A given pattern of wages could not indeed be preserved for long in a changing economy. Only in an economy in which the demand for goods and services, the supply of the various categories of labour and the technical basis of production remained unchanged would a particular wage pattern remain unchanged also. There is nothing sacrosanct about any wage or pattern of wages. No-one has a “right” to maintain his relative position indefinitely.

The fact that relative wages reflect the supply-demand relationships which prevail in the labour

⁴See Nevin, *Wages in Ireland*, *op. cit.*, Part III, for examples of changes in wage differentials.

⁵In the case of organised workers relative wages change through, though to a considerable extent in spite of, collective bargaining because collective bargaining is largely concerned with trying to maintain whatever is the prevailing wage structure. Reynolds and Taft point out that “‘General’ wage movements are not in fact general, but involve systematic differences in the rate of movement of particular wage rates” and add that it “is the separate but articulated movement of a multitude of particular rates which moves the general index upward or downward”. Reynolds and Taft, *The Evolution of Wage Structure*, Yale University Press, 1956, p. 3.

market does not mean that the wages of particular groups of workers cannot be set at some predetermined level. But if they are, certain consequences follow as far as employment is concerned. When, for example, the State lays down minimum wage scales it also automatically determines the number of workers in the category in question who will be employed at any particular time. If the minimum wage is higher than the wage which would emerge through the free operation of the labour market the number employed will be less than it would otherwise be.

Conversely, the wage obtained by each worker will tend to be higher than it would otherwise be if the number of workers permitted to enter a trade is limited. This is the *rationale* of the various types of restriction on entry to certain occupations imposed by a number of professional bodies and trade unions.

Over a period it may happen that the enforcement of a minimum wage may result in increased rather than reduced employment for the workers in question. It has happened in the past that the productivity of very low paid workers rose so much when their wages were increased that production costs fell with the result that it was possible to reduce prices and thereby expand sales to such an extent that more workers were employed. Similarly, over a period also, control of entry to a trade may result in lower earnings for the particular group exercising the control and perhaps for others too. This is because the growth of the industry in which the restrictions are enforced may be slowed down by the shortage or high cost of the relevant workers. A slowing down in the growth of one industry tends to affect other industries as well and ultimately hampers economic growth in general. The result might well be that the relatively high wages which the workers who restrict entry to their trades succeed in maintaining for themselves may actually be lower than their wages would have been had the economy expanded more rapidly, though in the latter event their wages might have fallen relative to other workers. In other words, when the general level of wages is high, a low relative wage may be absolutely higher than a high relative wage when the general level is low.

Thus it is possible to control either the wage or the numbers to be employed in the case of a particular type of worker—but not the two together. In the short run the raising of wages above their “market” levels tends to reduce the numbers employed while restrictions on entry to a trade tend to increase the wage. The long-run consequences may, however, be different.

As well as performing a pricing function wages also perform a distributive function since it is by earning wages that labour obtains its share of the national product. The proportion thereof obtained

by a given type of labour is determined by the wages earned by the individuals in the group and by the number of them employed. It is very important to realise that the formation of the national product and its distribution among the factors of production are merely two aspects of one and the same process. As we have seen in Chapter I, total employee remuneration tends to increase as national product rises. In a competitive economy there is no need to make any special arrangements—not even by way of wages policies or collective bargaining—by which labour or any other factor will share in increased output.⁶ All factors spontaneously share in such an increase in proportion to their contribution thereto as a result of the competition among entrepreneurs for labour and the other factors. The factorial distribution of income may be regarded as unsatisfactory for one reason or another and may be modified by such forms of income redistribution as family allowances, old-age pensions, free or subsidised education, free health services and so on. But the initial factorial distribution could not be determined in advance unless the whole process of production and the prices of all the factors of production were also determined in advance. Clearly, this cannot be done.

Wages and Efficiency

It is frequently claimed that wage increases lead to greater efficiency in production. This possibility was noted in the Labour Court’s Statement published in October 1950 on the occasion of the termination of the first national agreement.⁷ There can, indeed, be little doubt that entrepreneurs try to “absorb” wage increases, through better utilization of labour, and especially by substituting capital for labour, when prices cannot be raised and that improvements in efficiency result in the sense that average output per worker employed rises. Moreover, as we have already observed, the productivity of very low paid workers has on occasions been directly increased as a result of a wage rise. But if total employment falls as a result of the attempts made to absorb the wage increases it cannot reasonably be contended that the productive efficiency either of the labour force or of the economy as a whole has risen even though the average output of those who remain in employment is greater than it was before. A rise in *per capita* output brought about by a reduction in the numbers employed is evidence of unchanged rather than of increased efficiency. If the wage increases which have taken place in the past had been accompanied by a genuine *pro tanto* increase in efficiency unit costs would be no higher and unemployment would be no less than

⁶The wage drift which occurs between rounds of negotiated increases testifies to the efficacy of competition in passing on increases in productivity to the wage earners during periods of general economic expansion.

⁷*Supra.*, p. 20.

they were before the wage increases took place. Manifestly, such is not the case. Employment in 1961 even in the non-agricultural sectors was lower than it was in 1951, for example, while unit costs even in the transportable goods industries were higher.

Wages and Inflation

We also saw in Chapter I that wages are costs as well as incomes. They are, therefore, components of the prices of final goods and services. Changes in the level of wages and salaries and changes in the general level of prices are associated with each other but what the casual relationship between the two is, has become the subject of some controversy. This controversy hinges on the question as to whether inflation is the consequence of the "push" on costs exerted by ever increasing wages or of the "pull" on prices exerted by an over buoyant state of demand. The so-called "cost-push" explanation of inflations implies that if wages and salaries rise faster than the "real" output of labour, labour cost per unit of output will increase and that entrepreneurs will, therefore, raise prices so as to cover these higher costs. The "demand-pull" explanation, on the other hand, admits that rising costs *appear* to be the cause of inflation but claims that closer examination of the problem reveals the rising costs themselves to be the consequence of excess demand. According to this explanation when demand outruns supply in the markets for goods and services, each entrepreneur tries to expand production in order to meet the demand for his own products by employing more workers but all entrepreneurs taken together cannot do so under conditions of full employment. A situation is thereby created in which intense competition for labour arises. Entrepreneurs pay more than the negotiated rates and offer inducements in the form of fringe benefits on the one hand, and on the other, offer little or no resistance to demands for higher contractual wages. The result is that labour earnings tend to rise faster than output. Consequently, unit costs increase and entrepreneurs raise prices in order to cover the increased costs. Thus although the cost increases are, as it were, the occasion of the price increases, the cost increases themselves are the consequence of the intense competition for labour and this in turn is the result of the excess demand for goods and services. Hence, in last analysis, it is competition for the limited supplies of goods and services entering the market which forces prices to rise rather than direct pressure on costs as such.

Opinions differ as to whether the inflation experienced in Western Europe since the end of the war has been of the cost-push or demand-pull type. A group of economists who undertook a study of inflation at

the request of the O.E.E.C. came to the conclusion that the inflation which had occurred in Western Europe and in the United States during the 1950's was attributable primarily to the upward pressure on wages exerted by organised labour.⁸ The Cohen Council on the other hand held that the main cause of the rise in prices and incomes in the United Kingdom in the post-war period was excessive demand.⁹ At all events wage policies are advocated in the belief that cost-push inflation prevails.

The mere existence of cost-push inflation, however does not of itself necessitate a wages policy. It is only within the context of a full employment policy that wage-push becomes a problem, and it is significant that interest in wages policies has developed only since the adoption of full employment policies. If Governments were not committed to full employment there is reason to believe that monetary and fiscal measures could maintain total demand at such a level as would maintain price stability. In these circumstances excessive wage increases would tend to reduce or wipe out profits because increased costs could not be passed on to buyers in the form of higher prices. Consequently unemployment would develop as some firms would cease production and the others would try to economize in the use of labour. If, however, a full employment policy is being pursued unemployment cannot be allowed to develop. Hence excessive wage increases have to be permitted (and enabled) to result in price increases. This implies that fiscal and monetary measures have to be taken to ensure a level of demand adequate to maintain full employment no matter what the price level is. If both full employment and price stability are aimed at, it becomes imperative to establish and maintain a suitable relationship between changes in wage levels and changes in output levels in order to remove the possibility of pushing up costs. This is what a wages policy is about.

The Basis of a Wages Policy

Labour costs, as we have seen, remain constant if wages change at the same rate as average output per worker. Other things being equal, total costs then remain constant also and prices remain stable. Changes in average output per worker may be measured at the level of the firm, the industry or the economy as a whole. The question then arises as to which of these levels should form the basis for wage changes.

The possibility of basing changes in wages on changes in average output per head at the level of

⁸O.E.E.C., *The Problem of Rising Prices*, Paris 1961, pp. 47-51.

⁹Council on Prices, Productivity and Incomes, *Third Report*, July 1959, p. 1. See also Dow, *The Management of the British Economy, 1945-60*, Cambridge University Press, 1964, Chapter XIII.

the firm and the industry may be considered together as very much the same type of problem arises in each case. Any system of wage payment which relates wages either to the performance of the individual firm or the individual industry is bound to encounter certain difficulties because of the fact that the labour market is occupationally rather than industrially orientated.

To be viable the wage structure must reflect the underlying supply-demand relationships which prevail with regard to the various occupational categories of labour. This implies, firstly that wages must be more or less uniform within each category in the labour market where there are no restrictions on labour mobility between firms and industries and secondly that relative wages must change as the supply-demand position changes.¹⁰ But the rate at which average output per head changes varies considerably from firm to firm and from industry to industry—as may be seen from Table 16, where changes in average output per head in certain Irish industries for the period 1950-62 are shown and where also the changes in earnings are given for purposes of comparison. Accordingly, workers in the same occupation would earn different wages from one firm or industry to another were wages tied to changes in average output per head on a firm or industry basis. Hence the wage structure would reflect not the supply-demand position in regard to particular categories of labour but rather average output per head in each firm or industry. Sooner or later stresses and strains would build up which would cause the firm or industry based differentials to break down (e.g., workers in each occupation would want to be paid the same wages irrespective of the firm or industry in which they worked; firms would find it necessary to pay certain workers or categories of workers more than the wages warranted by the productivity changes in order to attract or retain them).

To some extent, of course, the movement of labour between firms and industries would tend to prevent such extreme variations in average output per head as those shown in Table 16 from occurring. Taking account, however, of the fact that there are limits to the extent to which labour and the other factors can be substituted for each other, it is hardly likely that the disparity between the rates at which average output per head changed in the Bread, Biscuit and Flour Confectionery industry and in the Hoisery industry, for example, would have been

¹⁰Wage payment schemes based on evaluations of skill or ability or on notions of equity ignore this. Consequently they are unable to cope with changing conditions in the labour market. Such schemes often enjoy an initial success but as time goes on they diverge more and more from the underlying market situation and either have to be abandoned or else modified in such a way that they reflect the criteria on which they were originally based in name only.

sufficiently reduced to provide a tolerable difference in earnings as between these two industries in 1962 as compared with 1950. But even if the movement of labour was such as to maintain an approximate equality of earnings within each occupation—and this, of course, implies an approximately uniform rate of change in average output per head throughout the whole economy—the problem of the adjustment of differentials between occupations would remain. Relative wages would become frozen and could not, therefore, perform their function of allocating labour among its various possible uses.

We may now consider the possibility of basing wage changes on changes in average output per worker at the level of the economy as a whole. This approach also raises several difficult problems.

Firms in which output per worker rose less than the average would experience an increase in labour costs while those in which it rose more than the average would enjoy a reduction in such costs. In the former case firms would be very much disposed to raise prices in order to maintain profits. In the latter case, on the other hand, firms would be less strongly disposed to lower prices. On average, therefore, prices would probably rise even if wages rose no more than output per worker in the economy as a whole.

A further difficulty arises in as much as wage changes and output changes would need to be identical if costs were to be kept stable. In practice, however, this is not possible within the context of a wages policy. Agreed wages can be changed either in accordance with realized or with anticipated output changes. But there is no reason why the one or the other should be the same as the change which actually takes place during the currency of a particular set of wage agreements. It is for this reason that the use of the long-term trend of output changes is usually recommended as a basis for wage policies rather than estimates of realized changes or forecasts of future changes. The use of the trend figure does not, however, solve the problem because significant deviations from the trend can take place for several years together with the result that costs could be seriously increased or else the share of employee remuneration substantially reduced if the policy of following the trend were successful.

Moreover, wage changes and output changes would need to be simultaneous, but unless earnings are directly tied to output (a procedure which as we have seen would lead to a non-viable wage structure) this is not possible since negotiated wage changes can take place only at intervals whereas production is continuous. Hence the problem of the timing of changes arises.

If production were known to be increasing at the rate of, let us say, 4 per cent. per annum and if all

TABLE 16: INDEX NUMBERS OF VOLUME OF PRODUCTION AND EARNINGS PER PERSON EMPLOYED (1950=100).

Industry	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
VOLUME OF PRODUCTION:													
(1) Bacon Factories	100.0	94.1	103.2	120.1	121.3	99.5	92.3	104.4	115.1	108.5	113.4	118.3	120.9
(2) Bread, Biscuit and Flour Confectionery	100.0	101.5	103.0	96.3	95.6	94.2	93.3	88.8	87.4	88.9	91.6	93.4	95.8
(3) Brewing	100.0	99.0	101.3	102.7	106.2	104.6	111.9	105.9	108.2	108.1	111.7	119.8	112.2
(4) Woollen and Worsted (excluding clothing)	100.0	91.6	79.1	87.4	91.6	89.7	86.4	90.5	88.5	95.2	101.6	103.1	103.9
(5) Manufacturing of Paper and Paper Products	100.0	102.2	95.7	101.4	112.0	120.5	115.1	119.1	132.5	139.7	145.9	153.2	149.7
(6) Printing, Publishing and Allied Trades	100.0	98.0	98.9	102.9	104.1	109.2	110.4	108.7	114.7	108.0	120.2	127.5	133.8
(7) Tobacco	100.0	109.6	106.7	108.6	105.1	112.1	108.9	109.1	105.7	108.0	112.2	114.5	108.8
(8) Hosiery	100.0	101.2	104.8	114.6	120.1	126.8	138.1	146.5	146.8	156.8	175.6	106.9	195.4
(9) Boot and Shoe (wholesale factories)	100.0	89.6	91.4	97.5	90.2	98.0	100.8	107.5	113.0	119.6	128.2	138.5	131.2
(10) Aerated and Mineral Waters, Cider, etc.	100.0	105.4	111.7	113.9	120.3	135.4	125.1	131.1	126.7	140.6	141.0	131.1	172.0
EARNINGS:													
(1) Bacon Factories	100.0	113.9	116.3	123.3	128.3	131.2	140.5	136.5	146.2	150.0	158.5	172.1	183.1
(2) Bread, Biscuit and Flour Confectionery	100.0	108.1	120.2	119.1	121.4	126.3	132.5	136.2	144.6	151.1	163.6	172.4	194.3
(3) Brewing	100.0	116.0	118.6	130.6	129.7	146.3	147.4	157.3	160.8	165.4	170.5	186.7	210.9
(4) Woollen and Worsted (excluding clothing)	100.0	108.7	108.5	123.6	125.6	129.6	147.5	147.5	156.7	164.3	176.3	189.8	209.0
(5) Manufacturing of Paper and Paper Products	100.0	114.0	123.8	126.3	132.5	138.9	148.0	149.1	156.6	161.5	172.6	187.3	211.0
(6) Printing, Publishing and Allied Trades	100.0	110.6	122.2	126.3	131.6	131.8	139.8	144.0	153.8	163.4	168.1	182.3	196.0
(7) Tobacco	100.0	111.0	119.3	128.0	130.6	134.1	142.7	146.6	155.6	166.5	175.9	189.0	206.8
(8) Hosiery	100.0	109.0	113.6	122.1	125.9	134.2	144.5	150.3	156.1	160.5	172.1	174.4	191.1
(9) Boot and Shoe (wholesale factories)	100.0	116.2	122.1	129.9	134.8	138.1	148.5	155.4	160.2	167.1	175.1	186.8	199.6
(10) Aerated and Mineral Waters, Cider, etc.	100.0	108.9	116.4	119.1	122.0	128.0	135.1	137.0	141.8	146.8	151.2	174.1	192.5

Source: Derived from C.S.O., *Statistical Abstract 1962*, Tables 120, 122 and 129, (and previous issues); and *Quarterly Industrial Inquiry*.

wages and salaries were to be increased on the same day by 4 per cent. there would be an immediate increase in costs because the immediate increase in output would be very much less than 4 per cent. seeing that an annual increase of 4 per cent. implies a weekly or monthly increase of very much less than 4 per cent. As the year progressed, however, output would keep on increasing while wages would remain unchanged (assuming, that is to say, that there is no wage drift) so that unit costs would decrease continuously after the initial sudden rise. By the end of the year total wages and salaries and total output would have risen on average by 4 per cent. so that there would have been no increase in unit costs if measured on an annual average basis. There would, therefore, be no difficulty as far as profits are concerned—provided wages were increased annually. But if the negotiated increase were to take place only every second year it is quite possible that profits would be completely wiped out in some firms in the year of the wage increases. At all events it is certain that in the first year of the two year period non-wage incomes would have to decline if prices were to remain stable while in the second year these forms of income would have to rise by more than the increase in production unless prices were to fall. Whether or not the economy is capable of sustaining oscillations of this kind is very much open to question.¹¹

The problem of the wage structure also arises. If all wages were to be changed uniformly they could not perform their pricing function as relative wages would become frozen. Competition for labour would take forms other than the offer of higher wages. Over short periods, e.g., from year to year, the freezing of the wage structure would not matter very much especially as there is already a strong tendency for workers to try to maintain existing differentials and parities. Over long periods, however, the changes in the underlying supply-demand conditions would certainly make themselves felt

¹¹Biennial or triennial agreements could, of course, provide for annual wage adjustments so as to avoid these oscillations and at the same time obviate the need for annual rounds of negotiations.

The discussion of the use of the productivity (average output per head) criterion as a basis for wage changes proceeded on the assumption that productivity changes can be accurately measured. This, however, is far from being the case. In Holland it was found that bargaining about wages became bargaining about the way to measure productivity. According to Pen—"These discussions sometimes assumed surrealistic proportions. Parties approached the Central Bureau of Statistics for help and so this usually serene Government office was implicated in social conflict in a way it was not used to, and which it did not appreciate. The statistical experts were quick to explain that their figures were inapplicable to the end for which people wanted to misuse them. The discovery that even in statistics, many knots had to be cut deprived the wage policy of its objective basis. It was felt that the lid was off. The strain on the labour market also operated in this direction." Pen, "The Strange Adventures of Dutch Wage Policy", *British Journal of Industrial Relations*, October 1963, pp. 324-325.

through the emergence of different levels of fringe benefits and the like and would affect costs just as much as changes in agreed wages.

The type of wage policy envisaged by the O.E.C.D. seems to be based on the principle that the average change in productivity at the level of the economy would serve merely as a norm or guiding light for wage changes so as to permit of a certain amount of flexibility in the wage structure. In other words, instead of providing for a uniform percentage change in the wages of all workers, particular groups of workers would be granted more or less than the norm depending on circumstances, e.g., shortages of particular categories of workers, shortages of workers in particular industries, firms in temporary difficulties and so on. In effect this would be in the nature of a compromise between the principle of basing wage changes on output changes in individual firms or industries and the principle of basing them on output changes in the economy as a whole. As such it would give rise to the difficulties and problems to which each of these principles gives rise. Moreover, if departures from the norm were to be permitted there is no way of ensuring that departures in one direction would cancel out those in another direction so that the average change in wages which would actually take place could be equal to the average change in productivity only by accident. In the nature of things it is virtually certain that the former would exceed the latter because it would always be very much easier to get workers to accept the increases which exceed the norm than those which fell short of it.

One further point may be noted. Wage settlements guiding lights or norms must of necessity be in terms of wage rates. Labour cost, however, (given productivity) is determined by money earnings, fringe benefits, employers' social security contributions and the like. Earnings and to some extent also fringe benefits are determined by the incidence of over-time, the operation of incentives and bonus schemes, "plus" rates and the composition of the labour force. Even though none of these taken singly or possibly indeed all of them together might result in a significant difference between the movement of rates and of earnings over short periods the cumulative effect of insignificant divergences might be considerable over a period of five to ten years. In some countries, moreover, it is said that the wage drift which occurs between negotiated changes in rates is as great as the change in output per worker thereby leaving no room for negotiated changes if labour cost is to be kept stable.¹² This is to be expected when competition for labour is active. The danger is, however, that the pursuit of a wages policy might create an expectation of a wage rise in

¹²O.E.C.D., *Policies for Price Stability*, op. cit., p. 26.

the minds of employees over and above the rise in earnings occasioned by wage drift even when the increase in productivity does not warrant a negotiated rise. A wage policy might, therefore, tend to worsen the condition it is designed to cure by adding negotiated changes to the changes brought about by the ordinary competitive process. On the other hand, and this is the ultimate justification of a wage policy, it might also have the effect of introducing a note of realism into people's expectations and in that way might help to moderate claims even if the exact norm or guiding light were not taken completely literally.

The final problem or rather set of problems to which wages policies give rise is that of enforcement. This is not the place to describe the arrangements followed in countries which have evolved or are at present attempting to evolve wage policies.¹³ It is, however, pertinent to refer to some of the observations made by the authors of the O.E.E.C. publication—*The Problem of Rising Prices*. These writers were not unanimous regarding the methods of enforcing a wages policy. The majority considered *inter alia* that:—

- (a) The Government should have a definite policy in regard to its own employees;
- (b) There should be a centre of authority in the public services charged with setting the appropriate norm for wage changes and machinery for consultation with representatives of the broad parties of interest;
- (c) The Government might be represented at important wage negotiations—not simply as a mediator but as a party at interest.

They also considered that such an approach involved a departure from the traditional form of collective bargaining and from the traditional role of Government in wage determination.¹⁴

On the other hand the minority held that more would be required than merely to lay down norms along the lines advocated by the majority. They pointed out that wage negotiations and pricing practices relate not to average wage rates and prices but to wages and prices in specific industries. Hence they held that where wage-push inflation tended to develop governments committed to a national wages policy would have to become involved in rather extensive regulations relating to individual wages and prices. In such circumstances what they described as the "usual group pressures" would exert a very significant influence on the wage and

¹³For details the reader is referred to the O.E.E.C. and O.E.C.D. publications referred to above. See also, Council on Prices, Productivity and Incomes, *op. cit.*

¹⁴O.E.E.C., *The Problem of Rising Prices, op. cit.*, pp. 57–60.

price structure and also on the general wage and price level.¹⁵

The minority also considered that the majority were unduly pessimistic about the possibility of avoiding inflation. However, even if inflation could not be avoided without a considerable amount of unemployment, given present day bargaining arrangements and attitudes, the minority held that it would be preferable to change these arrangements and attitudes rather than to adopt a system of government regulated wage and price structures. They maintained that:—

"On neither side of the labour market should the permissible size and the permissible functions of organisational units be regarded as immutable. Bargaining arrangements and attitudes required to protect the interests of labour in periods of under-employment may prevent the attainment of full employment in the present historical epoch in which modern monetary and fiscal policy would be capable of closely approximating this goal".¹⁶

Thus both majority and minority concluded that the pursuit of a wages policy would involve changing the present system of collective bargaining.¹⁷

Whether wages policies will change the present system of collective bargaining or not, it does seem that they are likely to place the unions in something of a dilemma. If all workers were to get more or less automatic periodic wage increases many of them might feel that there was little point in retaining their union membership.¹⁸ Consequently, the union authorities might be forced into the position of having to justify themselves in the eyes of their members by trying to secure wage increases in excess of what was considered feasible for wages policy

¹⁵French experience in this respect is described as follows by Dessau:—

"All economic policies tend to be channelled through the Plan, and the existing centres of economic power tend to bring pressure to bear on the planning organs as a focal point of economic decision-making. Lobbying, for instance, is increasingly directed towards the planning commissariat, and less and less towards ministries or parliamentary commissions.

"The implications for wage policy are important. Strong industrial pressure groups may find it easy to gain access to the top levels of policy making, while other less influential groups may well experience greater difficulties in making themselves heard in the present structure of organisation than in the former multiplicity of separate and frequently unofficial channels of influence. This situation carries with it some obvious risks of greater inequality between the various social groups, so long at least as the issues and the potential conflicts between them are not brought into the open and influenced by public opinion". J. Dessau, "Planning and Incomes Policy in France", *British Journal of Industrial Relations*, October 1963, pp. 311–312.

¹⁶O.E.E.C., *The Problem of Rising Prices, op. cit.*, p. 64.

¹⁷See also National Incomes Commission, *Report of the Scottish Plumbers' and the Scottish Builders' Agreements of 1962*. (Cmnd. 1994), p. 10.

¹⁸The belief that the wage rounds system has come to stay may indeed be one of the reasons for the failure of trade union membership in Ireland to show any appreciable increase since the early 1950's. See O'Mahony, *op. cit.*, p. 9.

purposes and by pressing for greater changes in working conditions than they otherwise would. If they did not take this line of action they might well find themselves losing members whereas if they succeeded in it, the increase in labour cost might well be greater than if there were no wages policy. The process of convincing workers that the unions perform many necessary functions besides using their collective strength to secure the highest possible wages and the best possible working conditions at every opportunity and of convincing the union authorities that under modern conditions they should seek the optimum rather than the maximum is likely to be a lengthy one. Such a process, however, seems to be the only way by which a wages policy could be implemented within the present legal and institutional framework of the labour market because there is no way by which it can be done by administrative action. As the O.E.C.D. report, *Policies for Price Stability*, observes, "in our kind of societies a successful incomes policy must derive its ultimate sanction from the understanding and co-operation of all those concerned".¹⁹

The Achievements of Wages Policies

We may now ask if wages policies have succeeded in achieving their objectives. The Cohen Council observed that those countries which had pursued wages policies had not been "noticeably more successful than others in moderating the rise of money incomes and prices". They also noted the general similarity of the movements in pay and prices in countries whose method of adjusting rates of pay were very different.²⁰ This, however, is not the whole story. We saw in Table 13 that wages rose more slowly in the Netherlands between 1950 and 1962 than in any other country in Western Europe except Italy and for that reason the Dutch wages policy may be regarded as moderately successful. On the other hand, Table 13 also showed that labour costs fell in Italy though no wages policy whatsoever was attempted there. The Italian experience is attributable to a very rapid rise in output per head combined with a rise in wages comparable with that which took place in the Netherlands.²¹

¹⁹O.E.C.D., *Policies for Price Stability*, *op. cit.*, p. 47.

²⁰Council on Prices, Productivity and Incomes, *op. cit.*, p. 42

²¹Mr. Josselyn Hennessy in a paper published since the above was written says—"European experience has been that no incomes policy can halt inflation; without inflation no incomes policy is necessary, because unions will usually be reluctant to push wages above the level justified by output, knowing that to do so is to risk unemployment for their members arising from consumer resistance to higher selling prices; in an expanding, fully (not over-fully) employed economy competition for workers among employers keeps wages rising justifiably; and both workers and employers have actively demonstrated that they prefer the approximation to social justice attained by free wage bargaining to any theoretically perfect, but practically unenforceable concept". Paish and Hennessy, *Policy for Incomes*, Hobart Paper 29, The Institute of Economic Affairs, 1964.

To sum up: we have seen that wage policies whether they are based on changes in average output per head in the firm, the industry or the economy as a whole or on the principle of the guiding light or norm can scarcely be regarded as practicable. No doubt it is possible to find theoretical solutions to all the problems to which wage policies give rise but the translation of the theoretical solutions into practical policy is likely to involve such a complicated system of supervision and control as to be very difficult to operate. The most that can reasonably be expected of any wage policy is that it would help to create a better understanding of what an economy can bear in the way of income increases and so lead to moderation in wage claims. There is, however, always the danger that it would misfire by superimposing unwarranted negotiated changes on wage drift and thereby add fuel to the fire of inflation.

An Irish Wages Policy

Wages policies are almost invariably discussed within the context of an economy where there are no direct external influences on wages.²² In other words, national labour markets are assumed to exist. We saw in Chapter I, however, that Ireland and Britain form what is in effect a common labour market and that developments in British exercise an important direct influence on Irish wages. Consequently, the pursuit of a wage policy in Ireland is bound to involve problems not encountered in other countries, in addition to all the other problems referred to above. Indeed the very feasibility of an Irish wages policy must be called into question. The question also arises as to whether there is any need to pursue a wages policy here, even if one were feasible: firstly, because we might expect the Irish price level to be very much influenced by external price movements in view of the openness of the Irish economy, and secondly, because we are not committed to a full employment policy in the usual sense.²³

We shall discuss the latter question first because if an Irish wages policy were found to be unnecessary there would be no point in trying to establish its feasibility or otherwise. In an open economy—and the Irish economy is highly open—inflationary forces make themselves felt as a compound of price increases and balance of payments deficits. Inflation cannot, therefore, be measured solely in terms of changes in the price level. The balance of payments position must also be taken into account.

²²There is always some indirect external influence exercised by export prices on wage levels.

²³Conventional full employment policies are concerned with the elimination of cyclical unemployment. Irish economic policy has always been concerned with the *creation* of employment rather than with preventing it from falling too much during periods of recession. At present the aim of policy is to expand employment and reduce emigration within the framework of the programme for economic expansion. See *Second Programme for Economic Expansion*, *op. cit.*, p. 17.

Before proceeding further it is pertinent to consider to what extent, if any, the demand-pull and cost-push theories of inflation explain the presence of inflationary pressures in the Irish economy in the light of the foregoing view of inflation. Movements in agricultural prices are obviously determined primarily by external factors so that neither of those theories provides a relevant explanation. The position is not so clear in the case of domestically produced manufactured goods. On the one hand it is possible that prices have increased as a direct result of wage increases and that the ordinary cost-push situation prevails. This appears to be the conclusion reached by the O.E.C.D. study to which reference has already been made.²⁴ On the other hand it is more likely that a situation analogous to that of demand-pull prevails in that wage increases *appear* to be the cause of price increases whereas in fact prices probably could not be increased unless the prices of competing externally produced products were also rising.²⁵ In other words, external price increases are probably the ultimate (though not necessarily the proximate) cause of domestic price increases. This does not, of course, rule out the possibility that domestic prices might rise more slowly than external prices—if costs were such as to allow that to happen.²⁶ Apart from agricultural products and manufactured goods there are many types of goods and services, including the distributional elements in retail food prices, which are not directly subject to external competition. Accordingly, it may well be that wage increases exert a direct influence on their prices. By and large, however, it may be concluded that the case for the existence of cost-push induced price increases cannot be taken as proven especially in view of the possible influence of demand, e.g., on the price of houses, and consequently that the need for a wages policy to stabilize the price level as such cannot be established.

We saw in Chapter I that wage increases can, in certain circumstances, contribute towards balance of payments deficits in this country. They must, therefore, be regarded as a potential source of inflation in the broad sense and establish a case for a wages policy in order to maintain external equilibrium. We also saw that the eventual restoration of equilibrium tends to involve a reduction in employment so that a case can also be made for a wages policy in order to maintain employment.

If what was said above about the influence of

²⁴O.E.C.D., *The Problem of Rising Prices*, *op. cit.*, p. 46. The authors of this study also point out that "wage movements in Ireland can hardly be considered an independent factor in the Irish economy, as they are so intimately connected with developments in the United Kingdom labour market".

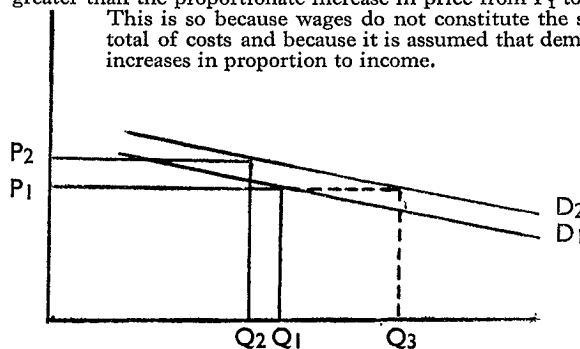
²⁵The rise in domestic and import prices need not be simultaneous. A rise in import prices may not be followed by a rise in the prices of competing domestically produced products until wages have been increased.

²⁶See also Nevin, *Wages in Ireland*, *op. cit.*, p. 6.

external forces on the Irish price level is correct it follows that Irish entrepreneurs cannot raise prices to any appreciable extent unless external prices are also rising. Should they raise prices relative to external prices they would be in danger of losing sales not only on the export markets but on the home market as well owing to the substitution of imports for home production. Consequently, unless external prices are, in fact, rising they are not likely to be able to cover increases in labour cost by raising prices—no matter how buoyant demand is. What they would do instead would be to try to absorb the increased labour cost by substituting other factors of production for labour where possible and by trying to improve the organisation and methods of production in order to be able to reduce their labour force. Firms which could not economise in the use of labour along these lines would eventually be forced out of business altogether. Clearly then the result of a prolonged failure to cover increasing labour costs would be that employment would fall. Conversely if labour costs were to fall firms would become more competitive and employment would tend to increase because existing firms would tend to expand production and new firms would tend to come into production. It may be concluded, therefore, that the lower labour costs are, i.e., the lower money wages are in relation to output, the greater will employment be.²⁷ The Dutch experience confirms

²⁷This proposition is not invalidated by the fact that wages are income as well as cost. In the first place the demand for Irish goods and services on the part of foreigners, investors and those whose incomes are generated by exports is obviously affected only by the cost aspect of wages. In the second place the higher wages are, given average output per head, the higher must price be, to cover costs. But if the price elasticity of demand for Irish goods is high, as it must be seeing how easily imports can be substituted for Irish products, and if at the same time income elasticity of demand is low, as it is likely to be, smaller quantities of goods will be bought at higher prices than at lower prices even by those individuals who are in receipt of the higher incomes which necessitate the higher prices. The accompanying diagram may illustrate this more clearly. D_1 represents the demand of a wage earner for a typical product whose price is P_1 . D_2 represents the demand of the wage earner after he has participated in a round of wage increases. The effect of the wage increases is to increase the price of the product to P_2 , if the increase in production costs is to be covered. At the original price P_1 , Q_1 units were bought while at the new price only Q_2 units are bought even though the buyer's income is higher than it was before. It will be noted that the proportionate change in demand to Q_3 consequent on the shift in the demand curve from D_1 to D_2 at price P_1 is greater than the proportionate increase in price from P_1 to P_2 .

This is so because wages do not constitute the sum total of costs and because it is assumed that demand increases in proportion to income.



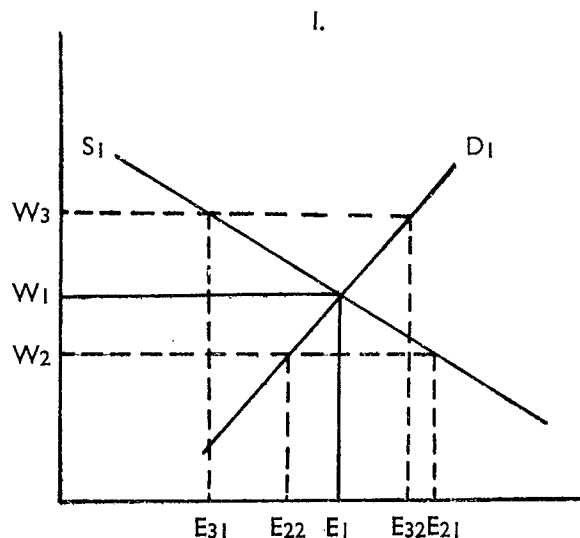
the importance of low labour costs in securing increased competitiveness and in expanding employment in an open economy. Wages rose less rapidly in Holland than in her principal competitors since the war. At the same time productivity rose substantially with the result that labour costs per unit of output did not rise as rapidly as in most other European countries. The relatively low wage level according to Pen "certainly was one of the causes of the rapid growth of Dutch exports . . . and so of the satisfactory expansion of the Dutch economy". Despite the comparatively slow rise in money wages, real wages and labour's share in the national income have risen.²⁸ The case of Italy was very similar to that of Holland, except that as we have already remarked, no attempt whatever was made in Italy to pursue a wages policy.

If it is true that employment would be greater at lower than at higher money wage levels given average output per head a case can also be made for a wages policy if we wish—as we do—to expand employment. In principle an Irish wages policy could, therefore, be concerned either with maintaining external equilibrium and preventing employment from falling or with expanding employment. It would not be concerned with stabilizing the price level as such. Were the objective merely to maintain employment and external equilibrium its purpose would simply be to try to prevent Irish production costs from rising more rapidly than production costs abroad, and particularly, of course, than in Britain our main market and competitor. If, however, the objective were to expand employment the purpose of a wages policy would be to try to ensure that Irish production costs rose *less* rapidly than production costs abroad in order to make Irish goods more competitive both at home and abroad, until such time as a satisfactory level of employment was reached. Thereafter, there would be no point in trying to keep production costs from rising as fast as production costs abroad because we would by then have become sufficiently competitive and all that would be necessary would be to maintain our relative position. In the meantime, however, the more slowly production costs rise here in relation to production costs abroad the more rapid is employment likely to expand. Thus the case for an Irish wages policy rests not on the elimination of cost-push inflation within the context of a full employment policy but rather on the desirability either of expanding employment and thereby reducing emigration, or of preserving external equilibrium and maintaining employment.

We now come to the central problem as far as an Irish wages policy is concerned—namely the

possibility of pursuing it at all in view of the unrestricted entry to the British labour market which Irish people enjoy and the consequent tendency for Irish wages to be very largely determined by developments in Britain.

We have already referred to the gap between Irish and British earnings as a measure of the preference of Irish workers for employment in Ireland rather than in Britain. It is also a measure of the difference in labour cost—given worker productivity. Consequently the wider the gap the greater is the demand for labour likely to be; at the same time, of course, the smaller is the number of workers willing to work here likely to be. This is the great dilemma as far as a wages policy is concerned in Ireland. There is no reason to think that, the preference of each and every worker for employment in Ireland as against Britain is the same. On the contrary, it is reasonable to assume that each person has his own preference in the sense that there is a *maximum* difference between what he could earn in the two countries beyond which he will not work in Ireland. We may think of all the different preferences as constituting a schedule. Similarly, according as the gap widens more and more firms will become competitive. Therefore, we may think of the demand for labour in terms of the differences in wages as constituting a schedule also. These schedules may be represented as curves as in Diagram I where the vertical axis shows the wage differential between Ireland and Britain and the horizontal axis shows the number of workers. In this diagram the position of the supply curve, S_1 and the demand curve, D_1 is different from that of conventional supply and demand curves because they relate not to the actual wage but to the difference between wages here and in Britain. The larger this difference (given productivity) the cheaper will labour be and the greater the amount of it which entrepreneurs will want to



²⁸Pen, *op. cit.*, pp. 330 and 318. Pen also remarks that the Dutch "have to avoid wage inflation or be prepared to devalue".

hire.²⁹ Hence the demand curve slopes upward from left to right. Conversely the smaller the difference the greater will be the number of workers willing to work here so that the supply curve slopes downward from left to right. The point of intersection indicates the number of workers who will be employed (E_1) and the difference in earnings that will prevail (W_1). At any wage higher than W_1 , say W_2 (i.e., higher in the sense that the British-Irish differential is smaller), E_{21} workers will be willing to work in Ireland but entrepreneurs will be willing to employ only E_{22} . On the other hand at any wage lower than W_1 , say W_3 , only E_{31} workers will be willing to accept employment though entrepreneurs want E_{32} . Only at W_1 will the number of workers willing to work and the number entrepreneurs want to hire be the same.

The curve S_2 in Diagram II shows what happens if workers' preferences change in the direction of being willing to accept a larger difference in earnings—namely, employment increases from E_1 to E_2 . The same result will be achieved, as may be seen in

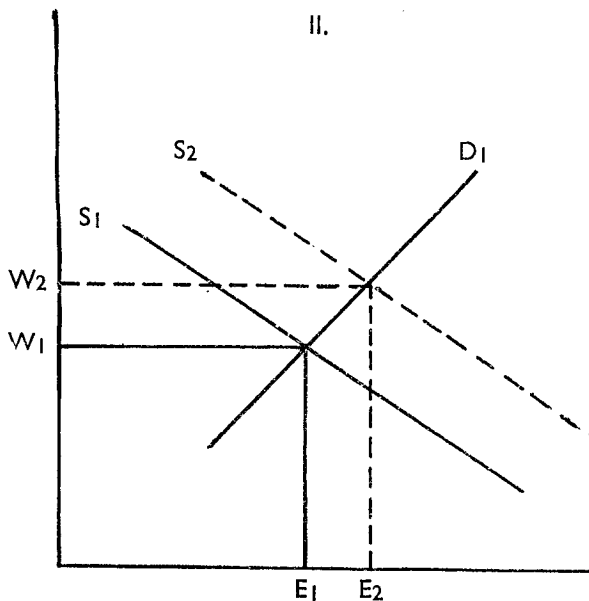
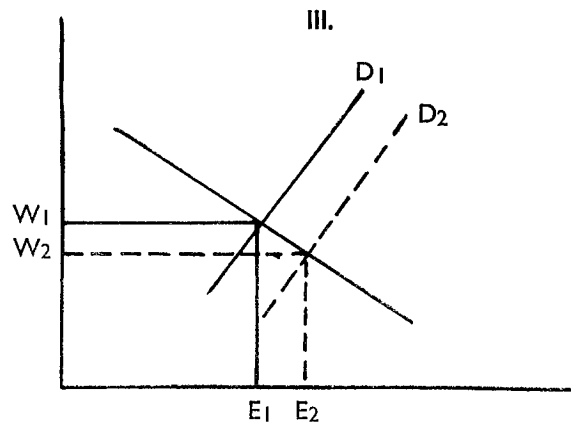
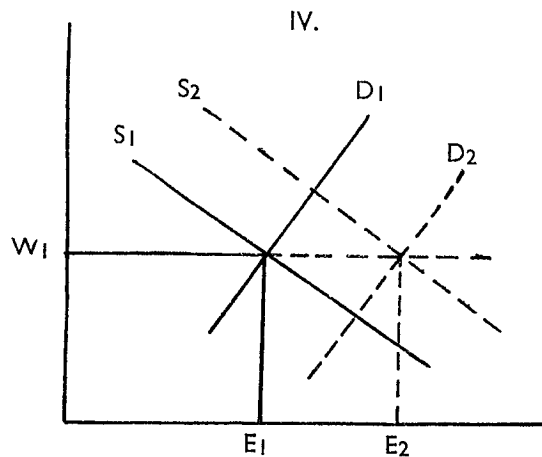


Diagram III, if workers' productivity increases in Ireland as compared with Britain except that in this case the higher employment would be achieved with an increase in wages relative to Britain (and the rest of the world) (i.e., W_2), and would be represented on the diagram by a shift of the demand curve to D_2 . The expansion in employment will of course, be still greater if both curves move to the right at the same time—giving, for example, a level of employment E_2 as in Diagram IV. On the other hand, an improvement in productivity relative to Britain could be negated by a change in workers' preferences in the direction of a reduced willingness

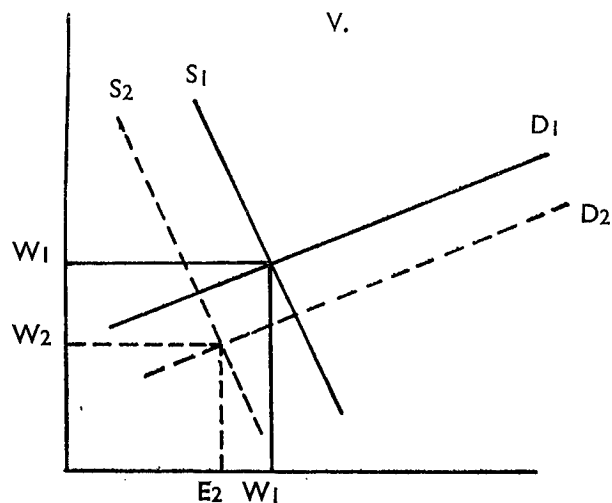
²⁹This is only another way of saying that the lower the money wage the greater will employment be.



to work in Ireland. Thus Diagram V shows that in spite of an increase in productivity, employment is less than it was before because of a desire on the part of workers to narrow the differential.



A wages policy designed to preserve external equilibrium and maintain employment would involve no more than the maintenance of the equilibrium wage, i.e., a wage such as W_1 on Diagram I, provided average output per head remains unchanged *relative to* average output per head abroad and particularly in Britain. In other words it would not involve a



change in the "normal" relationship between British and Irish wages. Hence the existence of the common Anglo-Irish labour market would not in this case pose any special problem. The problem rather would be to make an estimate of the change in wages and salaries in Britain in such a way that it could be used as a guiding light for Irish wage changes. There is, of course, no more reason to think that a guiding light of this kind would be followed than any other type of guiding light and there is also the danger that it would aggravate rather than improve the situation.

If average output per head in Ireland were rising less rapidly than average output per head in Britain Irish costs would rise relative to costs in Britain unless Irish wages were to rise more slowly than British wages. In this case, therefore, the normal relationship between Irish and British wages would have to be changed if Irish goods were to remain competitive and thereby enable employment and external equilibrium to be maintained.

If the purpose of the wages policy were to expand employment the normal relationship between British and Irish wages would also have to be changed unless average output per head in Ireland was rising more rapidly than in Britain. Assuming that average output per head was, in fact, rising more rapidly here than in Britain the expansion in employment could be achieved if Irish wages rose at the same rate as British wages but would be all the greater if they were to rise less rapidly.

Depending on the circumstances and objectives an Irish wages policy could take the form either of an attempt to prevent deviations from the normal long-run relationship between Irish and British wages or of an attempt to alter that relationship by widening the gap between wages in the two countries. The second type of policy is of more general application than the first but whether it would be practicable or not is doubtful.³⁰ It would involve trying to persuade workers to accept a slower growth in their money wages than in Britain, or in the extreme case, to be satisfied with no increase whatever in negotiated rates for some years. A policy of this kind would be very difficult to operate because it could be implemented only by way of persuasion and propaganda. It would be concerned with altering people's attitudes and so could not be embodied in legislation nor made the subject of regulation or directive. On the other hand, it would have the advantage of being simple and easily understood by everybody.

So far we have implicitly assumed that the differential which measures workers' preferences for employment here as against Britain is the difference

³⁰It would also be a more reliable way of making Irish labour costs more competitive compared with labour costs in countries other than Britain.

in money wages. If, however, the relevant differential is real wages the possibility of pursuing a wages policy to alter the differential in *money* wages presents itself in a rather different light. If the difference between real wages in Ireland and Britain is the measure of workers preference for working in Ireland the relationship between money wages in the two countries would not matter to them. Hence, in principle, Irish money wages could rise more slowly than British money wages provided that real wages in Ireland and Britain increased at approximately the same rate. This would furnish the opportunity of operating on the domestic price level in order to create the conditions which would be conducive to a slowing down in the rate of increase in money wages.

In order to see how a policy of this kind would operate it is convenient to assume that the Irish money wage level remained static and that all increases in average output per head were passed on to consumers in Ireland in the form of lower prices. In such circumstances real wages would increase owing to a fall in the price level rather than owing to a more rapid rise in money wages than in prices—as is usually the case.³¹ Irish costs would become progressively more favourable compared to external costs, (i.e., assuming that the latter continued to rise or remained stable). Thus Irish products would become more competitive on export markets and not less competitive on the home market.³² The overall increased competitiveness would lead to a more rapid expansion in production and employment than would otherwise be the case.

Three methods of operating on the price level immediately suggest themselves. One is by means of the liberalisation of imports, the second is through the taxation of profits and the third is by enlisting the support of the trade unions to encourage their members to press for price reductions rather than wage increases. Imports are so large compared with G.N.P. in Ireland and are so heavily taxed that the removal of import restrictions could hardly fail to lower the domestic price level as compared with price levels abroad.³³ Trade liberalisation of itself,

³¹The size of the increase in real wages would depend on the increase in average output per head achieved, the extent to which entrepreneurs bore import price increases and on the behaviour of the prices of the other factors of production.

³²It should be noted that an improvement in the country's competitive position does *not* mean that those goods which were previously exported would be sold at lower prices than before. What it means is that it would now be possible to export goods which previously could not be exported. The export price index might fall as a result of the emergence of the new exports. Consequently, the terms of trade might appear to deteriorate. Such a deterioration must, however, be distinguished from a fall in the prices of *all* exports. Irish goods would become *more* competitive on the home market if import prices did not fall.

³³Provided, of course, the price level is not raised by the imposition of other forms of taxation as happened in the case of the turn-over tax.

however, would scarcely be sufficient to ensure that all prices fell as average output per head rose. It would, therefore, need to be supplemented by a profits tax and by trade union pressure designed to encourage entrepreneurs to lower their prices. The purpose of such a profits tax would be to tax profits more lightly if prices fell than if they rose. A possible way of doing this in practice is that the standard rate of tax on profits could be increased by a given amount in the pound for each percentage point increase in some suitable price index and could be lowered for each percentage point reduction. This would provide all sellers with the incentive to lower their prices.³⁴ Allowance would have to be made for changes in import prices in calculating domestic price increases or reductions since the aim would be not so much to reduce Irish prices in the absolute sense as to keep them from rising as rapidly as prices elsewhere.

A reduction in Irish prices (in the relative sense) would tend to induce entrepreneurs to offer strong resistance to demands for higher wages. Such demands, however, would tend to be moderate if workers became convinced by experience that their real wages were rising at least as rapidly as real wages in Britain. Hence—without in any way interfering with the ordinary methods of collective bargaining and without having to resort to guiding lights or norms regarding the supportable wage change and also without creating the danger of preventing the wages system from performing its pricing functions—a wages policy could be implemented not merely by way of exhortation and propaganda but by way of administrative action since tariffs and taxes are matters of government regulation. Moreover, in a wages policy of this kind the trade unions would have a positive rôle to play.

Whether a wages policy is pursued or not it is obviously desirable that average output per head should rise as rapidly as possible. While measures aimed at raising output per head appertain primarily to the sphere of management and so cannot be con-

³⁴For a somewhat similar proposal see the *Statist* of 20 September 1963. See also, Scott, "A Tax on Price Increases", *Economic Journal*, June 1961.

sidered here it may perhaps be remarked that if business firms were to supplement their ordinary commercial accounts with a simple set of accounts developed in a previous Economic Research Institute publication, they might go a long way towards securing the active co-operation of their employees in increasing productivity and at the same time create an atmosphere conducive to moderation in wage demands.³⁵ The essence of this system of accounting is that it measures changes in net output (or value added) in the individual firm both on a money and on a quantum basis. The approach involves the simultaneous consideration of all factors affecting the firm's prosperity, even insisting that confining attention to factors like productivity and wage levels may be misleading. It could, therefore, be used firstly, as a means whereby management and labour could appraise the performance of the firm with a view to pinpointing weaknesses and problems, and secondly, as a standard of reference during wage negotiations in order to show the extent (if any) of wage drift since the previous settlement, and the extent to which output would have to increase to meet current demands for higher wages (in the light of relevant aspects of economic policy) or the possibilities of reducing prices as a complete or partial alternative to wage increases.

An accounting system of this kind emphasizes that both capital and labour are in all essentials in the "same boat" in as much as they both contribute to production.³⁶ This coupled with the fact that they both share in the income arising from productive activity in fairly constant proportions emphasizes the futility of the wrangling over the way factorial incomes are shared out and justifies the belief that it is possible to devise a rational method of sharing productivity increases within the firm. It also calls the need for wage rounds into question and opens up the possibility that the labour market may ultimately be restored to its proper function of determining relative wages.

³⁵R. C. Geary, *The Irish Woollen and Worsted Industry: A Study in Statistical Method*, E.R.I., 1962.

³⁶*Ibid.*, p. 18.

³⁷It is hoped to develop these ideas in a later paper.

CONCLUSIONS

The main conclusions that emerge from our consideration of wages policies are:

- (1) Wages policies—as yet vague and ill-defined in content—have emerged in an attempt to combat “cost-push” inflation under conditions of full employment.
- (2) Satisfactory solutions have not yet been found to the problems which arise in their implementation.
- (3) Those countries which have pursued wages policies have not succeeded in eliminating inflation.
- (4) Nevertheless, even though they have not completely achieved their objectives, wages policies may have lessened inflationary pressures to some extent.
- (5) In the future their main value may be an educational one in the sense that they may help employers, employees and the public generally to realise that, (a) the pattern of relative wages and salaries is not sacrosanct, (b) the order of magnitude of feasible changes in wages and salaries must in *some* way be related to changes in national product if economic stability is to be attained, (c) changes in earnings, hours of work and fringe benefits must be taken into account in assessing feasible changes in negotiated wages and salaries.
- (6) As far as Ireland is concerned the free entry to the British labour market enjoyed by Irish people creates special problems of its own in regard to the basis and implementation of a wages policy. While we may claim to have established that a wages policy is desirable we cannot in the present state of our knowledge say whether one is feasible or not.³⁸

³⁸It is submitted, however, that the suggestions made above regarding the use of trade liberalisation, profits taxes and trade union pressure to keep prices from rising are worthy of consideration on their own merits irrespective of whether a wages policy is pursued or not.

Studies which are at present being undertaken at The Economic Research Institute in the fields of wage and price formation and demography promise to make good the lack of information evident in this paper in these important areas and so may enable more definite conclusions to be reached as to the most appropriate form a wages policy could take in the circumstances of this country.

Of necessity this study has dealt with the situation which obtained in Ireland since the end of the war. During the greater part of that period the economy was either completely stagnant or growing very slowly compared with the rapid rate of expansion achieved during the past four or five years. Sufficient evidence has not yet emerged to enable us to judge what the effects of the new economic climate on the traditional relationships between the Irish and British labour markets are likely to be. Hence it remains to be seen whether or not the more independent and optimistic attitudes to economic affairs which are observable nowadays will facilitate (and perhaps necessitate) an approach to wages policy more in accordance with what is being tried in other countries than with what was envisaged above.

One thing we can, nevertheless, be reasonably sure about is that we shall become more rather than less dependent on foreign trade in the future as economic expansion continues. Accordingly it is almost inevitable that the more slowly labour costs rise in this country in relation to labour costs in other countries the more rapidly will employment increase. The present paper will have achieved its purpose if it succeeds in focusing attention on the fact that in an economy such as ours the only way by which we can hope to achieve a sustained expansion in employment and thereby in population is by keeping labour costs low enough to counter-balance the economic disadvantages inherent in being small, remote and sparsely endowed with natural resources.

APPENDIX I

WEEKLY WAGE RATES OF ADULT MALES IN IRELAND AND BRITAIN
(LATE 1961 AND EARLY 1962. FIGURES IN BRACKETS REFER TO LATE 1962)

Industry	Britain /-	Type of Worker	Ireland /-	Type of Worker
Baking	183/1	First Hands — London	236/3	Table Hands — Dublin and Cork
	181/2	do. — A areas	205/-	do. — Limerick, Waterford and Sligo.
	177/4	do. — B areas		
	163/-	Other Workers (lowest rated) — London	140/-—222/3	do. — Other towns
	161/- 157/2	do. — A areas do. — B areas	251/3 243/9	Ovensmen—Dublin and Cork do. — Limerick, Waterford and Sligo. do. — Other towns.
			178/-—240/6	
Flour Milling	274/-	First Rollermen on shift work— Highest paid areas.	203/-—221/9	Rollermen—City mills.
	194/-	General labourers on day work— Highest paid areas.	173/9—184/3 193/- 165/-—171/6	do. —Country mills. Labourers—City mills. do. —Country mills.
Biscuit Manufacture ..	194/- (206/-)	Highest rated workers do.	Same as Baking	Table Hands Ovensmen
	174/- (181/-)	Ungraded workers (lowest rates)	193/6	Biscuit workers.
Cocoa, Chocolate and Sugar Confectionery	175/- (182/6) (minimum)	Minimum rate of J.I.C. do.	165/-	Minimum rate
Food Manufacturing ..	177/3 (185/-)	London } Minimum do. } rates Elsewhere } of do. } J.I.C.	175/-—200/-	Skilled Workers —Bacon
	173/3 (181/-)		168/-—185/- 156/-—180/-	Semi-skilled — do. Unskilled — do.
Brewing	210/6	Inside workers—London	196/1	Maltsters, Malthousemen, loft- men, firemen, yardmen.
	200/-	do. —Burton-on-Trent	to	
	192/10	do. —Scotland	243/6	
Tobacco	195/6	Minimum rate	208/9	
Chemical Manufacture ..	191/8	Day labourers —I.C.I. Ltd.	191/3	Labourers in Fertilizer Industry.
	188/2	J.I.C. Firms —London	to	
	(191/8)	do.	264/-	
	180/3 (183/9)	J.I.C. Firms —Other areas do.		
Paint	191/-	London } Minimum Other districts } rates	196/6	Semi-skilled paint workers.
	186/-			
Engineering	199/10	Fitters —London	190/-	Fitters Labourers
	(205/10)	do.	166/-	
	195/2 (201/2)	Fitters —National minimum do.		
Shipbuilding	197/4	Skilled classes	239/9	Skilled
	(203/4)	do.	to 246/2	
Vehicle-building ..	210/-	Craftsmen —London	214/6—254/10	Production Assembly Workers.
	(227/10)	do.		
	208/3	Craftsmen —Other areas	256/8—263/1	Craftsmen.
	(226/-)	do.		
	179/5	Labourers —London		
	(193/10)	do.		
177/8	Labourers —Other areas			
(192/-)	do.			

APPENDIX I—continued

Industry	Britain /-	Type of Worker	Ireland /-	Type of Worker
Railway-Workshops ..	214/- 208/- 179/6 173/6	Craft grades —London do. —Other areas Labourers —London do. —Other areas	311/-	Forgemen.
Hollow-ware Manufacture	151/5 (156/8)	Wages council rates do.	198/-	Hollow-ware workers.
Stamped or Pressed Metalwares	197/2	Polishers (grade <i>m</i>)	274/-	Polishers
Leather	198/11 191/9 186/4 179/2	Skilled Workers —London do. —Other areas Unskilled —London do. —Other areas	143/6 to 180/6	Fellmongery, etc.
Tailoring	182/11 (195/2) 175/11 (188/2)	Cutters —London do. Cutters —Other areas do.	163/7½	Tailoring, J.L.C. rate.
Cement	196/-	Labourers—Group 1 works, prior to January 1961.	194/4—267/8	Skilled and semi-skilled.
Sawmilling	231/- (238/-)	Woodcutting Machinists and sawyers—Highest paid areas do.	258/6	Woodcutting machinists.
Furniture	243/3 (246/9) 236/3 (239/9)	Journeymen—London do. Journeymen—Rest of G. Britain do.	235/6½	Cabinet Makers.
Paper	210/- 179/5	Highest rated Lowest rated	199/10—237/5	
Paper-box Making ..	196/6 (205/6) 165/6 (172/6)	Machine minders do. Other workers do.	157/6	J.L.C. rate.
Printing	266/- (271/-) 250/- (255/-) 247/6 (252/6)	Hand Compositors—London do. Hand Compositors—Grade 1 towns do. Hand Compositors—Grade 2 towns do.	250/10 245/6 253/-	Lithographers Compositors Linotype.
Rubber	193/-	Minimum	198/6	
Matches	194/3 186/5	London Other areas	204/1	
Building	239/9 (243/3) 234/6 (238/6)	Craftsmen—Inner London do. Craftsmen—Grade A districts do.	227/6½ to 233/9	Craftsmen—(excluding Dublin)
Constructional Engineering	227/6 (233/8) 224/- (230/2) 214/5 (219/8) (210/11) (216/2)	Erectors—London do. Erectors—Other areas do. Erectors' helpers—London do. do. —Other areas do.	235/4½ 197/9 to 203/-	Erectors. Erectors' helpers.
Electrical Contracting ..	274/9 (283/6) 259/- (267/9)	Journeymen—London do. Journeymen—other areas except Liverpool do.	243/2½	Electricians in Dublin, Cork, Limerick and Waterford.
Railways	274/- 268/-	Engine Drivers—London do. —Other areas	244/10	Engine Driver—3rd year.

APPENDIX I—continued

Industry	Britain /-	Type of Worker	Ireland /-	Type of Worker
Buses	203/6 (210/-) 198/3 (204/9)	Drivers (max.) —Municipal Undertakings outside London do. Conductors (max.)—Same Undertakings. do.	204/-—209/- 198/- to 203/-	Drivers of Double-deckers—Dublin and Cork. Conductors—of same.
Road-Haulage	183/3 179/3	Drivers (lowest rates)—Grade 1 areas do. —Grade 2 areas	162/6 to 215/6	Lorry Drivers.
Dock Labour	180/7 (189/-)	Minimum rates for dock labourers	41/9 49/6	Daily rate—Cross Channel. do. —Deep Sea.
Wholesale Grocery and Provision	207/6 196/6	Warehouse workers—London do. —Other areas	195/- 197/6	Cork. Dublin.
Retail Drapery	178/- 172/- 163/6	Shop Assistants—London do. —A areas do. —B areas	174/6—190/- 219/6	Provincial Areas. Senior Assistants—Dublin and Cork.
General Waste Materials Reclamation	162/11	Wages Council rates	150/-	J.L.C. rate.
Licensed Trade	169/6 166/6	First Hands—London do. —Other areas	245/- 152/9—213/-	Dublin. Cork.
Laundering	147/10 153/2	Wages Council rate do.	193/ to 205/6	Dublin.
Garages	203/- (213/6) 199/6 (210/-)	Skilled —London do. Skilled —Other areas do.	238/4 to 183/4	
Shoe Repairs	165/6 (176/-)	Wage Council Rates do.	163/-—171/-	J.L.C. rates.
County Council Road-workers.	199/7 (206/7) 188/7 (195/7) 185/7 (192/7)	London area do. Zone A authorities do. Zone B authorities do.	135/- to 142/- 159/6	Provinces. County Dublin.

Sources : Ministry of Labour, *Statistics on Incomes, Prices, Employment and Production*, (H.M.S.O.) December 1962, Table B7, for data relating to Britain. C.S.O., *Irish Trade Journal and Statistical Bulletin*, June 1961, December 1961, March 1962, September 1962, December 1962, for data relating to Ireland.

APPENDIX II

Notes to Charts.

- CHART I: Employee Income—*National Income and Expenditure* 1962, Tables A1 and B1; *Economic Statistics* 1964, Table 9. Imports, Exports, Balance—*National Income and Expenditure* 1962, Table A3; *Economic Statistics* 1964, Table 11a. (*Irish Trade Journal and Statistical Bulletin* for data prior to 1953).
- CHART II: Exports—comprise *Other Raw Materials and Manufactured Goods* only. Index computed from *Statistical Abstract* 1962, Table 134, and previous issues. (Data for 1962 and 1963 obtained from C.S.O., *A Review of External Trade in 1963*). Labour cost per unit—as in Table 13 in text.
- CHART III: Wage changes—derived from *Irish Trade Journal and Statistical Bulletin*. Rounds—timed as in Table 14. The number of changes shown for the third, fourth and fifth rounds is greater than the number shown for the subsequent rounds because what had previously been regarded as a number of separate changes are now regarded as one change. The small number of wage changes shown in the seventh round is believed to be due to certain difficulties experienced at that period in regard to the collection of the relevant data. The data relating to the eighth and ninth rounds are incomplete.
- CHART IV: Rounds and Active Period dated as in Table 14. Average Earnings derived from C.S.O., *Statistical Abstract of Ireland* 1963, Table 125 and previous issues, and from *The Quarterly Industrial Inquiry*.



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