

Ireland's National Wage Agreements and Macroeconomic Performance: 1988–2008

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Abstract: This paper is a historical analysis of the role played by the seven National Wage Agreement's (NWAs) in Ireland's economic performance from their inception in 1988 to the Great Recession in 2008. The severity of the recession brought the partnership process, in this first phase, to an end. The pay awards were used to construct new, monthly nominal and real wage indexes for both the public and private sectors. The nominal indexes turn out to be significantly below the earnings data published by the CSO. The CSO earnings data contains "signal" plus "noise". The "noise" element should be low but this is not the case. The assertion is that the derived pay award indexes give a more accurate measure of wage developments as the "noise" element is eliminated. A major difficulty with the NWA's is that the partners are negotiating for nominal and not real (inflation adjusted wages), for a period of approximately three years into the future and cannot be revisited or be revised. The paper illustrates what unanticipated inflation did to the nominal wage awards. Between 1988 and the end of the Celtic Tiger period in mid-2000, the nominal wage awards increased by 50% but only by 5% after adjusting for inflation. Over the entire period 1988 to 2008, the nominal awards increased by 150% and by 30% in real terms. Wages share of the national economy fell significantly after 1988. The paper examines the implications of this for macroeconomic stabilization. The trade unions did engage in catch-up after 2000 but by then the factors underlying economic growth switched from exports to a credit fuelled bubble in building and construction and the demand for non-traded services. The explosion in pay awards, after 2000, was a destabilizing factor as they increased the vulnerability of the economy to an economic downturn and undermined the government's response to the economic crisis in 2007. This paper suggests a framework that could be used as a basis for future "conversations" on how to conduct wage negotiations. The main proposal is to put inflation, productivity and "other factors" centre stage in new, transparent, negotiations. With regard inflation, the proposal is for the partners to agree real, not nominal, pay awards. This would entail *ex post* pay adjustments depending on the extent of the unanticipated inflation. The current situation is that there is no additional change to nominal earnings and the effect of unanticipated inflation falls entirely on the trade unions and their members. A compromise situation would be 50/50 split of the inflation burden being shared between the trade unions and the government. The downside to this is that the government no longer has certainty with regard to public sector pay. The end-year payment to the unions is unknown and this could have serious implications in forming the annual fiscal budget. A positive side-effect is that the government would, most likely, adopt an inflation target to minimize the inflation-compensation payments. Currently, there are no specific anti-inflationary policy objectives in place. The paper, however, goes beyond the inflation issue and suggests that productivity and "other factors" become center stage in wage negotiations and are not an add-on as in the case of the nurses dispute in 2019. Overall, the paper concludes that there is much to be learned from the experience of pay awards between 1988 and 2008 and this should be used to design more effective pay award agreements in the future.

Keywords: national wage agreements, Central Statistics Office earnings data, nominal and real earnings, unanticipated inflation, public sector productivity, macroeconomic stabilization

JELs: J30, E24, J40, J01

1. INTRODUCTION

This paper is a historical analysis of the role played by National Wage Agreement's (NWA's) in the evolution of

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the Irish macroeconomy over the period 1988 to 2008. NWA's are agreements between the social partners: government, trade unions and employer representatives. They were re-introduced in Ireland in January 1988 and ended in September 2008 with the onset of the economic crash.² In all, there were seven successive agreements spanning a twenty-one year period. A new wage agreement *Public Sector Stability Agreement, 2018 – 2020* was introduced in January 2018. While this agreement applies only to the Public Sector, the format has not changed in any meaningful way from the earlier agreements. This paper suggests how future wage agreements could be made more effective by introducing incentives to improve Public Sector labour productivity.

The paper is structured as follows. Section 2 contains some general background notes. In Section 3, the seven public and private sector awards are used to construct a new monthly nominal “pay award index”, for both sectors. These indexes show how a worker would have fared if his or her salary was wholly determined by the pay awards over the period.

In Section 4, the two pay award indexes are compared to earnings data published by the Central Statistics Office (CSO). It transpires that the calculated Public Sector NWA index is significantly lower than the official earnings data published by the CSO. It is argued that the pay award index contains less “noise” and gives an alternative insight into the role of earnings in the macroeconomy.

In Section 5, the derived pay award indexes are adjusted for inflation and “real wage indexes” are derived. This section highlights the extent to which inflation eroded the nominal pay awards.

Sections 6 and 7 relate the pay awards to macroeconomic performance. While relatively low pay awards were undoubtedly a key factor underlying the economic boom of the 1990s, the upsurge in pay awards after September 2000 came at a time when economic growth was under-pinned by a boom in building and construction.

Section 8 relates the individual pay agreements to developments in the macroeconomy. Finally, Sections 9 and 10 outlines a proposal to make future Public Sector wage agreements more effective by suggesting monetary incentives to achieve quantifiable improvements in Public Sector labour productivity.

2. GENERAL BACKGROUND NOTES

Negotiations of the wage agreement process are conducted behind closed doors by a very small number of government, trade union and employer representatives who are not elected by a wide franchise. The main “players” in the Partnership talks include the Director General of the Employers group IBEC, the President and General Secretary of the Irish Congress of Trade Unions (ICTU), President of SIPTU, the Construction Federation and the Secretary General to the Department of the Taoiseach. In the early Partnership agreements, the leaders of the main unions affiliated to the ICTU negotiated and then decided whether to enter into a particular agreement. In subsequent agreements, the main trade unions balloted members at branch and national level before deciding whether to enter into Partnership.

It should be noted that the NWA's are not just concerned with issue of pay. The agreements also took into account a whole range of issues including legislation underlying employment standards, modernisation, industrial and workplace relations, minimum wages and migrant workers. The agreements did not, however, take into account changes in labour productivity nor did they take account of the value of non-contributory pensions in the public sector or annual bonuses and other benefits in the private sector.³

The NWA's have been credited with curtailing the variability and uncertainty of labour costs (particularly in the public sector), improving industrial relations and reducing days lost to strikes. On the cost side, due to differences in labour productivity from sector to sector, “one wage does not fit all” and this could result in an inefficient allocation of labour resources.

A question arises as to the extent the pay awards influenced pay developments in both the public and private sectors. Trade union membership of all employees in Ireland had fallen to 32% by June 2008.⁴ A survey conducted in 2009 found that membership in the public sector was 68.7% and 24.9% in the private sector.⁵ This would suggest that the wage agreements had only a marginal influence on earnings in the private sector. However, advocates of the agreement process have argued that their influence is much more significant as the awards have been used as a benchmark for many non-unionised industries and employments.

² For a survey of the earlier agreements, 1946 – late 1970's, see O'Brien (1981).

³ Also, between January 1994 and March 1997, the construction industry received a different set of pay awards.

⁴ <http://www.cso.ie/en/qnhs/releasesandpublications/qnhs-specialmodules/qnhs-unionmembershipq22005-q22017/>

⁵ The National Workplace Surveys 2009, Volume 2, The Changing Workplace: A Survey of Employees' Views and Experiences by Philip J. O'Connell, Helen Russell, Dorothy Watson and Delma Byrne, National Centre for Partnership and Performance, 2010.

3. PUBLIC AND PRIVATE WAGE AWARDS

Table 1 A and B summarizes the agreements for the public and private sectors respectively. For each of the seven agreements, the table shows how the “total award” was determined. It comprises the wage award, local bargaining and early settler provisions, inflation compensation and, most important, Benchmarking. (See footnote to Table 1 A for a brief description of these terms.) There are some definitional issues associated with these tables. First, the *Report of the Benchmarking Body*, published in June 2002, was not part of any National Wage Agreement.⁶ It was an additional agreement introduced to reduce the perceived wage gap between public sector organisations and their private sector counterparts. However, the average wage increase of 8.9% does represent a significant increase in Public Sector earnings and cannot be omitted or ignored. To simplify Table 1 A, the Benchmarking awards are shown under the Programme for Prosperity and Fairness (PPF) and Sustaining Progress (SP) as the dates of the Benchmarking awards coincide with these programmes.

A second issue relates to the “Local Bargaining” increments in January 1992 and July 1998 and the “Early Settler” increment in October 2000. Information on which areas of the public sector received these increments is not available and applying the increments to the entire Public Sector may not be entirely accurate. However, the analysis in this paper identifies September 2000 as a critical turning point in the awards process. As the “Local Bargaining” was pre-2000 and the “Earlier Settler” post-2000, the two awards tend to offset one another and do not affect the analysis in any meaningful way.⁷

From the “total” award it is possible to calculate the cumulative pay award over the entire period.⁸ This is given in Table 1 A as the “Cumulative Award Nominal Per Prog.’. For example, starting at 100 in the base period, a pay award of 2.5% in 1988 would move the index to 102.5. A further award of 2.5% in the next year would move the index to 105.06 and so on for all other pay awards to September 2008. It can be seen that between January 1988 and September 2008, the cumulative index rose by 149 per cent for the public sector and 117 per cent for the private sector; a gap of 31 percentage points.⁹ The private sector was ahead of the public sector up until September 2000 but due primarily to the Benchmarking award, the public sector moved ahead after this date. This illustrates the difference between the rate of wage increase in the Public Sector pre- and post-September 2000.

4. WAGE AGREEMENTS AND THE CSO PUBLISHED DATA

It is informative to compare the public pay award indexes to the *actual* earnings data published by the Central Statistics Office (CSO). Table 2 compares earnings in Building and Construction, Financial Institutions, Public Sector (excluding health), and All Industries to the derived public and private pay award indexes over the period 1988 Q1 to 2007 Q2.¹⁰

By far the biggest increase was in Building and Construction (240%, row 1) but this sector started in 1988 at a much lower base. The private sector pay award index (112%, row 5) is below the CSO series and, in particular, Financial Institutions (136%, row 2). However, the stand-out feature of the table is the extent to which the Public Sector pay award index (137%, row 6) is below the official CSO’s Public Sector earnings data (177%, row 3). Even allowing for the twenty year time frame, a 40% point gap seems to be a high degree of slippage between the Public Sector pay awards and actual earnings.

It could be argued that the “pay award indexes” give a “purer” measure of wage developments. The derived wage indexes give an indication of how a person’s wages would have evolved if they were in continuous employment from 1988 to 2008 and they received no additional wage increases due to, for example, promotion or service related increments.

The CSO published series, on the other hand, is likely to be influenced by factors such as increments, promotions and/or people being hired into the public sector at higher or lower career grades. Also, there could be a compositional shift if workers moved out of low pay, low productivity sectors to more technologically advanced sectors. Whatever the precise reasons, the CSO data could be interpreted as a combination of “signal” plus “noise”. The noise to signal ratio should be low but the data here, particularly in the Public Sector, indicates that it is quite high. It is also noticeable that the noise element is in an upward direction only.

The contention here is that by using the derived NWA indexes, the “noise” is greatly eliminated and it is possible to obtain a better insight on the role of earnings in the evolution or performance of the Irish macroeconomy.

⁶ <http://benchmarking.gov.ie/Documents/Benchmarking%2002.pdf>

⁷ The pre-September 2000 “Local Bargaining” award is greater (5%) than the post-2000 “Early Settler” award (3%).

⁸ These indexes were first derived in Leddin (2010). This paper used the indexes to estimate both the New Keynesian Phillips curve and the Triangle Phillips curve (see Gordon, 2008).

⁹ This difference is explained by the annual awards, the various additional provisions (highlighted in the tables) and three pay freezes in the public sector in 1994, 2003 and 2006.

¹⁰ The CSO discontinued the All Industries series in 2007 Q2 and this determined the end date in Table 2.

5. THE PAY AWARDS AND REAL EARNINGS

While the main partners (government, trade unions and employers) negotiate for nominal wages, a number of other factors have a bearing on the negotiations. These include expected inflation, productivity, promised changes in the income tax code, labour market conditions (as indicated by the unemployment rate) and perhaps the tax wedge. This section focuses on expected inflation.

A fundamental difficulty and a potential source of macroeconomic instability is that the partners are negotiating for *nominal* and not *real* (inflation adjusted wages), for a period of approximately three years into the future. Given the general performance of the economy, workers would (at the very least) hope for an improvement in real earnings over the wage agreement. However, accurately forecasting inflation over a three year period (or longer) is a very tenuous exercise and, as such, the real wage outcome is highly uncertain. Real wage uncertainty would seem to be an inevitable part of the process.

There was only one instance of an “inflation compensation” clause which was for a 2% increase for both the private and public sector in 2002. Other than that, there was no recourse to any form of compensation to account for unanticipated inflation.

It must be acknowledged that negotiating for real, instead of nominal, earnings is not a straight-forward alternative option. It is one thing to compensate for higher inflation but what if inflation turned out to be lower than expected? It is highly likely that workers would resist a cut in nominal earnings to compensate.¹¹ Furthermore, negotiations for real earnings could also entail a shorter time frame (one year as opposed to three) which would erode the “stability” of the system and would entail more resources being devoted to the process.

To get some indication of unanticipated inflation, it is necessary to obtain the inflation forecasts of the social partners. Unfortunately, these forecasts are not available. An alternative approach is to assume that the social partners forecasts are not very different from those published by the Central Bank of Ireland. (Indeed, the Central Bank could be said to have greater expertise in this area.) Table 3 shows the Central Bank of Ireland’s forecast, as given in the Quarterly Bulletin, Number 1 (start of each year) and actual inflation between 1988 and 2008. The published Central Bank forecasts are available for two years into the future and are subject to revision in later Bulletins as more information becomes available.¹² The Bank provides forecasts for both the Harmonized Index of Consumer Prices (HICP) and the Consumer Price Index (CPI).

The forecast errors are given in Column 3, Table 3: a negative sign indicates an under-estimate and a positive sign an over-estimate of inflation. The average forecast error over the entire period is -0.2 percent which does not seem particularly large. However, between 1998 and 2002 and again 2006 – 08 the Central Bank under-estimated inflation. The largest under-estimate was 2.9 percentage points in 2000. Importantly, this was at a time of relative stability when Ireland had achieved an inflation target of less than 2.7 percent in order to enter European Monetary Union (EMU). In general, the data in Table 3 illustrates the difficult task of accurately forecasting inflation for a small, open economy over a one year period. A three year period simply compounds the problem.

Table 4 shows the nominal and real wage index for both the public and private sectors at the end of each wage agreement. (Note that the end date differs between the public and private wage agreements.) This is the nominal wage data in Tables 1 A and B deflated by the consumer price index (CPI). For example, in the Public Sector, by the end of Partnership 2000 in September 2000, a cumulative nominal pay award of 49.7% was reduced by inflation to a real increase of 5.2%. By the end of the agreements in September 2008, a 149% increase in the pay awards was reduced by inflation to a real increase of 30%.

The relationship between inflation and the pay awards is discussed further in Section 8 in the context of each individual agreement. It is apparent, however, from Table 4 that, despite the fact that Ireland had qualified for EMU and was now part of a monetary union, inflation eroded much of the pay awards over the period.

6. MACROECONOMIC INSTABILITY: THE PAY AWARDS AND THE BUSINESS CYCLE

Figure 1 shows the business cycle for the Irish economy over the period 1988 to 2008. Two phases of economic growth can be distinguished by the factors underlying the growth. The first growth phase is 1988 – 2000 when the average growth rate was 5.7%. This period contained the Celtic Tiger era and the growth was based, in part, on net exports. As Table 5, column 5, shows, between 1993 and 1998, the current account of the balance of

¹¹ Nominal wages were cut in 2008 but this was in the context of a national emergency.

¹² For example, the 2018 *Quarterly Bulletin* Q1, provides a forecast for inflation for 2018 and 2019. <https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2018/quarterly-bulletin---q1-2018.pdf?sfvrsn=5>

payments was an average surplus of 2% of GNP.¹³ This was despite the surge in imports associated with the unprecedented growth at this time.¹⁴

The Celtic Tiger era came to an abrupt end after 2000 as the Irish economy was hit by several adverse shocks. These included a downturn in the US and European economies; a fall in world equity markets; the foot and mouth crisis; the September 11th terrorist attack; the bursting of the dot.com bubble; higher oil and commodity prices. The real growth rate fell from 9.4% in 2000 to 2.4 per cent in 2001 and 2.9% in 2002 (Table 5). However, while the rate of growth of employment slowed significantly, unemployment remained below 5%.

The second growth phase identified is the period 2001 to 2007 when an average growth rate of 4.7% was recorded. (The years 2001/2 are included despite the downturn.) The nature of the growth in this period was fundamentally different from what had preceded as it was driven by investment in building and construction and the demand for non-traded services.¹⁵

“Whereas previously the growth had been led by exports, it became increasingly concentrated in non-traded service and especially in construction. The ECB cut its interest rate from 4.75 per cent in May 2001 to 3.25 per cent in November 2001 to 2 per cent in June 2003. The rate stayed at this level until it was raised to 2.25 per cent in December 2005. Aided by weak regulation and an unlimited supply of inter-bank credit, the result was negative real interest rates and a property and construction boom.

Between 2002 and 2007 the growth rate was increasingly driven by investment in building and construction and the demand for non-traded services. These offset the fall in net exports.”¹⁶

Table 6 highlights the difference between the annual percentage change in nominal and real wages for both the public and private sectors over the two growth phases (December 1987 – September 2000 and October 2000 – September 2008). Public Sector nominal wages were over three times higher (12.4% relative to 3.9%) and private wages nearly double (7.9% relative to 4.2%) in the second economic growth phase.

The problem from a macroeconomic perspective is that the upsurge in pay awards occurs at a time when the economy had moved to a growth phase determined by a credit-fuelled boom in building and construction. The implications of this for the macroeconomy are discussed in the next section.

Table 6 also reveals the pent-up demand for higher wages after 2000. During the first growth phase, the trade unions managed an annual real wage increase of 0.4% in the public sector and 0.5% in the private sector (Table 6). However, by the year 2000 relative to 1988, (data is derived from Table 5):

- The Irish economy was producing 120% more goods and services per annum,
- 648 thousand net new jobs were created,
- 127 thousand people had been taken out of unemployment,
- Surplus on both the public finances and the balance of payments,
- National debt was less than 40% of GNP.

Public and private sector earnings, it would seem, were very moderate relative to the macroeconomic prosperity. Not surprisingly, wages share of the national economy fell from 67.3% in 1987 to 53% in 2000.¹⁷ It seemed

¹³ While the data in Table 5 is annual, the shading in the table attempts to reflect the various wage agreements.

¹⁴ Whereas there is little disagreement about the factors underlying the second growth phase, the factors underlying the Celtic Tiger phase is more problematic. Among the factors cited in the literature are an interaction of: Foreign direct investment (Industrial policy) encouraged by low corporation tax; External assistance; Investment in education; Centralised wage bargaining and taxation; Fiscal policy as in budget corrections in the 1980's; Upturn in World (US) economy; Achieving EMU entry criteria and the reduction in interest rates; Central Bank of Ireland's exchange rate policy; "Catch-up to more advanced economies; The decision to invest early in the "weightless" economy; that is, high-value, low-weight computers and pharmaceuticals. See for example, Honohan and Walsh (2002), Walsh (2000), Kelly (2010) and Lyons (2010).

¹⁵ The distinction between the two growth phases is not entirely clear cut. For example, residential house prices were rising in double digit figures in the late 1990's.

¹⁶ Leddin and Walsh (2013), pp. 432.

¹⁷Wages share, Total Economy, as a % of GDP at current factor cost. Source:

http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/statistical_annex_autumn_2014_en.pdf, page 72.

inevitable that the trade unions would become more aggressive entering into new wage agreements after 2000.

It must be emphasised that there was a significant fall in income tax rates which may have appeased the trade unions. It is beyond the scope of this paper to examine the change in income tax rates in any great detail. Suffice to say that income tax bands fell from 35%, 48% and 58% in 1988 to 24% and 46% in 2000 to 20% and 41% in 2007. A single earner on €40,000 in the mid-1990s had an effective tax rate of 40%. This fell to around 28% in 2001. Hence, real disposable income increased much faster than real earnings. This undoubtedly had a significant bearing on the strategy and the lobbying of trade unions at the negotiating table.

7. THEORETICAL INTERPRETATION

One possible explanation of the impact of the pay awards on the macroeconomy is illustrated in Figure 2. The real effective exchange rate (RE) is given along the vertical axis and real output (Y) along the horizontal axis.¹⁸ At all points on the purchasing power parity (PPP) line, domestic prices are equated to foreign prices adjusted for the nominal exchange rate. The line is downward sloping as a decrease in RE increases the current account (CA) balance whereas an increase in Y reduces the CA balance (via the propensity to import). The line is drawn so that these two opposing forces offset each other. Below the PPP line, there is a gain in price competitiveness and an increase in the CA balance. The opposite holds for points above the PPP line. Also shown in the diagram is the interaction of the short-run aggregate supply (SRAS) and the aggregate demand (AD) curves.¹⁹

Starting from the point A, the economy is on the PPP line and real output (Y) is equal to potential output (Y*). The relatively low real pay awards (1989 – 2000) would have the effect (via price expectations) of shifting the aggregate supply curve from AS₁ to AS₂ and the economy moves to the point B. The result is a depreciation of RE and an increase real output to Y₂.

In contrast, starting from the point A, the relatively high real pay awards after October 2000 would shift AS₁ to AS₃ and the economy moves to the point C. RE appreciates to RE₃ and real output falls to Y₃. Figure 3 shows the nominal and real effective exchange rates for CPI and Producer Prices between 1995 and 2008.²⁰ Using CPI data, RE depreciated by 15% between end 1996 and September 2000. In contrast, RE appreciated by 39% from October 2000 to April 2008. Consistent with the analysis in Figure 2, the current account of the balance of payments as a percentage of GNP moved from a surplus to a deficit of 7.7% in 2008 (Table 5).

The real effective exchange rate is a combination of relative prices and the nominal exchange rate. It has been observed that the nominal exchange rate is much more volatile than the relative price series and dominates the series.²¹ This can be seen from Figure 3 where the movement of the real exchange rate mirrors movement of the nominal exchange rate. As such, the externally driven nominal exchange rate can easily negate any movement of relative prices and the pay awards. However, this does not distract from the observation that the pay awards can have an important influence of the real exchange rate and price competitiveness.

Aside from the implications for price competitiveness, the other major impact is on the public finances. As the data in Table 5 (columns 6 and 7) show, the public finances looked to be in a very robust position. Between 1998 and 2007, the average surplus on the exchequer current account was 4.8% of GNP. By 2007, the national debt as a % of GNP had fallen to 22.2%; down from 116.3% in 1987.

“The economy looked healthy with a high growth rate, low unemployment and a balanced budget. However, when the property bubble finally burst in 2008 the economy was exceptionally vulnerable due to a loss of price competitiveness, the bloated construction sector, the seriously flawed banking system and the dependence of government on property-related tax revenues.”²²

¹⁸ The real exchange rate is made up of the domestic and foreign prices and the nominal exchange rate. If the foreign price and the exchange rate are assumed constant, the domestic price is given along the vertical axis and the model depicted in Figure 2 becomes a standard AS/AD macroeconomic model.

¹⁹ An increase in relative wage costs (2000-2007) will increase the price level. This results in an appreciation of the real exchange rate (RE) which, in turn, increases price expectations and shifts the short-run AS curve up to the left. A decrease in wages will have the opposite effect.

²⁰ Source: All nominal and real exchange rate data was obtained from <https://www.centralbank.ie/> The series commences in January 1995. Earlier data is available from other sources such as the IMF. However, to avoid incompatibility and consistency issues it was decided to remain with the Central Bank of Ireland data.

²¹ Leddin and Walsh, 2013, pp. 284.

²² Leddin and Walsh, 2013, pp. 432.

The relatively high pay awards after October 2000 inevitably reduced the budget surplus and made the government more vulnerable to the impact of a recession on the public finances. Lower pay awards could have facilitated the establishment of a “fiscal contingency fund” which could have been used to alleviate the financial implications of a downturn.²³ As it transpired, when the recession hit in 2007, the exchequer balance fell to minus 8% and the national debt rose to 53% of GNP respectively in 2009 (Table 5). The government was forced to implement a very severe deflationary pro-cyclical fiscal policy in an attempt to stem the rise in the budget deficit.

8. ANALYSIS OF INDIVIDUAL PAY AWARDS

This section provides a brief analysis of each of the seven NWA’s by linking the pay awards to inflation and developments in the national economy. To facilitate the analysis, Figure 4 presents a visual representation of the inter-action between the Public Sector pay awards and inflation. Whenever inflation is above the pay award, real earnings are decreased and vice versa. Note the lack of uniformity in the pay awards; the stop, start nature culminating in the pay explosion under PPF in 2000.

8.1 Programme for National Recovery (PNR), January 1988 – December 1990

Under the three years of PNR, inflation completely eroded the annual nominal pay award of 2.5% leading to a fall in real earnings for both the public and private sectors workers (Figure 4). By the end of the agreement in December 1990, the real pay award index for both the private and public sectors fell to 97.6 (Table 4). This decline in real earnings was against a backdrop of rapid real GNP growth, employment growth and a decline in unemployment. However, inflation was relatively high, both the balance of payments and the government’s current account were in deficit and the debt/GNP ratio was over 100% (see Table 5).

Aside from the difficulty in accurately forecasting inflation over a three year period, this decline in real earnings could be partly due to a willingness on behalf of the trade unions to accept low (or negative) real pay increases in return for the promise of tax cuts sometime in the future. Wage constraint would improve cost competitiveness and thereby promote growth and employment. In turn, an expanding economy would reduce the government’s budget deficit and facilitate cuts in the marginal rate of income tax. Income tax rates were significantly reduced over the 20-year period. In addition, although unemployment was falling, the level of unemployment was still very high. Thus, the ability of the trade unions to achieve a real increase in earnings was probably very limited in practice.

8.2 Programme for Economic and Social Progress (PESP), January 1991 – December 1993

If the real wage outcome is lower than anticipated at the end of a particular agreement, the trade unions could be expected to be more aggressive in the next round of negotiations (“real wage catch-up”). Figure 4 shows that the PESP pay award easily out-stripped inflation over the three years. The cumulative real pay award index rose to 103.8 by December 1993 (Table 4). Clearly, the PESP agreement was used to make up the ground lost during the PNR period. Oddly, this increase in real earnings was achieved against a background of slower economic growth and a rise in unemployment. However, importantly, the balance of payments moved into surplus in 1992 and, despite an exchequer budget deficit, the debt/GNP ratio fell below 100% in 1993 (Table 5).

8.3 Programme for Competitiveness and Work (PCW), January 1994 – June 1997

This programme is effectively a repeat of the PNR agreement. Figure 4 shows that inflation exceeded the pay award for much of the period. By June 1997, the cumulative real wage index stood at 104.2 and 106.8 for the public and private sectors respectively (Table 4). The gap between the two sectors is due to a pay freeze imposed on the public sector.

The performance of the macroeconomy during the period was generally exceptional: the average real growth rate was 7.3% and employment growth 4%. There was a surplus on both the current account of the balance of payments and the exchequer budget and the debt/GNP ratio fell to 73% (Table 5). However, despite this rate of expansion, unemployment remained high at 11.9% in 1996. So perhaps this wage agreement *does* concur with standard Phillips curve analysis in that the high unemployment undermines the ability of the trade unions to negotiate real wage increases.²⁴ There is a sense, however, that the public sector trade unions, in particular, appear to be insensitive to the erosive effect of inflation on the pay awards and the general economic performance of the macroeconomy.

8.4 Partnership 2000 (P2000), July 1997 – September 2000

Surprisingly, the PCW scenario is virtually repeated under the P 2000 despite the economy stepped up a further

²³ See, for example, P. Lane 2010.

²⁴ The original, non-linear equation fitted by Phillips (1958) related the rate of change of nominal wage rates to the unemployment rate.

gear; average real growth of 8.5% and employment growth of 7.3%. The current account of the balance of payments and the exchequer balance show large surpluses and the debt/GNP ratio fell to 39.2% in 2000 (Table 5). Most important, unemployment fell significantly to 4.9% in 2000.

Despite this exceptional economic performance, by September 2000, the real wage index increased marginally to 105.2 and 108.3 for the public and private sectors respectively (Table 4). Figure 4 provides an insight into developments during this agreement. Up to mid-1999, the pay award easily out-strips inflation. However, in the latter part of the agreement this gain in real earnings is reversed as inflation accelerates from 1.48% in October 1999 to 7.03% in November 2000. (This episode is highlighted in Figure 4 by a *.)²⁵

This acceleration in inflation seems to be the “last straw” as far as the trade unions were concerned. As can be seen from Figure 4, the pay flood-gates open after this date. Unfortunately, these pay awards erode price competitiveness at a time when economic growth was sustained by a boom in building and construction.

8.5 Programme for Prosperity and Fairness (PPF), October 2000 – June 2003

Under the new PPF agreement, an average annual pay award of 5.5% was augmented by “local bargaining”, “early settler”, “inflation compensation”, “once-off payment” and, most importantly, “Benchmarking” awards. (As noted in Section 2, the Benchmarking agreement is really separate to the national wage agreements but for simplicity the two awards are grouped together in this analysis.)

The cumulative increase in pay easily out-stripped inflation and, at the end of the agreement in June 2003, the real wage index had risen to 117 and 112 for the public and private sectors respectively (Figure 4 and Table 4).

The Celtic Tiger episode ended in 2000 as the economy slowed in 2001 and 2002. However, in 2003, the economy regained momentum driven on by the building and construction bubble. A simple examination of the main aggregates (excluding the balance of payments) misleadingly point to a robust economy. The real growth rate was 5.5%, employment grew at an annual average of 3.8% and net immigration reached unprecedented rates. The public finances were in good order with a budget surplus and the debt/GNP ratio fell to 22.2 per cent in 2007 (Table 5).

8.6 Sustaining Progress Part 1 (SP1, July 2003 – May 2005) and Sustaining Progress Part 2 (SP2, June 2005 – June 2006)

During the three-year period (July 2003 – June 2006) covered by Sustaining Progress Parts 1 and 2, the pay awards continued unabated despite the loss of competitiveness and fundamental shift in the factors underlying economic growth.²⁶ Figure 4 shows that the pay awards were well above inflation. By June 2006, the real wage index increased to 130.2 and 116.9 for the public and private sectors respectively (Table 4).

All the main aggregates, bar the balance of payments, appear to be very satisfactory. The only blight was the deficit of 4% on the current account of the balance of payments in 2006. But as the Ireland had adopted the euro currency, the exchange rate was exogenously determined, and the trade account was not considered of major importance.

8.7 Towards 2016 (July 2006 – September 2008)

This agreement covers a two-year period that encompasses the crash in mid-2007. Following a short pay freeze, the public sector received a pay award of 23.4 index points and the private sector 14.6 points (Table 4). This level of pay awards suggests that the negotiating partners had no inkling of the forthcoming crash. If the pay awards had been paid in full, the real wage index in September 2008 would have stood at 129.9 and 113.3 for the public and private sectors respectively (Table 4). Note that it was during the building and construction boom that the public sector unions improved their position relative to the private sector.²⁷

²⁵ As Table 3 shows, the Central Bank of Ireland’s inflation forecast for 2000 was 2.8% compared to an outcome of 5.6%; a significant under-estimate of 2.9 percentage points. The seemingly unexpected increase in inflation can largely be explained as a combination of demand-pull, cost-push inflation and external developments. Driven on by a succession of expansionary fiscal policies, six years of Celtic Tiger economic growth manifested itself in capacity constraints and demand-pull inflation possibly ensued. The euro exchange rate also declined on the foreign exchanges and this resulted in higher import prices. Against this, the ECB increased interest rates and this would have deflated the economy and lowered CPI inflation in the medium term.

²⁶ An Anti-inflation Group was established under Sustaining Progress to monitor unanticipated inflation. This group continued under “Towards 2016”.

²⁷ It is of interest to note that the public sector pay awards are consistent with the trend in the official data published by the CSO. Expenditure on wages, salaries and pensions in the Public Sector increased by 53% between 1995 and 2000 (this is the start date for the published CSO series). In contrast, the increase between 2000 and 2007 was 122.6%.

The economic crash had a devastating effect on the Irish economy as illustrated by the main macroeconomic indicators in 2009: the growth rate fell by 7.8%, employment fell 8.6%, unemployment rose to 12.9%, deflation was 4.5% and the deficit on the balance of payments moved to 7.3% of GNP (Table 5). A deficit of 8.1% was recorded on the Exchequer's current account and the debt/GNP ratio rose to 53.4%.

In September 2008 a new 21 month pay award was agreed but, following an eleven month pay freeze, the government rescinded on paying the first 3.5% pay instalment and this ended the partnership process.

9. A MODEST PROPOSAL FOR CONDUCTING WAGE NEGOTIATIONS

The latest reincarnation of a wage agreement, entitled *Public Sector Stability Agreement, 2018 – 2020*, has changed very little from the programme introduced in January 1988.²⁸ The agreed wage increase over the three-year period applies to the Public Sector only and is presented without any explanation, transparency or clarity. The word “inflation” does not appear in the document.²⁹

There is mention of Brexit and the uncertainty this poses for the Irish economy. However, there is no assessment of how Brexit might influence inflation, productivity or the economy in general. The wage increase applies to all public sector departments regardless of relative changes in productivity. The terms of the agreement cannot be revisited during its lifetime regardless of changes in economic circumstances. In short, the agreement has not evolved in any significant way from the previous agreements.

The following equation offers a suggestion as to how future wage agreements could be formulated:

$$W_t = \alpha_{t-1} + W_{t-1} + \theta_p (P^A_t - {}_tP^e_{t-1}) + \theta_{Prod} (Prod^A_t - {}_tProd^e_{t-1})_s + \theta_O (O^A_t - {}_tO^e_{t-1})_s \quad (1)$$

where

W_t = Nominal wage index in time t (end of the agreement).

α_{t-1} = The agreed increase in nominal wages at the start of the agreement (time t – 1).

α could be expected to be influenced by the general performance of the economy as indicated by the unemployment rate.

W_{t-1} = Nominal wage index at the start of the wage agreement (time t-1). P^A_t = Actual price index at the end of the wage agreement (time t).

${}_tP^e_{t-1}$ = Expected price index at the end of the wage agreement (time t) but formulated at the start of the agreement (time t-1).

$Prod^A_t$ = Actual productivity index at the end of the wage agreement (time t).

${}_tProd^e_{t-1}$ = Expected productivity index at the end of the wage agreement but formulated at the start of the agreement (time t-1).

${}_tO^e_{t-1}$ = Expected “Other Factors” index at the end of the wage agreement but formulated at the start of the agreement (time t-1). These “Other Factors” could include, for example, decentralization of public servants to promote rural development or public sector mobility. Also taxation can be easily built into the analysis under this variable. If, for example, the national economy and the public finances hit specific targets then income tax bands could be altered at budget time.

O^A_t = Actual “Other Factors” index at the end of the wage agreement (time t).

The subscript, s, indicates the particular public service sector (local government, health, justice, prisons, defence etc.). This means that pay increases may not be the same across the public sector.

θ_p = A coefficient showing how nominal wages are adjusted in time t for deviations of the actual price index from the expected price index.

²⁸http://www.workplacerelements.ie/en/news-media/Workplace_Relations_Notices/Public_Service_Stability_Agreement_2018-2020.html.

The agreement, in an effort to underpin the sustainability of public sector pensions, converts the existing Pension Related Deduction (introduced under the Financial Emergency Measures in the Public Interest Act of 2009) into a new Additional Superannuation Contribution (ASC).

²⁹ This is not to suggest that the negotiating partners are unaware of the trends in inflation and/or productivity. The problem is that the numbers do not appear to stack up. For example, the 2018 Agreement increased pay by 1% for the 10 month period January to October 2018. The Central Bank of Ireland is forecasting inflation of 0.8% over a slightly longer 12 month period. If anything this forecast is likely to prove to be an under-estimate as the Irish economy in 2018 is on the verge of over- heating. As such, there is likely to be little or no increase in real earnings. Furthermore, the agreement leaves little room to reward increases in productivity. (<https://centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb- archive/2018/quarterly-bulletin---qb2-2018.pdf#page=8>)

θ_{Prod} = A coefficient which shows how the nominal wage index is adjusted in time t for deviations of actual productivity from expected productivity.

θ_{O} = A coefficient which shows how the “Other Factors” index is adjusted in time t for deviations of actual from expected.

The α coefficient summarizes the “desired or agreed” increase in nominal earnings taking into account expected inflation (${}_tP^e_{t-1}$), expected sector productivity (${}_t\text{Prod}^e_{t-1}$)_s and expected sector “Other Factors” (${}_tO^e_{t-1}$)_s. Assume that the partners to the wage agreement negotiate a 1% increase in wages per annum over a three-year period. The 1% might encompass 0.5% for expected inflation, 0.25% for productivity and 0.25% for “Other Factors”. The α coefficient is set equal to 1. Assume, for simplicity, that expectations prove correct: ($P^A_t - {}_tP^e_{t-1}$), ($\text{Prod}^A_t - {}_t\text{Prod}^e_{t-1}$)_s and ($O^A_t - {}_tO^e_{t-1}$)_s = 0. Starting from $W_{t-1} = 100$, the wage index at end of the three years (W_t) will be approximately equal to 103.

If, however, ($P^A_t - {}_tP^e_{t-1}$), ($\text{Prod}^A_t - {}_t\text{Prod}^e_{t-1}$)_s and ($O^A_t - {}_tO^e_{t-1}$)_s $\neq 0$, then an adjustment will be made to W_t at the end of the wage agreement. How much of an adjustment depends on the three coefficients θ , θ_{Prod} and θ_{O} . These coefficients are decided by the negotiating partners at the start of the agreement. If, for example, $\theta_p = 0.75$, then only 75% of the unexpected increase in inflation is passed-on in higher nominal earnings. This might be considered desirable as it would introduce a deflationary impetus at a time of rising prices. Similarly, if θ_{Prod} and θ_{O} are both < 1 , then unanticipated changes in productivity and “other factors” are not fully passed-on in changes in the wage index.

A problem emerges, however, if actual inflation turns out to be less than expected. Assuming no offset from ($\text{Prod}^A_t - {}_t\text{Prod}^e_{t-1}$)_s and/or ($O^A_t - {}_tO^e_{t-1}$)_s, this would require a cut in nominal wages. While wage flexibility is desirable to ensure the efficient operation of markets, a cut in earnings is likely to be strenuously resisted by Public Sector trade unions.

In using equation 1, it is important that any pay concessions achieved under the proposed formula does not jeopardise Ireland’s commitment to adhering to the EU’s fiscal rules.³⁰ Furthermore, there is the issue of “time inconsistency”. That is, politicians may be (time) inconsistent in adhering to the pay agreement based on equation 1 and instead introduce additional pay awards to foster political support. A good example is the introduction of the Benchmarking award in 2002.³¹ Demands for additional pay awards outside the agreed framework should not be entertained.

There are advantages to using equation 1 as a basis for formulating public sector earnings. First, productivity and “Other Factors” become centre stage in wage negotiations and there is a monetary incentive for public sector workers to deliver agreed goals and outcomes. *Public Sector Stability Agreement, 2018 – 2020*, mentions equality and diversity, rostering, time and attendance, working hours and patterns but these measures are essentially aspirational. The subscript, s, in the equation indicates that workers in different public sector departments can negotiate and aspire to achieve specific targets in return for monetary awards. If one department or sector can improve productivity, there is no reason why that department should be constrained by other inefficient or less innovative departments.

Second, if the wage agreement is transparent and credible, the expected price index (in equation 1) may act as an anchor for inflation expectations and have a strong bearing on wage demands outside the public sector. Implicitly the government is adopting an inflation target however difficult this may be to attain given membership of a monetary union.

³⁰ The 1997 Stability and Growth Pact (SGP) sets limits for budget deficits and public debt of 3% and 60% of GDP, respectively. Successive reforms culminating in two further Regulations to strengthen euro area budgetary surveillance (‘Two-Pack’) on 30th May 2013 have sought to strengthen the rules- based system and achieve a better alignment of fiscal targets with debt objectives. It is clearly important that any pay concessions does not jeopardise Ireland’s commitment to adhering to the fiscal rules.

³¹ A recent editorial puts it bluntly as: “By the time the report (by Public Service Benchmarking Body) was published in 2002, recommending average pay increases of 8.9%, it had become embroiled in controversy. The entire venture was a political stroke engineered by the Taoiseach Bertie Ahern to secure the backing of the public sector for Fianna Fail. The deal institutionalised a carousel of pay increases that came to a halt only when the economy crashed into bankruptcy in 2010 ...” Editorial *The Sunday Times*, April 29, 2018.

10. LABOUR PRODUCTIVITY

The main difficulty with the previous proposal is that labour productivity in the public sector can be difficult to measure. In Ireland, as in other countries, there is no competitive market for a wide range of publicly provided services. As such, it is difficult to determine pricing and, therefore, an efficient allocation of resources. However, a recent report by the CSO provides information on labour productivity in Ireland between 2000 and 2016.³² Labour productivity is calculated as Gross Value Added (GVA) divided by hours worked.³³ Table 7 summarises the main trends for the overall economy and for the principal economic sectors.

The average annual percentage change in labour productivity was 4.5% for the overall economy. Disaggregating, the foreign sector grew 11% and the domestic sector 2.6%. An extreme year was 2015 when labour productivity in the foreign sector grew 78.9% due to multi-national companies relocating to Ireland.

With regard to the principle sectors, the growth rates are by no means uniform; ranging from a high of 10.3% in Industry to a low of -1.9% in Real Estate Activities. The average annual growth rate for Public Administration, Education and Health was 0.7%; well below the domestic average. The situation is, however, significantly worse because a growth rate of 13.8% in 2013 camouflages a decrease (or negative growth) in nine of the sixteen years (see Figure 5).³⁴ The increase in labour productivity in 2013 is essentially due to the measures contained in the *Financial Emergency Measures in the Public Interest Act of 2009*. If the year 2013 is omitted, the average annual growth rate was a minus 0.2. By any yardstick, labour productivity growth in the Public Sector seems to have been very poor since 2000 (data is not available prior to this date).

The CSO report indicates that the data required to introduce labour productivity targets in the Public Sector already exists. If data is available for Public Administration, Education and Health at an aggregate level, it must certainly be available at a disaggregate level. Furthermore, the stagnation of labour productivity in the Public Sector in recent years clearly warrants the introduction of productivity initiatives based on monetary incentives and quantifiable targets.

11. CONCLUSION

At first sight, wage agreements spanning a twenty-one year period seem like a sensible policy for curtailing wage demands, particularly in the public sector. At the very least, the agreements bring a level of certainty to the public finances in that the government knows, in advance, the implications for the successive fiscal budgets. This paper attempts to evaluate national wage agreements in the context of the export-led boom of the 1990's, the building and construction boom 2001-06 and the economic crash on 2007.

The analysis suggests that over the period 1988 to 2000, inflation eroded much of the nominal increase in earnings. By September 2000, the annual, average, increase in real earnings (nominal wages adjusted for inflation) was 0.4% and 0.5% in the public and private sectors respectively. Hence, while workers in both sectors did benefit, in real terms, the gains were relatively small.

The term "relatively small" is used in the context of the general macroeconomic performance (as indicated by unprecedented economic growth, employment, unemployment and the public finances). Also, wages share of the national economy fell very significantly. The positive is that the wage agreements delivered what they were supposed to do: there were an undoubted major contributing factor to the Celtic Tiger boom of the 1990s.

An important consideration is that the cuts in income tax rates over the period may have appeased the trade unions and mitigated excess pay demands. However, the analysis in this paper does suggest that the trade unions were very slow to realize the impact of inflation on the nominal pay awards.

October 1999 appears to be a seminal point in wage/inflation process. The upsurge in inflation (due to demand-pull and external developments) at this date combined with the continuing fall in unemployment seems to have been the catalyst that ignited much more aggressive wage demands. Given the surplus in the public finances, the trade unions were pushing on an open door. The annual average nominal pay award in the Public Sector was 3.9% prior to September 2000 and 12.4% thereafter up to the crash in September 2008.

The problem, however, was that the factors underlying economic growth had fundamentally changed after the slowdown in 2001/02. Fuelled by low interest rates and unlimited supply of credit, a bubble in building and construction ensured a return to rapid economic growth.

³² Michael Connolly, Flaherty Eoin and Hayden Yvonne (2018).

³³ GVA is similar to Gross Domestic Product (GDP) except that taxes and subsidies on products and production are excluded.

³⁴ <http://www.irishstatutebook.ie/eli/2009/act/5/enacted/en/html>

The pay awards reduced the budget surplus (relative to a more constrained approach) putting the finances in a very vulnerable position when the crash came in 2007/08. The establishment of a “fiscal contingency fund” or an enhanced pension reserve fund would have enabled the government to better withstand the effects of the crash.

When the crash did happen in 2007, the government was forced to introduce the *Financial Emergency Measures in the Public Interest* acts 2009 – 2013. Although the government had little choice in the matter, this represents a pro-cyclical deflationary fiscal policy which undoubtedly contributed to the seven-year recession that followed.

Finally, the analysis notes that the new wage agreement, *Public Sector Stability Agreement, 2018 – 2020*, has changed very little from its predecessors. That is, the wage agreement simply presents wage increases over three years without clarity or explanation. This paper contains a proposal that could be used as a basis for wage negotiations in the future. The main advantage of the proposal is that labour productivity and “other factors” become centre stage in negotiations. This creates explicit, monetary incentives for workers to achieve productivity and efficiency targets in the public sector.

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Table 1A

Public Sector		Nominal wage award	Local Bargaining	Early Settler provision ³⁵	Inflation Comp.	Once-off Payment	Bench-marking ³⁶	Total Award	Cum. Award Nomin Per Prc
		%	%	%	%	%	%	%	100.0
<i>Programme for National Recovery (PNR)</i>	Jan. 1988 - Dec.1988	2.5						2.5	102.5
	Jan. 1989 - Dec.1989	2.5						2.5	105.1
	Jan. 1990 - Dec.1990	2.5						2.5	107.7
<i>Programme for Economic and Social Progress (PESP)</i>	Jan.1991 - Dec.1991	4						4	112.0
	Jan.1992 - Dec.1992	3	3					6	118.7
	Jan.1993 - Dec.1993	3.75						3.75	123.2
<i>Programme for Competitiveness and Work (PCW)</i>	Jan. 1994 - May 1994	Pay freeze						0	123.2
	June 1994 - May 1995	2						2	125.6
	June 1995 - May 1996	2						2	128.1
	June 1996 - Sept. 1996	1.5						1.5	130.1
	Oct. 1996 - Dec. 1996	1.5						1.5	132.0
	Jan. 1997 - June 1997	1						1	133.3
<i>Partnership 2000 (P 2000)</i>	1997 July - 1998 March	2.5						2.5	136.7
	April 1998 - June 1998	2.5						2.5	140.1
	July 1998 - June 1999	2.25	2					4.25	146.0
	July 1999 - March 2000	1.5						1.5	148.2
	April 2000 - Sept. 2000	1						1	149.7
<i>Programme for Prosperity and Fairness (PPF)</i>	Oct. 2000 - Sept. 2001	5.5		3				8.5	162.4
	Oct. 2001 - Sept. 2002 ³⁷	5.5			2	1	2.225	10.725	179.9
	Oct. 2002 - June 2003	4						4	187.1
<i>Sustaining Progress Part 1 (SP 1)</i>	July 2003 - Dec. 2003	Pay freeze						0	187.1
	Jan. 2004 - June 2004	3					4.45	7.45	201.0
	July 2004 - Nov. 2004	2						2	205.0
	Dec. 2004 - May 2005	2						2	209.1
<i>Sustaining Progress Part 2 (SP 1)</i>	June 2005 - Nov. 2005	1.5					2.225	3.73	216.9
	Dec. 2005 - May 2006	1.5						1.50	220.2
	June 2006 - June 2006	2.5						2.50	225.7
<i>Towards 2016</i>	July 2006 - November 2006	Pay freeze						0	225.7
	01-Dec-06	3						3	232.5
	01-Jun-07	2						2	237.1
	01-Mar-08	2.5						2.5	243.0
	01-Sep-08 ³⁸	2.5						2.5	249.1

³⁵ This is a “catch-up” pay award to civil servants and teachers. Because these workers “settled early” under the previous agreement, their earnings fell behind other public sector workers who settled later.

³⁶ Average payment under benchmarking was 8.9%. Dec 1, 2001: 25% of the recommended increase. Jan 1, 2004: 50% of the recommended increase. June 1, 2005: 25% of the recommended increase.

³⁷ The lump-sum is a permanent increase in salary and not a “once-off” payment.

³⁸ Source: Tables 1 A and B were compiled by the authors using data obtained from the seven wage agreement documents. Every effort was made to achieve accuracy. The author’s welcome any corrections or suggestions.

Table 1B

		Column							
		1	2	3	4	5	6	7	
Private Sector		Nominal wage award	Local Bargaining	Earlier Settler Provision	Inflation Compensation	Once-off Payment	Total Award	Cumulative Nominal Award	
		%	%	%	%	%	%	100.00	
	<i>Programme for National Recovery</i>	Jan. 1988 - Dec.1988	2.5					2.5	102.50
		Jan. 1989 - Dec.1989	2.5					2.5	105.06
	Jan. 1990 - Dec.1990	2.5					2.5	107.69	
<i>Programme for Economic and Social Progress</i>	Jan.1991 - Dec.1991	4					4	112.00	
	Jan.1992 - Dec.1992	3	3				6	118.72	
	Jan.1993 - Dec.1993	3.75					3.75	123.17	
<i>Programme for Competitiveness and Work</i>	Jan.1994 - Dec. 1994	2					2	125.63	
	Jan.1995 - Dec. 1995	2.5					2.5	128.77	
	Jan.1996 - June 1996	2.5					2.5	131.99	
	July1996 - Dec. 1996	1					1	133.31	
<i>Partnership 2000</i>	Jan. 1997 - Dec. 1997	2.5					2.5	136.64	
	Jan. 1998 - Dec. 1998	2.25	2				4.25	142.45	
	Jan. 1999 - Sept. 1999	1.5					1.5	144.59	
	Oct. 1999 - Mar. 2000	1					1	146.03	
<i>Programme for Prosperity and Fairness</i>	April 2000 - March 2001	5.5					5.5	154.07	
	April 2001 - April 2002	5.5			2	1	8.5	167.16	
	May 2002 - Dec. 2002	4					4	173.85	
<i>Sustaining Progress Part 1</i>	Jan. 2003 - Sept. 2003	3					3	179.06	
	Oct. 2003 - March 2004	2					2	182.65	
	April 2004 - June 2004	2					2	186.30	
<i>Sustaining Progress Part 2</i>	July 2004 - Dec. 2004*	1.5					1.5	189.09	
	Jan. 2005 - June 2005	1.5					1.5	191.93	
	July 2005 - Dec. 2005	2.5					2.5	196.73	
<i>Towards 2016</i>	Jan 2006 - June 2006	3					3	202.63	
	July 2006 - March 2007**	2					2	206.68	
	April 2007 - Sept 2007	2.5					2.5	211.85	
	Oct 2007 - March 2008	2.5					2.5	217.14	

Table 2

Row		Earnings (€)		% change Jan. 1988-June 2007
		(Average weekly wage)		
		1988	2007	
		Q1	Q2	
1	Building and Construction	€235.36	€800.05	239.9
2	Financial Institutions	€375.36	€886.34	136.1
3	Public sector (excl. Health)	€334.65	€926.64	176.9
4	All Industries	€282.79	€627.24	121.8
	Pay awards			
5	Private sector (Index)	100	211.9	111.9
6	Public sector incl. Benchmarking (Index)	100	237.1	137.1

Source

Row 4 "All Industries" Supplied on request to authors by CSO.

Rows 1, 2 and 3 <http://www.cso.ie/en/statistics/earnings/>

Rows 5 and 6 derived by the authors.

Table 3 – Forecasting Inflation 1988-2008

	CSO Inflation Actual	Central Bank of Ireland Inflation (CPI) Forecast	Forecast error*
	1	2	3
1988	2.1	2.5	0.4
1989	4.0	3.0	-1.0
1990	3.4	3.5	0.1
1991	3.2	3.5	0.3
1992	3.0	3.0	0.0
1993	1.5	1.8	0.3
1994	2.4	3.0	0.6
1995	2.5	2.5	0.0
1996	1.6	2.3	0.7
1997	1.5	2.3	0.8
1998	2.4	2.3	-0.2
1999	1.6	2.5	0.9
2000	5.6	2.8	-2.9
2001	4.9	4.5	-0.4
2002	4.6	3.3	-1.4
2003	3.5	4.0	0.5
2004	2.2	2.8	0.6
2005*	2.5	2.5	0.0
2006	4.0	2.8	-1.3
2007	4.9	3.8	-1.2
2008	4.5	3.0	-1.5
Average	3.1	2.9	-0.2

* + indicates over-estimate and - an under-estimate of inflation.

Source: Various Central Bank of Ireland Bulletins.

Table 4

	End Date of Public Sector	Nominal Wage Index		CPI	Real Wage Index	
	Wage Agreement	Public	Private	Index	Public	Private
<i>Programme for National Recovery (PNR)</i>	Dec-87	100.0	100.0	100.0	100.0	100.0
<i>Programme for Economic and Social Progress (PESP)</i>	Dec-90	107.7	107.7	110.3	97.6	97.6
<i>Programme for Competitiveness and Work (PCW)</i>	Dec-93	123.2	123.2	118.7	103.8	103.8
<i>Partnership 2000 (P2000)</i>	Jun-97	133.3	136.6	127.9	104.2	106.8
<i>Programme for Prosperity and Fairness (PPF)</i>	Sep-00	149.7	154.1	142.3	105.2	108.3
<i>Sustaining Progress Part 1 (SP1)</i>	Jun-03	187.1	179.1	159.8	117.1	112.1
<i>Sustaining Progress Part 2 (SP2)</i>	May-05	209.1	191.9	166.4	125.7	115.3
<i>Towards 2016</i>	Jun-06	225.7	202.6	173.3	130.2	116.9
	Sep-08	249.1	217.2	191.7	129.9	113.3

Source: Compiled by the authors using data from Tables 1 A and B. CPI Inflation obtained from the CSO.

Table 5

	Real GNP Growth Rate %	Employment Annual % Change	Unemployment Rate %	CPI Inflation %	Current Account Balance of Payments (% of GNP)	Exchequer Current Budget (% of GNP)	National Debt (% of GNP)
	1	2	3	4	5	6	7
1987	3.7	1.4	16.9	3.2	-0.2	-5.8	116.3
1988	1.7	0.0	16.3	2.1	-0.2	-1.5	114.9
1989	4.7	0.0	15.0	4.0	-1.1	-1.1	105.6
1990	6.5	4.4	12.9	3.4	-1.1	-0.6	98.3
1991	2.0	-0.3	14.7	3.2	-0.3	-1.1	95.0
1992	2.5	0.8	15.1	3.0	0.2	-1.6	92.9
1993	2.9	1.5	15.7	1.5	2.4	-1.2	92.5
1994	6.5	3.2	14.7	2.4	1.9	0.0	88.1
1995	8.0	5.0	12.2	2.5	1.9	-1.0	78.5
1996	7.5	3.7	11.9	1.6	1.8	0.7	70.7
1997	8.9	3.9	10.3	1.5	2.0	1.3	63.5
1998	7.3	13.9	8.3	2.4	2.0	3.7	53.0
1999	8.2	6.8	6.3	1.6	0.5	5.5	50.2
2000	9.4	4.7	4.9	5.6	0.0	7.5	39.2
2001	2.4	2.9	4.1	4.9	0.6	4.6	35.2
2002	2.9	1.7	4.8	4.6	0.2	4.8	32.4
2003	4.9	1.8	4.9	3.5	0.3	3.6	30.4
2004	6.9	2.8	4.8	2.2	0.5	4.2	28.4
2005	5.8	4.8	5.0	2.5	-0.1	4.4	26.3
2006	6.3	4.6	4.9	4.0	-4.0	5.6	22.3
2007	3.6	4.9	5.2	4.9	-6.2	4.1	22.2
2008	-3.3	0.3	6.1	4.1	-7.7	-1.9	31.3
2009	-7.8	-8.6	12.9	-4.5	-7.3	-8.1	53.4

Source:

1. [WWW.CSO/Home / StatBank / National Accounts Historical Series 1970 to 1995 / NAH05 /](http://www.cso.ie/Home/StatBank/NationalAccountsHistoricalSeries1970to1995/NAH05/) Select from table NAH05.

2. [WWW.CSO/Home / StatBank / National Income and Expenditure Annual Results 2016 / N1606 /](http://www.cso.ie/Home/StatBank/NationalIncomeandExpenditureAnnualResults2016/N1606/)

3. Annual Labour Force Survey (LFS) 1983-1997

The ILO classification distinguishes the following main subgroups of population 15+

In Employment: Persons who worked in the week before the survey for one hour or more for payment or profit.

Unemployed: Persons (aged 15-74) who were without work and available for work and had taken steps in the previous four weeks to find work.

4. <http://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/saveselecions.asp>

5. [WWW.Home / StatBank / National Accounts Historical Series 1970 to 1995 / NAH06 /](http://www.cso.ie/Home/StatBank/NationalAccountsHistoricalSeries1970to1995/NAH06/) Select from table NAH06 and

[WWW.CSO/Home / StatBank / National Income and Expenditure Annual Results 2016 / N1619 /](http://www.cso.ie/Home/StatBank/NationalIncomeandExpenditureAnnualResults2016/N1619/)

6. http://databank.finance.gov.ie/BES_Reports.aspx?rep=T5

7. http://databank.finance.gov.ie/BES_Reports.aspx?rep=T8

Table 6

		Annual % Increase				
		Nominal		Real		
Growth Period	Months	Public	Private	Public	Private	
1	December 1987 - September 2000	154	3.9	4.2	0.4	0.6
2	October 2000 - September 2008	96	12.4	7.9	3.1	0.6

Table 7

Labour productivity	% Change 2000 - 2016	Average Annual % Change
State	97.1	4.5
Foreign	342.1	11.0
Domestic	48.8	2.6
Industry	296.5	10.3
Information and communication	238.9	8.1
Professional, admin and support services	142.4	5.9
Agriculture, Forestry and Fishing	67.9	4.1
Financial and insurance activities	59.5	3.4
Other NACE Activities	55.1	3.0
Distribution, transport, hotels and restaurants	16.8	1.0
Public admin, education and health	10.0	0.7
Construction	-0.3	0.3
Real estate activities	-35.5	-1.9

Source: Compiled from following CSO sources:

StatBank PIA01

StatBank PIA02

StatBank PIA03

Figure 1: Real GNP Growth Rate: Ireland 1987 - 2007

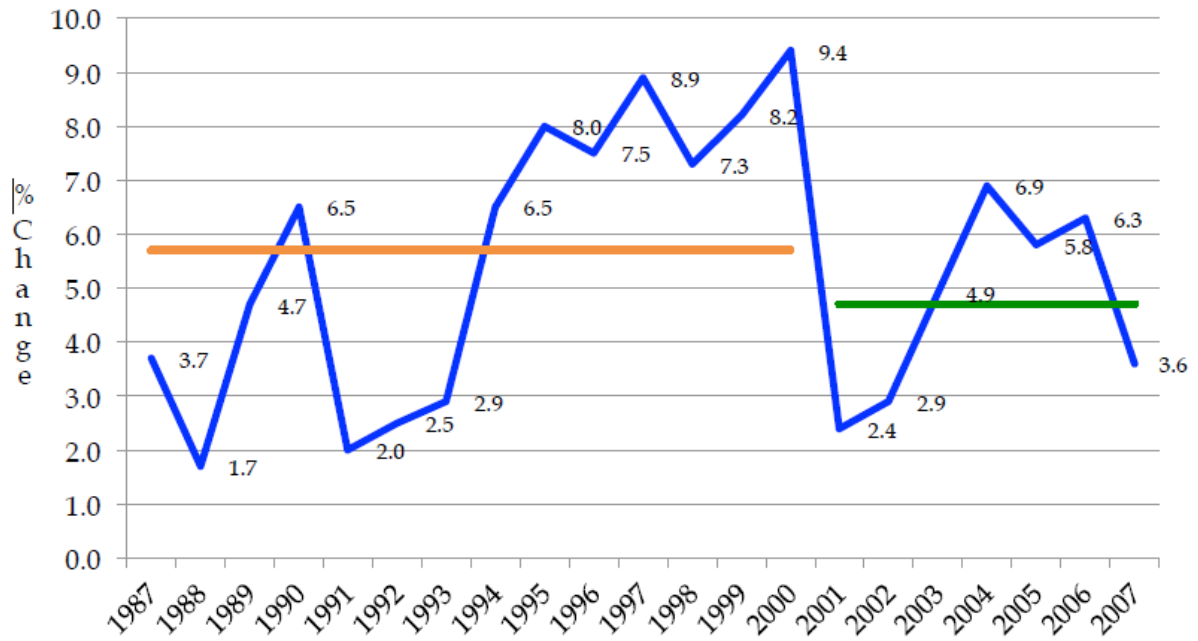
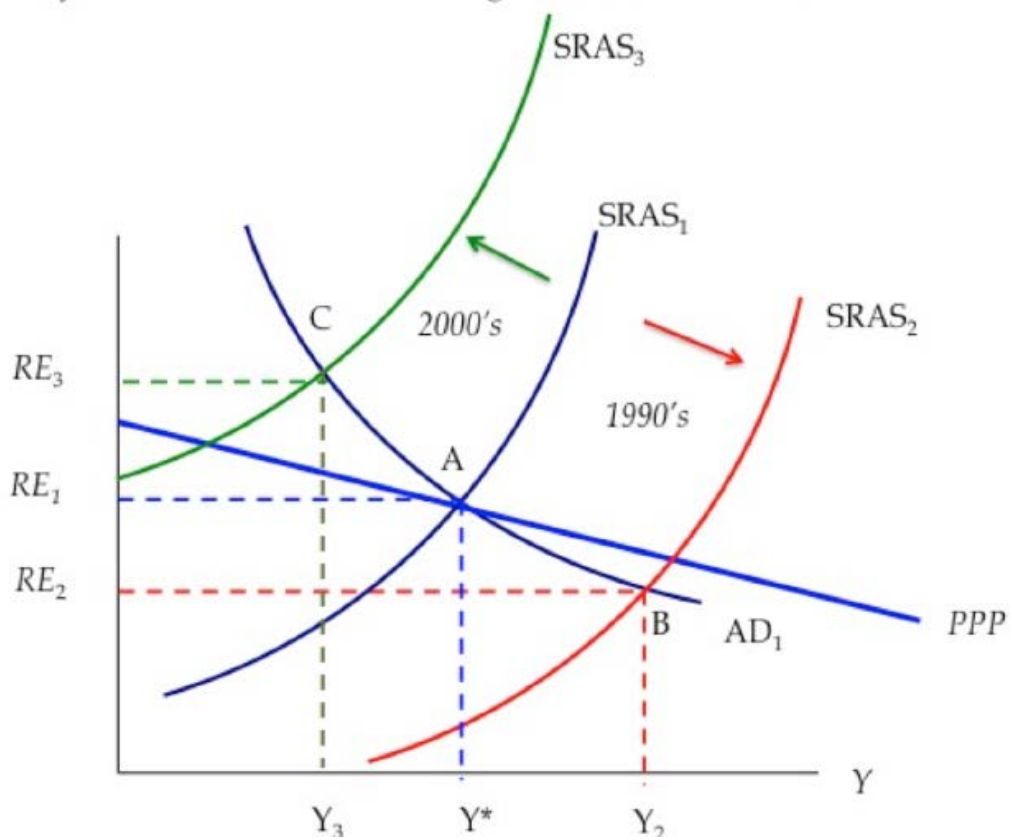


Figure 2
Pay Awards and the Real Exchange Rate In The 1990's and 2000's



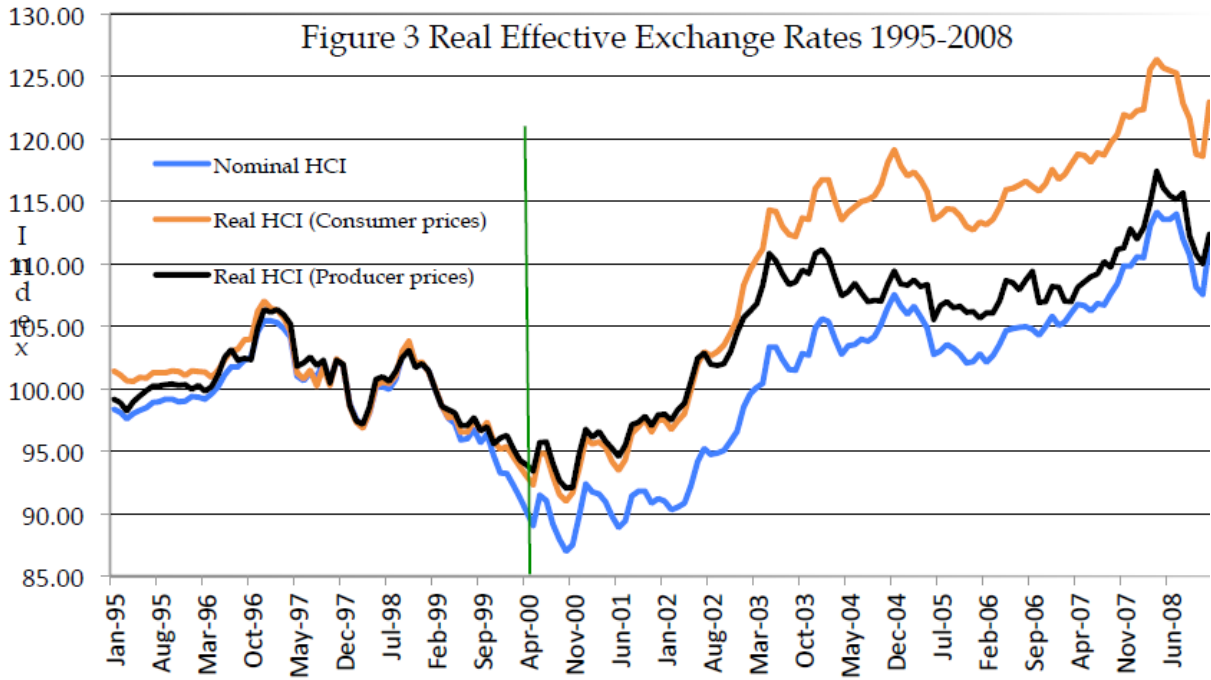


Figure 4 Public Sector Pay Awards and Inflation

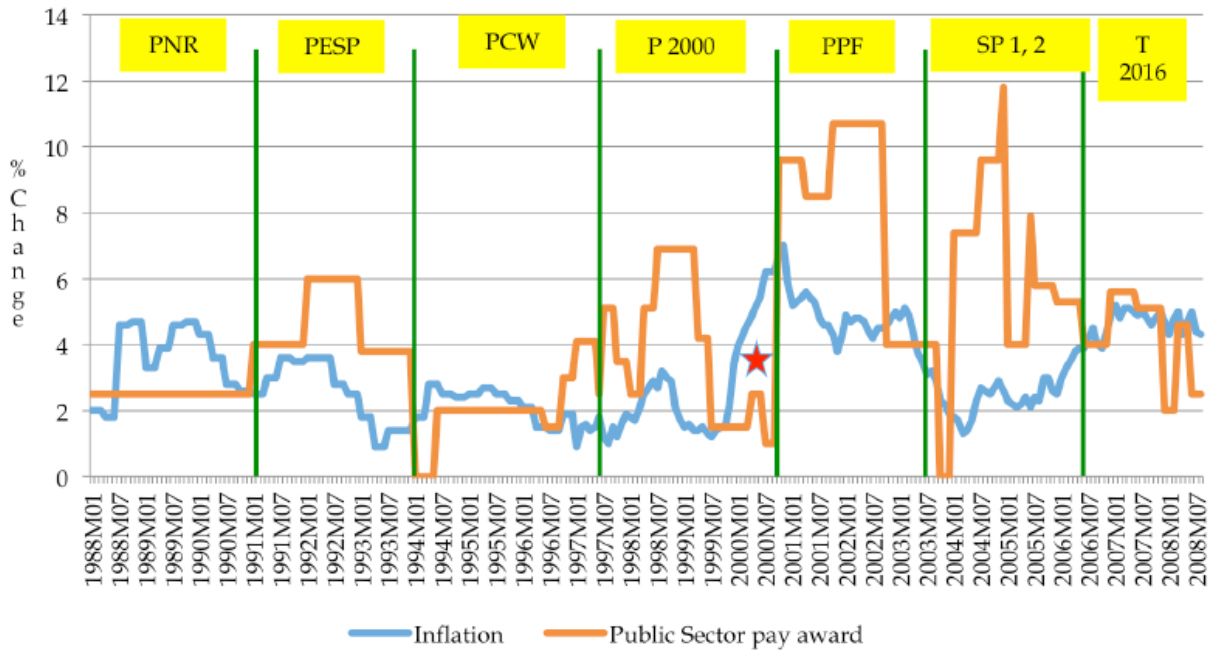
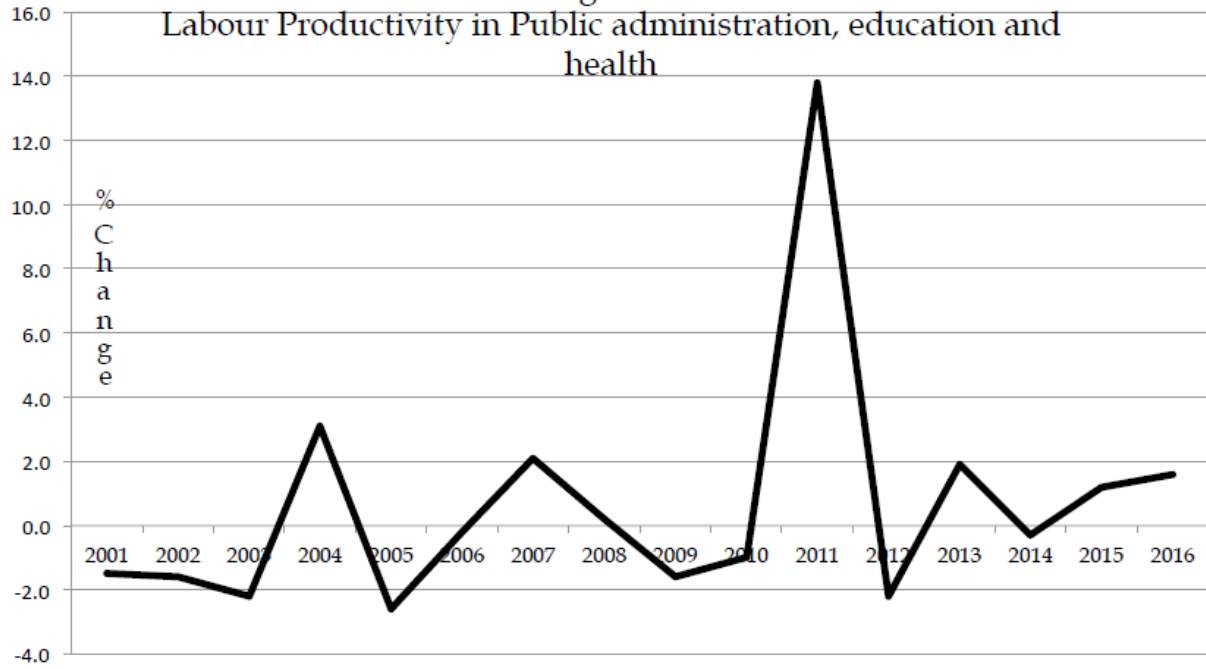


Figure 5



VOTE OF THANKS PROPOSED BY JIM O'LEARY

This paper analyses the role played by National Wage Agreements (NWAs) in the performance of the Irish economy between 1987 and 2008, paying particular attention to the contrast between the 1987-2000 and 2000-2008 periods.

In doing so, the authors first construct two new wage indices, one for each of the public and private sectors of the economy. These indices are designed, in the words of the authors, 'to show how a worker would have fared if his or her salary was wholly determined by the pay awards over the period'. As such, the indices as computed are designed to fully account for the effects of general wage increases negotiated under successive NWAs, as well as the likes of local bargaining clauses and explicit inflation compensation mechanisms provided under the NWAs and, in the case of the public sector, the awards made by the Benchmarking Body in the 2000s. The authors helpfully provide tables that set out the relevant details year-by-year.

There are more or less serious problems with the indices as computed.

In the case of the private sector, it is implicitly assumed that there was full adherence to the terms of the NWAs, despite union membership being as low as 25-30% there for most of the period being examined. While it is true that adherence to the NWAs was greater than union membership might have suggested, there is no doubt that upward drift became an increasingly prevalent phenomenon as the labour market tightened. In this regard, some of the material assembled in Hastings, Sheehan and Yates (2007) is instructive.

- They quote Turlough O'Sullivan, then head of IBEC, describing pay drift under the PPF (2000-02) as having reached 'crisis proportions'.
- A survey conducted by Industrial Relations News (IRN) indicated that adherence rates in the unionised private sector had fallen to 70% by the early 2000s compared with 95% in the early NWAs. [Emphasis added]
- A joint survey carried out by the Institute of Personnel Management and IRN, found that over 40% of management respondents had paid more than the strict terms of Partnership 2000 (1997-2000).

It follows that the authors' index understates private sector wage growth, perhaps substantially, for the period as a whole and for the late 1990s and early 2000s especially. An indication of the margin of understatement might be provided by computing the unweighted average of earnings growth by branch of activity from the CSO series on an annual basis and comparing the results with the growth rates derived from the Leddin and Egan index. My guess is that the resultant gap in growth rates, a rough measure of drift, would rise through the 1990s and into the new century.

Turning to the public sector, there is one big issue with the authors' work. It relates to the outcome of 'local bargaining' in the public sector, better known as 'special pay awards'. The tables appended to tonight's paper suggest that these awards boosted average pay in the sector by just 5% in total over the whole period, comprising a 3% increase in 1992 and 2% in 1998-99.

Time constraints have prevented me from comprehensively addressing this issue. However, it is certain that so-called 'specials' boosted pay in the public sector by several multiples of the authors' estimate of 2% in the late 1990s. This was a period during which there were essentially two waves of local agreements negotiated by different groups of public sector workers. The first, subsequently referred to as the 'early settlers', produced increases of 3-6%. The second produced increases in the range 13% to 25%-plus. The latter wave included gardai (the 'Blue Flu'), prison officers, paramedics and nurses. Nurses achieved increases of 25%-plus.

I also suspect that the authors' allowance of 3% for local bargaining in 1992 greatly understates the effect of 'specials' in the early to mid-1990s. Even during the term of the Programme for National recovery, the very first of the NWAs, special pay awards added to the public sector pay bill. Budget 1990, for example, provided €50m for this purpose.

All told I would suggest that Leddin and Egan have underestimated the growth in public sector wages over the 1987-2000 period by 10% points on account of their understatement of local bargaining awards. I admit that this is a guess. Time constraints have prevented me from fully reconstructing what happened on this front in the 1990-97 period. But I can say that their under-recording of the effects of local bargaining in 1998-99 alone results in an understatement of 6-7%.

All of this renders some of Leddin and Egan's conclusions a good deal less clearcut, including their contention that wage growth was faster in the private sector over the period 1987-2000, and their calculation that the cumulative increase in real wages in the public sector was just 5% in the same period. (I contend that it was probably of the order of 15%-plus.) It also somewhat diminishes the mystery posed by the gap between wage growth in the public sector as measured by their index and as measured by the corresponding CSO earnings series.

However, what clearly survives the caveats entered above is the fact that wage inflation in both public and private sectors was higher post-2000 than it had been over the previous 13 years.

But how much higher? Leddin and Egan present a table, the contents of which are reiterated in the text, which has nominal public sector wages rising at annual average rates of 3.9% in 1987-2000 and 12.4% in 2000-2008. The table provides no explanation as to how these rates of change were calculated, though one assumes that they were derived from the corresponding index computed by the authors. If this is so, then these growth rates are incorrect (even before adjusting for the under-reporting of local bargaining in the earlier period). In particular, the rate for the later period is much too high – it should in fact be 6.6%. This represents a very much milder acceleration than that portrayed by the authors. The acceleration in the private sector seems broadly comparable. Given that consumer price inflation was higher in the second period (by more than 1% point), the acceleration in real wage growth is milder still across both sectors.

This being so, I'm not at all convinced that wage developments possess as much explanatory power in relation to the changing pace and pattern of Irish economic growth pre- and post-2000 as the authors are suggesting.

Not am I persuaded that the stronger rise in wages post-2000 reflects a more aggressive stance by trade unions, provoked by the realisation that labour's share in national income had fallen sharply over the previous 13 years. I do not believe that Trade Unions have much influence on labour supply, at least outside the public sector; they obviously have no influence on demand.

Indeed, it could more validly be argued, that the margin by which wage inflation accelerated as between 1987-2000 and 2000-2008 was surprisingly modest considering what happened to unemployment. Recall that the unemployment rate was almost 17% when the first of the NWAs in scope here (the PNR) was being negotiated, and remained stubbornly above 10% through 1997. It averaged 12% over the 1987-2000 period. In contrast, between 2000 and 2007 it remained consistently below 5%.

Why was wage inflation so subdued in the later period? I think an important part of the answer lies in something that had nothing to do with trade unions or the institutional arrangements around wage agreements, and is not mentioned by Leddin and Egan. I am referring of course to immigration, which became an increasingly significant Irish labour market phenomenon in the 2000s.

Finally, a few words about the authors' suggested approach to pay negotiations. They call it a modest proposal, but there is nothing modest about it. Perhaps they are using the word in the Swiftian sense.

Their approach calls for wages in each sector to be determined by a formula whereby departures of the price level, sector-specific productivity and other sector-specific factors from their expected values at the negotiation stage would result in adjustments being made at the end of the period covered by the agreement.

The first thing I would say about this approach is that it is too formulaic. It begs some very big questions about the measurement of productivity in the public sector and the feasibility of quantifying the 'other factors'. It offers huge scope for dispute about the values of the parameters.

Going beyond that, the approach clearly implies that the employer should pay up front for productivity growth and for other factors. It seems to me that this would reduce employers' bargaining position. Of course, the idea is that there would be clawback for what might be called unearned increases but, by the authors' own admission 'a problem emerges if actual inflation turns out to be less than expected... a cut in earnings is likely to be strenuously resisted by public sector trade unions'. Is there any reason to believe that such a cut would be any less strenuously resisted if it were due to productivity (or other factors) being less than expected?

**SECOND VOTE OF THANKS PROPOSED BY CHRISTOPHER RYAN,
DEPARTMENT OF PUBLIC EXPENDITURE AND REFORM***

The paper has dual objectives: 1) a historical analysis of National Wage Agreements from 1988 to 2008 and 2) a prescriptive proposal for future wage negotiations.

In the first objective, it is successful: drawing attention to the large scale growth in wages that occurred. Of particular interest is the construction of a “pay award index” that shows a cumulative award in the public service of 50 index points over the 13 years from Jan 1988 to Sep 2000. The rate of increase then doubles in nearly half the time, with a further 100 points added from Oct 2000 to Sep 2008. This accords with analysis of the exchequer pay bill which doubled between 2000 and 2008, from €8.2 billion to €16.2 billion. Despite an extra 73,000 public servants, we estimate that pay rate increases accounted for €6.5 billion or 73% of the total pay bill increase.

In the second objective, the paper proposes that the following equation could be usefully used in negotiations to structure an agreement.

$$W_t = \alpha t^{-1} + W_{t-1} + \theta_p(PA_t - tPet-1) + \theta_{Prod}(ProdAt - tProdet-1)s + \theta_O(OAt - tOet-1)s$$

Essentially wages would be set at a sectoral level with reference to movements in the unemployment rate, prices, productivity and other factors.

This is a serious proposal and worthy of detailed consideration. From a practical, industrial relations, perspective it should be understood that these issues already figure explicitly or implicitly within negotiations. Agreement on the parameters to be applied would be hotly contested and subject to detailed negotiation.

Within this equation inflation and productivity assume a central importance, these will be examined in turn.

Inflation

The paper focuses on how inflation eroded some of the gains arising from collective agreements, suggesting that future bargaining should be on the basis of real wage increases as opposed to nominal increases. While negotiators will always have a set of assumptions regarding the likely performance of the economy and inflation, the idea of formalising these is, on the face of it, attractive.

There are a couple of issues regarding this approach. The first is a measurement issue on what constitutes a pay increases in the public service, the second concerns the implications of linking pay and inflation for the State’s finances.

When considering pay increases in the public service it is important to remember that there are generally two forms of adjustment: 1) pay awards through collective agreements and 2) pay adjustments through annual incremental progression on a pay scale. While the paper acknowledges the latter, it focuses on the former, using the Index constructed net of inflation to depict a real level of earnings growth.

However the benefits of the incremental system are substantial, as can be seen for a selection of grades in the table below:

	Average Annual Increment €	Average Annual Increment %
Teacher	€1,227	2.5%
Garda	€1,168	3.0%
Nurse	€1,168	3.2%
Administrative Officer (Civil Service)	€1,909	4.4%

* The views presented do not represent the official views of the Department or Minister for Public Expenditure and Reform.

In reality then, for staff not at the top of salary scale, the pay increases in a collective agreement (for example 2% in 2020) are on top of the benefit from incremental progression outlined above. This probably accounts for some of the difference between the pay award index and the higher growth recorded in the CSO official earnings data, which the paper describes as “noise”.

To establish a clear picture of public service pay adjustments versus inflation, the paper should consider incorporating some estimation of the benefits of incremental progression.

There is also an inherent risk to the taxpayer from linking public service pay increases to inflation. Negotiating in real rather than nominal terms would reduce the predictability of public service wage growth, and by consequence the public service pay bill, which in 2020 is estimated at €19.6bn or approx. 1/3rd of all current expenditure. In turn this would make fiscal planning for the delivery of other societal priorities more difficult: as unexpected increases in inflation would necessitate the diversion of resources from, for example, capital projects to public service pay.

Negotiating on real wage increases also risks creating a wage inflation spiral. Wage policy could become even more pro-cyclical exacerbating both peaks and troughs, reducing the scope for discretion in managing the pay bill. If there are issues with inflation, these may be more appropriately solved through policy responses in other areas, for example through housing supply.

Productivity

The other main prescription in the paper is the necessity of including sectoral based productivity measures within collective agreements.

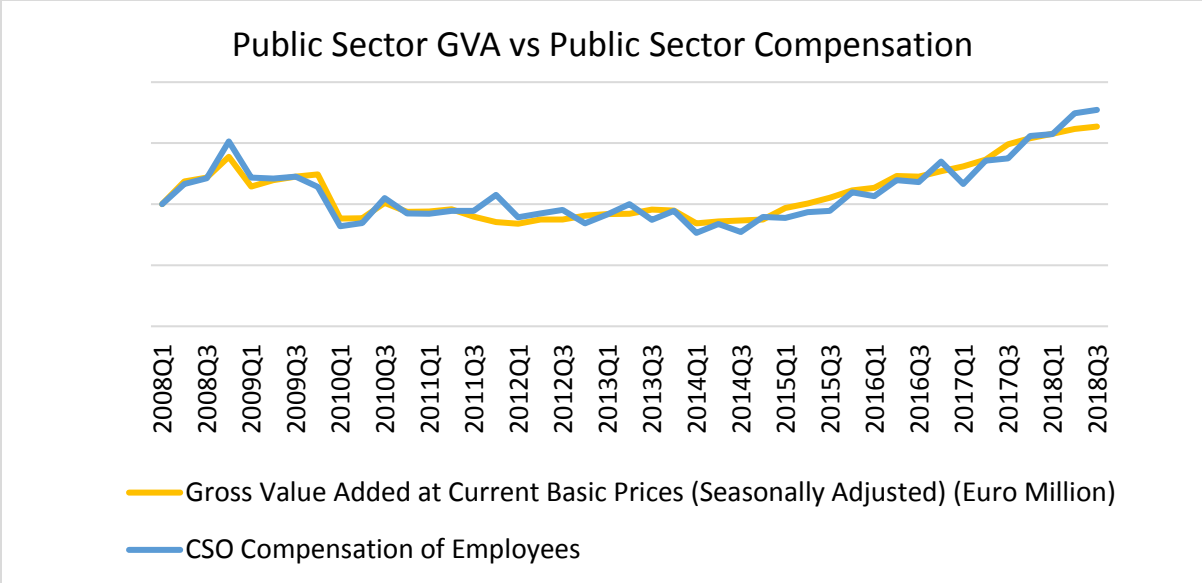
Unfortunately the paper does not examine the period 2008 to 2018 in great detail, although it does make the point that the current Public Service Stability Agreement 2018-2020 has “changed very little from the programme introduced in January 1988”.

This greatly under values the flexibility displayed by public service collective agreements during the crisis, delivering real productivity improvements and approx. €3.6bn in pay expenditure savings. Overtime and premia payments; annual and sick leave entitlements, travel and subsistence rates; redeployment and outsourcing arrangements were all substantially reformed during this time.

The additional working hours that the paper describes as “essentially aspirational” are in fact a good example of hard negotiations resulting in definite productivity improvements. These additional hours were introduced under the Croke Park and Haddington Road Agreements. They were costed in advance, implemented and evaluated. An Irish Government Economic and Evaluation Service paper published as part of the 2017 spending review estimated that the measure had generated 15m additional hours or the equivalent of nearly 12,000 WTE, at a full replacement cost of €621m. These hours are currently rostered and worked in the normal manner providing, for example, longer opening hours in libraries and hospital clinics while avoiding the need for school closures associated with parent teacher meetings and staff meetings. These additional hours were retained in the most recent Public Service Stability Agreement 2018-2020.

At the core of the productivity proposal is a suggestion that the CSO Gross Value Added (GVA) statistics could essentially be plugged into the proposed equation to determine a level of wage increase. The authors are correct to identify the need for productivity measurement in the public service. Accurate public service productivity estimates are vital across a range of policy objectives. Not least because it is very hard to determine whether citizens are receiving value for money without talking about productivity.

Regrettably however, the GVA statistics cannot be used in the manner suggested in the paper. This is because, for the public service, the CSO construct the GVA statistics from Compensation of Government Employees data. This relationship can be seen clearly in the graph below. As a result, if public sector GVA statistics were used, a circular link would be created whereby increases in wages show as productivity increases, which in turn prompt further pay increases. This would have obvious implications for the Exchequer.



In conclusion, the paper provides interesting historical analysis, and a useful index of pay awards, which adds to our understanding of the period 1988-2008. It is firm on the requirement on the need for productivity improvements as part of collective agreements which has been a strong feature of public service agreements since 2008. Further work is probably required on the mechanics of incorporating inflation and productivity into future wage negotiations.

DISCUSSION

John FitzGerald: The paper provides an interesting series on the pay awards under successive national agreements. However, in understanding what has determined pay rates in the Irish economy over the last 30 years one needs to look behind the agreements to the fundamentals that ultimately determine the trend in national agreements and, in turn, in wage rates in the economy.

One strand of the literature looks at the labour market as an imperfect market. While it will eventually clear, it may take a long time to find a new equilibrium when faced with a shock or innovation. Thus, to understand the long-term trend in wage rates, one needs to focus on the factors determining the supply and demand for labour.

There is a very wide literature on this topic. Some of this literature is summarised in Bergin, *et al.*, 2013. The relevant papers suggest an elasticity of demand for labour of between -0.4 and -1.0; in other words labour demand is relatively elastic.

However, there is an even longer list of papers, beginning with Walsh in 1968, which suggest that the elasticity of supply of labour is close to infinite. Some of these papers (Walsh, Honohan etc.) identified the elasticity by modelling migration based on the difference between the two unemployment rates in Ireland and the UK. More recent studies (Curtis and FitzGerald, 1996, FitzGerald, 1999, and Bergin *et al.*, 2013) looked at the differences in the real after tax wage rate. These studies suggest that the elasticity of labour supply was close to infinite up to the late 1990s. However, the changing source of migrants (Eastern Europe) and infrastructural constraints (Duffy *et al*, 2005) suggest that the elasticity of labour supply, while still very high, was no longer infinite after 2000.

An infinite elasticity of labour supply suggests that ultimately wage rates in Ireland were set on the UK labour market between 1970 and 2000. More recently, while the alternative wage rate available on foreign labour markets remained very important, other factors played some role in determining the long-run equilibrium wage rate.

This means that national wage agreements did not determine the long-run trend in wage rates but that they may have affected the speed and path of adjustment.

In my view, the enhanced understanding by both employers and trade unions of how the labour market works led to a more orderly process of wage determination through the national agreements. As a result, they probably contributed to industrial peace since the late 1980s, though other factors were also at play.

The first agreement, the PNR, in the late 1980s, reflected the model of the labour market outlined above. Lower wage increases were accepted in return for tax cuts. The tax cuts raised the real after-tax wages of employees, bringing real after-tax wage rates in Ireland closer to what was available in the UK. Because the cost of labour faced by employers did not rise rapidly, because of the lower nominal wage rises, this agreement enhanced Ireland's competitiveness and facilitated the economic recovery.

The second major literature is that on public sector pay rates, showing how they differ from the private sector. Boyle, McGelligot and O'Leary, 2004 and Kelly *et al.*, in a series of papers found significant differences in pay rates between the public and the private sector, controlling for qualifications, experience etc. This work suggests that public service pay rates were very much higher than in the private sector when the crisis hit in 2008. There were pretty serious pay cuts in the public sector during the crisis. This has probably brought pay rates in the public sector for those most qualified into line with the private sector or, more likely, below the private sector, whereas those less qualified are still better paid than in the private sector. The recent agreements on public service pay must be seen in that light. In the long run it is appropriate that public sector pay rates follow the pattern in the private sector.

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Honohan, P., 1992. "The Link Between Irish and UK Unemployment", The ESRI, *Quarterly Economic Commentary*, Spring, pp. 33-44.

Kelly, E., S. McGuinness and P.J. O'Connell, 2009. "Benchmarking, Social Partnership and Higher Remuneration: Wage Settling Institutions and the Public -Private Sector Wage Gap in Ireland" *The Economic and Social Review*, Vol. 40, No. 3, pp. 339-370.

Walsh, B.M., 1968. *Some Irish Population Problems Reconsidered*, General Research Series Paper No. 42, Dublin: The Economic and Social Research Institute.

Marie Sherlock: I want to thank Anthony for his interesting paper on public sector pay. In the context of Anthony's argument about the "performance" of public sector agreements relative to the real wage trend, it is unfortunate that there is a break in the index between pre and post recession years. This presents a consistency problem for the paper. Arguably the issue of interest to most observers is the degree to which public sector pay has recovered in terms of real post tax earnings between 2007 and the latest available information and such comparison does not exist in the paper.

Secondly, the issue of special pay awards arises and what we might term the rise in the demand for vocationalism in public sector pay negotiations. Jim highlights the experience of special pay awards in the 1990's. Interestingly, the trade union movement has now embraced sectoral and enterprise level bargaining in the private sector, after the initial trauma of the collapse of social partnership. However, a separate set of considerations exist for the public sector in terms of a single employer and I would caution those who enthuse about sectoral deals within the public sector- not least those who are concerned about the future of those working in the education sector!

In terms of proposals to tie productivity performance to pay increases, there are serious concerns about how to measure overall output and productivity across the public sector. In particular, there would be a serious issue for measuring the productivity of the education sector which is strongly represented here tonight. More seriously, it is not at all obvious

how an adjustable pay structure could be implemented. Again to the education sector, we know from CSO Labour force data that approximately one in seven in the sector are on temporary or fixed term contracts, many of whom also happen to be very lowly paid. If it were not a palatable proposal to force adjustable performance related pay packages on bankers in the wake of the financial crash, it is hardly viable that such would be inflicted on workers in the public sector, low or high paid. Lastly, a number of extraordinary claims were made about how trade unions negotiate wage agreements and it is a source of regret that the author did not see fit to abide by normal academic standards and verify or seek evidence for his claims, other than suggesting that there was no written material publicly available. This is not a credible position. In commercial negotiations, it is almost never the case that negotiating positions would be published subsequent to a deal being agreed. The same applies for wage negotiations. Unfortunately, no attempt was made to contact any of those directly involved in wage negotiations within the trade union movement. Contrary to the author's claims, estimates of the real post tax wage features strongly in our pre negotiation calculations. I invite the author to engage with us if he truly wishes to advance his understanding of how trade unions function and negotiate."

Kevin Callinan: It is fundamentally flawed to use the general increases negotiated under the various social partnership agreements as the sole measure of pay improvements for public service workers during the period and to draw conclusions therefrom. Such an approach fails to take account, inter alia, of historic arbitration awards dating from the mid-1980s implemented in 1989-90, local bargaining and restructuring claims negotiated through the 1990s/early 2000s which resulted in significant pay and structural improvements and the Public Service Benchmarking Body report in 2002 with average increases of 8.9 per cent.

In normal times union negotiators, as a matter of course, would have regard to inflation rate outturns and projected inflation for the period envisaged to be covered by an agreement and would follow an approach designed to achieve improvements in the real wages and incomes of members.

The period since 2009 has been characterised by the imposition of emergency legislation and the practice of concession bargaining and can hardly be treated as normal in any sense. Nonetheless unions have sought to influence events and a majority of union members have accepted the terms in various ballots on proposed agreements and they have been ratified following the aggregation thereof. "

Michael Connolly: The paper is a very interesting contribution to the debate around General Wage Settlements in the public sector in Ireland and the potential role or use of data on labour productivity as part of the framework for future wage settlements. In response to the proposal outlined in the paper to use information on Labour Productivity that is presented in the CSO Publication "Productivity in Ireland 2016" (<https://www.cso.ie/en/statistics/nationalaccounts/productivityinireland/>) and future annual publications the following caveats need to be outlined

- Labour productivity is calculated as the change in labour hours worked relative to changes in Gross Value Added (GVA). For the public sector, in many cases GVA is measured as the sum of the costs involved in supplying a particular public service. Consequently if all public servants obtain a pay increase, GVA increases for a given level of hours worked and therefore we observe an increase in labour productivity. This doesn't seem to make any economic sense.
- Secondly if we consider the case of Education, if the pupil teacher ratio improves through hiring more teachers for a given number of pupils and by extension an improvement in educational outcomes occur there could be a perverse result of a fall in productivity due to the increased number of labour hours associated with the education of a given number of pupils or at best no change in productivity.
- It is our opinion that the productivity data we compile for the public sector or non-market sector cannot really answer the information requirements for productivity data that could be needed in a future wage agreement framework.

There is considerable work in progress internationally that seeks to address the challenges associated with productivity measurement in the non-market or public sector.

Gerry Flynn: You may need to focus on the political aspect of social partnership where the triennial agreements were part of an ongoing corporatist approach since 1989. We may have lacked a Mussolini-style leadership to enforce pay discipline but the trades unions were delighted to have the constant ear of government especially when their density or penetration in the private sector was in steep decline. Likewise, the main employers' union - IBEC - was unable to discipline its members when organisations like AIB broke pay terms to attract scarce labour in the early 2000s. Social Partnership became so convoluted and all-embracing - beyond a simple wage agreement - that the final deal, called 'Towards 2016', took over nine months to negotiate; longer than the Peace Conference in Paris 100 years ago that reshaped Europe.

Andrew Condon: The authors are to be commended for their paper which is a useful contribution to the debate on the content and output of agreements between Government, employers and workers. The authors reference 'National Wage Agreements' and include agreements covering the public and private sectors between 1988 and 2008 and a specific public sector agreement – the Public Service Stability Agreement 2018-2020 (“PSSA”). While one definition of a ‘national’ wage agreement would be that it encompassed both public and private sectors, the author’s broader approach and inclusion of the PSSA is informative and illustrative of the direction of public service pay policy. However, if the PSSA is to be referenced, mention should be made of the Public Service Agreement 2010-2014 (the “Croke Park Agreement”), the Public Service Stability Agreement 2013-2016 (the “Haddington Road Agreement”) and the Public Service Stability Agreement 2013-2018 (the “Lansdowne Road Agreement”). These agreements were significant in that they provided for pay reduction and increased work practice flexibilities across the public sector in the context of a significant reduction in the resources available to the State and are relevant to the paper’s proposition that monetary incentives can achieve improvements in public sector labour productivity.

The authors propose an equation which outlines a relationship between wage increases and productivity and which would inform how future wage agreements might be formulated. Three broad issues arise from same:

Firstly, the equation relies on a measure of productivity that simply tracks wage growth in the public sector and in that regard isn’t particularly useful as a measure of actual productivity (this issue may be addressed in more detail by other commentators).

Secondly, utilisation of productivity as a determinant of wage increases without specified alternatives implies the authors understand that each area of the public sector has the potential (and indeed much the same potential) to engage in activities that generate productivity. However, noting the extent to which resource constraints apply in certain sectors (e.g. health) productivity measures may not be appropriate in terms of either desired sectoral performance or outcomes. For example, the public health sector has limited resources to deliver services and in that regard, while it may have the capacity to deliver X number of hip replacements, may only have the budget to deliver Y number. Taking that into account, measures of the quality of service delivery may be more important than measures of productivity. This applies in health, education, justice, defence, social protection and other significant sectors of the public service.

Finally, the extent to which the current format and conduct of the negotiation of public sector agreements would allow for consideration of an approach such as that outlined in the paper is limited. This is because negotiations have (at least over the past decade) served as a mechanism for engagement between Government and unions regarding the broader issues of work practice flexibility in return for job security and management of the overall public sector pay bill rather than a pure pay determination process. Rather than acting as a forum for analysis of pay determination mechanisms, a large part of such negotiations could be said to be socialisation of measures largely pre-agreed between Government and senior union leadership which have been identified as supporting work practice flexibility and job security amongst the large range of state and state-funded employers and relevant union officials. In that context an engagement with those involved in such negotiations would usefully inform the paper’s conclusions and any further iteration of the proposed formula.

Evan Walker: Have the authors considered the concept of “Goodhart’s Law” in their analysis? – when a measure becomes a target it often ceases to be a reliable measure. I re-iterated the point made by Chris and Michael Connolly of the CSO – that GVA as a blunt measure of Productivity of the Public Service, is technically flawed, as due to the CSO methodology, it is comprised 95% or so of PS compensation. This would lead to pay increases being mistaken for productivity gains – thus further fuelling wage demands, a wage spiral would ensue.