

“Social Consensus and Incomes Policy”: A Comment

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Most people are conditioned to believe that centralised pay deals are a good thing. They have names that stress harmony and consensus — from National Understandings to Programmes for Economic and Social Progress. They are concluded not by mere interest groups but by “social partners”. Their finalisation generates a strong “feelgood factor” as the drama of brinkmanship negotiations crystallises into a happy ending where everybody receives a payoff. This is reinforced strongly by the signatories to such agreements who, in the nature of things, will canvass the specific benefits of the resulting deal to their particular constituencies.

Joe Durkan’s paper serves as a useful and necessary antidote to the excessive claims made on behalf of such centralised agreements. His conclusion is worth restating:

The history of centralised bargaining in the 1970s and early 1980s would not suggest that centralised bargaining achieves incomes policy objectives. The evidence is that centralised bargaining accelerated wage inflation in that period. While the Programme for National Recovery seemed to offer something better, it was ineffective in the private sector and in the public sector, pay increases were merely delayed. The Programme for Economic and Social Progress is not an advance on this.

A point of fundamental importance arises here. In the public mind, there is a tendency to confuse government incomes policies with government policies on incomes as reflected in the outcome of centralised bargaining. Whatever

their efficacy, government incomes policies seek to restrain the growth of money incomes below what they would have been in the absence of such policies, usually with the objective of fostering or retaining employment. A government policy on incomes, on the other hand, merely reflects the *de facto* commitments that government has entered into in the sphere of pay. Such commitments are at their most transparent when centralised pay bargaining is in operation.

Even where they are presented as one and the same thing, actual government policies on incomes can and do conflict with the incomes policies they are supposed to embrace. More than that, such conflict is inherent in the nature of the centralised pay bargaining process.

For precisely the same forces that condition the public to believe that centralised pay deals are a good thing also ensure that the collapse of such national pay negotiations will be perceived as a bad thing. It follows that once a government commits itself to playing on the national pitch, it must get a result, almost irrespective of the costs involved. The other players on the pitch know this full well, so that the mere presence of the government in national pay negotiations automatically increases their bargaining leverage. As Durkan points out in his conclusions on centralised pay bargaining in the early 1980s,

the involvement of government can politicise the wage negotiation process. This adds to the bargaining power of trade unions on an on-going basis.

As a result, what are presented as policies aimed at securing pay restraint end up as extremely costly exercises in consensus. Put another way, incomes policies Irish-style have simply proved to be too expensive.

It is worth examining this statement in some detail in the context of the Programme for National Recovery since this was heralded as the quintessence of moderation when it was first introduced. Under the PNR, annual increases in pay were restricted to 2.5 per cent in each of the three years 1988, 1989 and 1990. Yet, in spite of the supporting tax cuts, average incomes grew considerably faster than the headline rates allowed, while at the same time outpacing inflation by a comfortable margin. As Joe Durkan's tables show, over the three years, average earnings increased by some 13 per cent whereas consumer prices rose by less than 10 per cent over the same period.

In the public service, the Exchequer pay and pensions bill rose from £2,759 million in 1987 to £3,160 million in 1990, an increase of 14.5 per cent over these three years in which the limit on annual pay increases was supposed to stand at 2.5 per cent. Moreover, this inflation in the Exchequer pay bill occurred during a period when the numbers of public servants fell by 18,000

or over 8 per cent.

The reduction in staff in the public service in the three years ending 1990 accounted for a significant part of the increase in public service pay costs over the period. Over the years 1988 through 1990, some 8,500 public servants availed of the terms of the early retirement/voluntary redundancy programme then available at a cost to the Exchequer of £119 million. What might have been a rational exercise in effecting a permanent reduction in public service numbers was turned on its head when the government again began adding to the numbers on its payroll during 1990. Official estimates indicate that the number of public servants increased by some 2,000 last year.

Finally, the deferral of the payment of special pay increases until after the PNR had expired greatly overstated the extent of the fiscal stabilisation achieved during the years to 1990.

The encashment of the government's post-dated cheques for special pay awards during 1991 and 1992 will act as a significant force for fiscal destabilisation in the period immediately ahead. In this year's budget, the Minister for Finance indicated that the Exchequer cost of the public service pay and pensions bill would rise by 8.3 per cent to £3,422 million during 1991. In the absence of any corrective action by government, the public service pay bill will increase by a further 9.9 per cent to £3,762 million in 1992. Thus, in the space of two years, the Exchequer cost of the public service pay and pensions bill is set to rise by some £600 million or 19 per cent. The extent of the consequent destabilisation of the public finances can be gauged from the fact that public service pay now accounts for more than half of net current government spending excluding debt service.

In the light of these developments, it is difficult to make a convincing case that the Programme for National Recovery either constituted a significant attempt at an employment-generating incomes policy or that it contributed much to long-run fiscal stabilisation. Thus, from a deal from which much was expected, relatively little was delivered.

Its successor — the Programme for Economic and Social Progress — has suffered because of its parentage. From the outset, the PESP was burdened with picking up the tab for the special pay increases deferred during the term of the PNR. Moreover, the basic pay terms of the PESP are considerably higher than those embedded in the PNR. They average out at 4.6 per cent for each of the years 1991 through 1993 when the "exceptional" pay increases of 3 per cent permitted during the agreement's life are included. A claim for this "exceptional" pay award will be served up to the government on behalf of public servants in 1993, just when it has digested the course of special pay awards carried forward from the PNR. Finally, a veritable Pandora's Box of uncoded public spending increases remains to be opened if the agreement

continues on its charted course.

If "consensus" is defined narrowly in the industrial relations sphere as the absence or minimisation of days lost through industrial disputes, the return to centralised bargaining since 1987 may seek its justification on these grounds rather than on its contribution to employment creation or fiscal stabilisation. Indeed, this appeared to be the line adopted by the Minister for Finance in the Budget of January 1991 when he said:

The Government are deeply concerned at the rising cost of the Exchequer pay and pensions bill. This cost reflects the Government's willingness, for the sake of stability and industrial peace to take on board increases arising both from the existing pay agreement and from the new draft pay agreement....

There has been a fairly sustained decline both in the number of industrial disputes and in the days' work lost as a result over the past decade. However, the association between periods of centralised bargaining and the reduced incidence of disputes is somewhat spotty. In 1980 and 1981, the final days of the last exercise in centralised bargaining, the average number of days lost due to industrial disputes exceeded 400,000 each year. The subsequent period of decentralised pay determination saw the number of days lost as a result of stoppages decline from 434,00 in 1982 to 264,000 in 1987. The reintroduction of centralised bargaining did correspond to a further significant fall in the number of stoppages. By 1989, only 38 disputes commenced and just over 50,000 working days were lost in consequence. However, the gilt was somewhat tarnished by the experience of 1990, when the number of disputes rose and 223,000 working days were lost as a result.

Nevertheless, while the correspondence between national pay deals and the reduced incidence of industrial stoppages is by no means watertight, centralised pay bargaining can advance stronger claims for success on the industrial relations front than in the spheres of fiscal stabilisation or effective incomes policies.

In the broader meaning of consensus, suffice it to say that while the interests of the unemployed and involuntary emigrants were no doubt voiced at the national pay bargaining table, they did not enjoy official accreditation to the negotiations. Nor, from the results, could it be inferred that their interests took precedence over the interests of the organised groups who did participate. This is an unsurprising outcome; nor do I believe that the outcome would be any different in any future national bargaining exercise. Neither a shared view of how the economic world works nor a genuinely-shared commitment to the achievement of national economic goals in the long term are sufficient to ensure that national interests will triumph over group

interests. It is unrealistic, and perhaps unfair to the negotiating parties, to expect otherwise.

This suggests that the best course of action post-PESP would be a return to decentralised pay bargaining and the abandonment of the more grandiose expenditure trappings that inevitably accompany such national agreements. In the private sector, pay deals should and would reflect the specific economic and financial conditions confronting individual firms. In the public service, the government as an employer would negotiate on pay in the light of its own financial circumstances. In particular, the time saved on negotiating centralised pay deals could more usefully be devoted to addressing the complex issues of pay relativities and comparabilities both within the public service and between the public and private sectors. For unless a new route to greater flexibility is discovered, the problem of special pay awards in the public service will persist indefinitely.