

Social Consensus and Incomes Policy

JOE DURKAN

University College, Dublin

Abstract: This paper argues that centralised bargaining as practised in Ireland added to wage inflationary pressure as: the focus of centralised bargaining was the preservation of good industrial relations; the process of wage negotiation was heavily politicised; and, the system evolved into a two-tier bargaining process. Centralised bargaining was not equivalent to an incomes policy framework. It is no surprise that the economy has failed to adjust to the series of internal and external shocks of the past two decades.

I INTRODUCTION

The focus of this paper is the nature of "incomes policies" in Ireland. Section II sets out what is meant by incomes policies. In Section III a brief history of the process of wage determination prior to 1970 in Ireland is given. Section IV details the centralised bargaining of the 1970s, dealing with the National Wage Agreements and the two National Understandings, and discusses the lessons learned from that period and from the breakdown of centralised bargaining. Section V examines the period of decentralised bargaining that existed from end 1981 to end 1987. Section VI discusses the incomes components of the Programme for National Recovery and the Programme for Economic and Social Progress within the context of the lessons that emerged from the previous periods.

The basic points of the paper are that incomes policies should move wages closer to the market clearing wage if there is unemployment; that centralised bargaining in the Irish context added to wage inflationary pressure because of its two-tier nature and the politicisation of the process; that this latter result is not surprising given that centralised bargaining developed out of a need to prevent industrial disputes.

II INCOMES POLICY

At the outset it is necessary to be clear about what is meant by incomes policies. A requirement for policy is that there must be a set of objectives, a set of rules to realise those objectives, and an institutional framework to operationalise these rules.

The objective of incomes policies is to ensure that incomes rise less rapidly than they would in the absence of incomes policies. The rationale behind this objective is that labour markets are not free and competitive, but are characterised by collective bargaining which is likely to result in sub-optimal results in employment terms. Thus governments will pursue incomes policies to either maintain full employment or to bring an economy to full employment. The mechanism through which incomes policies achieve their objectives is, in the case of open economy, primarily through competitive gains, though there will also be positive effects from labour/capital substitution. The extent to which incomes policies achieve the ultimate employment objective depends, using the simplest possible model, on the slope of the demand curve for traded goods. In other cases competitiveness is a necessary, but not sufficient condition to realise employment targets — but competitiveness if pursued sufficiently may provide the financial resources that companies need to gain market access.

In addition to the realisation of an employment target, where an economy is less than fully employed, incomes policies also provide positive results for an economy in terms of lower price inflation, depending on the extent to which the economy is a pure price taker; an improvement in the balance of payments for any given level of income; higher growth in the short term and in the long term as firms' profitability is enhanced; and for given tax rates, an improvement in the public finances. These benefits arise if the economy is less than fully employed. Thus, incomes policies are a device to get to full employment. Once an economy is fully employed incomes policies can be used to maintain existing employment levels. It is easy to see why governments are attracted to incomes policies — one policy apparently achieves all stabilisation targets.

The instruments available for incomes policy purposes are limited. Governments have relied on statutory wage and price controls and exhortation. With the exception of individual cases, and war time, governments in Ireland have not used statutory instruments. The instrument for incomes policy control has been exhortation, viz. encouraging those involved in the collective bargaining process to agree lower increases in pay than seems likely to emerge from collective bargaining.

There are other approaches. Governments can seek to influence the out-

come of collective bargaining by fiscal measures, i.e., varying tax rates to affect real disposable income and hence the wage bargain. Fiscal constraints in Ireland over the 1970s and most of the 1980s have militated against this. The tax reductions of the past 3-4 years, however, could be seen in this light. Government can also seek to build an understanding in the society of the interdependence between labour and capital and of the benefits of full employment. Where a consensus exists with regard to economic policy government can pursue incomes policies — often with the active participation of those involved in collective bargaining. In Ireland this interdependence is not yet fully recognised. Government is criticised for not “creating” full employment. Pay determination is seen as the remit of collective bargaining, while employment generation is the task of industrial policy.

Exhortation is the preferred instrument in Ireland, with an attempt to seek consensus. Exhortation is a weak instrument of policy.

The institutional framework within which government has operated, seeking, by exhortation, to produce wage inflation at a lower rate than would emerge from collective bargaining, is the series of National Pay Agreements, the two National Understandings, the Programme for National Recovery and the Programme for Economic and Social Progress.

Incomes policies, whatever the set of rules or the institutional framework, should produce lower increases in basic rates of pay than would emerge from collective bargaining. If they are to be fully successful then one would expect sustainable full employment, though this could result from a well functioning labour market, in which case incomes policies are not required. The Irish economy has consistently exhibited high unemployment, and even when unemployment levels were low, as in the late 1970s, these levels were not sustainable, given the public finance and external imbalances of the period. This fact, in itself, suggests that incomes policies were not successful in Ireland, though it is always possible to argue that particular circumstances prevailed. It is the consistency of high unemployment that is important. The economy has experienced several external and internal shocks which have caused unemployment to increase. A well functioning labour market will then produce lower wage inflation and increased employment. Incomes policy is the device to produce full employment in a collective bargaining environment. If incomes policies are successful unemployment should then fall. It is the thesis of this paper that centralised bargaining, the ostensible institutional framework for the operation of incomes policy, was really an industrial relations framework, and that the outcome of centralised bargaining in terms of pay increases was higher than a decentralised wage bargaining situation.

III THE WAGE NEGOTIATION PROCESS PRIOR TO 1970

For much of the period from Independence to 1970 the wage negotiation process was characterised by decentralised collective bargaining. The war period, when wages were controlled by a wages standstill order, issued under the Emergency Powers Act 1939, was an exception to this, as were the wage rounds of 1948, 1952 and 1957. The norm, however, was the individually negotiated wage agreement.

In the early 1960s, the UK Government, in response to wage pressure, sought to use incomes policies to moderate the extent of wage increases. *Incomes Policy: The Next Step* was published in 1962 and in November of that year the National Incomes Commission was established. Ireland was not immune to these changes. The very factors that were causing an acceleration in wage inflation in the UK were in operation in Ireland, both through the labour market relationship that existed between the UK and Ireland, and the demand pressures associated with the recovery from the mid to late 1950s recession. Both by example and by circumstance there was pressure to develop a policy in relation to incomes in Ireland. The Employer Labour Conference, set up in 1962, was a first step in the process — though the focus of the Employer Labour Conference was the issue of industrial relations. Within the context of industrial relations the Employer Labour Conference was in favour of a more ordered approach to income developments than produced by the existing wage negotiation process.

This theme of order was taken further by government in the White Paper *Closing the Gap (Incomes and Output)*. The issue for government was not just industrial relations, but the use of incomes as an instrument of policy. The Trade Union movement (as exemplified by the Irish Congress of Trade Unions, ICTU) was opposed to the concept of incomes policies proposed by government — maintaining that government has no rights in the issue of wage determination.

However, during 1963 there was much public debate about the needs and merits of an incomes policy in the Irish context. The Liberty Study Group Conference on a National Incomes Policy in mid-year was an important part of that debate and contained a paper by the Secretary of the Department of Finance, T.K. Whitaker, which set out clearly official thinking on incomes policies. Partly because government sought a central agreement on pay and partly because the trade union movement had not formulated a policy response to incomes policies beyond that referred to earlier, a centralised agreement was concluded for a 2½ year period from 1964 (The National Wage Recommendation).

During the period of that agreement ICTU formally adopted an approach

to incomes policy which remained in force until the First National Understanding. However, ICTU was coming at incomes policy from a very different viewpoint than government. In his Liberty Conference paper Whitaker argued for incomes policies as opposed to a completely *laissez-faire* approach regarding income increases which he saw involved "a serious risk of disruption in two forms:

- (i) prices being raised to a degree that shears off much of the original surplus of the money incomes increase over the real increase in production;
- (ii) the balance of payments being so badly disturbed that the necessary corrective action cannot be taken without damaging consequences for production, trade and employment."

The Irish Congress of Trade Unions, by contrast, in addition to rejecting attempts by government to control collective bargaining stated that an acceptable incomes policy "must have as its primary objective a just distribution of income" and that the intermediate objectives of policy to realise the primary objective were:

... a substantial increase in the income of lower-paid and salary earners, pensioners and persons dependent on welfare benefits, and increases in the incomes of wage and salary earners generally which would be sufficient to offset price increases, and (increases) which would enable them to enjoy a steadily rising standard of living.

To achieve these ends, Congress considers that it is essential to resist any limitation on increases in wages or salaries which is not equally applicable to other incomes and which does not take into account the level of such incomes.

The official view was that an orderly development of incomes was the best guarantee of continued full employment by containing costs while the trade union view discounted costs and considered only incomes as incomes. While other societies have been able to see the connection between these two aspects of wages, the different perspectives of government, trade unions and employers, made it impossible to reconcile their views. There was thus, a lack of agreement about the functioning of the economy. The issue between these opposing views was clear-cut but the solution was not. As outlined in Section II incomes policies are a necessary condition for realising full employment, but they are not sufficient. In this environment the adoption of consensus based incomes policies was impossible.

Over and above the lack of consensus there were other issues in relation to incomes policies which were not pursued. At the Liberty Study Group

Conference, Professor Edward Nevin, who had been commissioned by the Group to prepare and present a paper, raised the following questions, some of which are still relevant today.

- (i) Is an independent incomes policy really possible for Ireland, given the integration of the Irish and UK labour markets, or would a persistent widening of the wages differential between the two countries ultimately result only in increased emigration?
- (ii) Could the Irish Trade Union movement enforce such a policy if it were attempted, or would the existing system of independent craft unions have to be abandoned? If so, is there any real prospect of this?
- (iii) Is the Trade Union movement willing to allow wage determination to depend basically on official statistical estimates? Are such estimates accepted as sufficiently accurate? Would their new function react on the data from which they are compiled?
- (iv) Accepting that profits (including the incomes of self-employed) must be included in any incomes policy, would data on profits acceptable to all sides be forthcoming? Would some control over profit distributions be sufficient? Or should taxation of capital gains be an essential item?
- (v) If wage pressures were largely removed, would employers be left with adequate incentive to raise productivity? Or should wage agreements be based on the *future* increases of productivity which an efficient management could reasonably be expected to attain.
- (vi) Who decides, and on what basis, which are the "exceptional" cases justifying above-average increases? What legal measures would be necessary to enforce such settlements? What degree of legal interference in wage matters would be acceptable?

Following the National Wage Recommendation there was a return to decentralised bargaining. The impetus for this came from the trade union side (O'Brien, 1981), as the trade unions essentially mistrusted both government and employers and viewed incomes policies as instruments solely to control wages.

This view of the world changed with the maintenance men's dispute of 1969. This dispute, which involved a very small number of workers, directly resulted in a significant loss of output in industry during the course of the dispute (perhaps between one quarter and one third of normal production, though some of this was made good later) and in many cases to workers receiving no (or little) income/benefit during the strike. The maintenance men's dispute was a watershed — at the political level the dispute was seen

as arising from the absence of a prices and incomes policy; at the trade union level the dispute

- (i) was seen to damage the public perception of workers, and
- (ii) provided evidence that workers in a strong position could benefit at the expense of other workers.

At the employer level it strengthened the resolve of employers to be involved in national negotiations to reduce the risk of a strike which would have similar economy-wide effect. This background provides the framework within which centralised bargaining emerged. The dominant motive was a desire to prevent damaging strikes, and this has remained the philosophy since.

IV CENTRALISED BARGAINING 1970-1981

The rationale for the emergence of centralised bargaining was the maintenance of good industrial relations — or rather the absence of major disputes. This coloured the National Wage Agreements and were an endless source of confusion among those who equated centralised bargaining with incomes policies. Centralised bargaining was not about full employment, inflation, growth and the balance of payments. It was a mechanism whereby employers and Trade Unions agreed on rates of pay at levels which ensured the absence of immediate industrial disputes. Contrary to the view of Layard, Nickell and Jackman (1991), "Thus, full employment (allowing for frictional) would be the natural outcome of centralised bargaining", centralised bargaining in the Irish case did not result in full employment because the focus of the wage bargain was simply different. The objective function of the main parties to the National Wage Agreements did not include those currently unemployed or those unemployed as a consequence of the Agreements.

This is more evident if the make up of the National Wage Agreements is considered (Bacon, *et al.*, 1982). The agreements incorporated uniform increases in basic rates of pay that applied to all workers, but in addition, local bargaining for further increases was allowed. Actual increases in rates of pay were very much greater than warranted by the basic increase in pay awarded under agreements, but in general they were all justified under local bargaining criteria. Thus, while on the face of it there was a centralised framework, decentralised bargaining was an additional layer. This could rarely result in full employment. The combination of a centrally agreed increase in pay, deemed to satisfy productivity growth, inflation etc. at a national level, coupled with further locally negotiated increases in pay, may have been worse in employment terms than decentralised bargaining.

A characteristic of the National Wage Agreements was the anomalous position of the government. The government was represented at negotiations on pay as an employer, not as government setting policy. Attempts were made by governments to influence the outcome of wage negotiations by exhortation. However, the basic increases negotiated were higher than government targets and of course the final outcome was higher again as a result of localised bargaining. In spite of this, government remained committed to centralised bargaining because of the consequences of a major industrial dispute — believed to be the inevitable outcome of a breakdown of centralised bargaining. This very aspect of the wage negotiation process politicised that process and introduced another element. The Trade Union movement was not just negotiating with employers' organisations, but were also in a position to exploit the political fears and needs of government.

An agreement on pay was important to government for several reasons. First, government still believed in the benefits of incomes policies for reasons discussed in Section II. Thus, it was worthwhile to put as much effort as possible in securing low increases in pay. A central agreement provided the background for government to encourage or exhort negotiators to agree to low increases in basic rates of pay. Second, a failure to reach agreement was seen as a failure of government policy. The more protracted negotiations were the greater the commitment of government to a centralised agreement. Thus, government invested each agreement with a significant amount of political capital. Third, the maintenance men's dispute was very fresh in everyone's mind in the 1970s. It was generally believed that if centralised bargaining broke down there would be widespread industrial unrest and disruption. Concluding agreements did not guarantee industrial peace in the event. While it might appear that there was some inconsistency in government policy, i.e., encouraging people to accept low increases and then accepting increases well above its own targets, it must be recognised that government had multiple targets which were not obviously compatible (e.g., the political impact of industrial disputes as against greater employment).

This process of the politicisation of wage bargaining resulted in wage inflation that was higher than in the case of decentralised wage bargaining. The divorce between what happened to incomes and other policies meant that unemployment was not seen as a result of rapid wage inflation, but as a failure of industrial policy.

In 1976 government sought an integrated pay agreement, taking account of social welfare changes, government finances and the level of employment and unemployment. Although government failed to reach agreement in 1976 the concept of an integrated programme took hold and was incorporated into the first "National Understanding for Economic and Social Development".

At the time, the First National Understanding appeared to be a watershed. The Understanding was a mixture of pay, taxation, social expenditure and employment measures. The most important element of the Understanding was the explicit recognition by all parties (government, employers and trade unions) that pay levels and changes in pay levels were important in realising full employment. Given that, and the integrated nature of the programme it appeared as if, with consensus as to the importance of pay to employment, it would be possible to see incomes as a policy variable.

However, although the Understanding recognised the importance of pay for employment, the actual award on pay was inconsistent with that view. The pay elements, which covered a 15 month period, incorporated a 9 per cent increase in pay for 9 months, followed by a 2 per cent increase over 6 months plus some indexation clauses. This was against a background where end-'78-end-'79 inflation was expected to be no more than 7 per cent. In spite of the award being too high, those who believed that incomes policies could be used to reduce wage inflation below levels that collective bargaining would produce, felt that an important point had been accepted and that it would be possible to build on this on Austrian/Swedish lines to realise and maintain full employment.

There were some elements of this First National Understanding which were a matter of concern, over and above the pay side. First, there were conditionality clauses where social welfare benefits to some groups were dependent on the actions of those outside the group. The government made increases in social welfare, above a certain level, conditional on increases in pay not being above certain levels. It is difficult to see how government could not increase social welfare payments irrespective of what the pay increases were. Even if government chose not to increase social welfare and the likelihood that they would choose this course of action was seen as credible it is not obvious that this would have resulted in lower pay increases, unless the society is cohesive. Second, there was a failure to distinguish between price inflationary factors that should be compensated for and those that could not. The indexation clauses would, in the event, compensate for indirect tax changes and for oil price increases. Third, the public sector was experiencing a series of industrial relations problems, partly associated with a rapid growth in public sector employment and partly the result of public sector pay.

Fourth, the Understanding ignored the public finance problem confronting the economy. The economy in 1978/79 was operating at capacity. For all practical purposes unemployment at 6 per cent of the labour force was as low as it was likely to get. Emigrants were encouraged to return to Ireland to seek employment. However, the economy was experiencing two major imbalances, viz. a budget deficit (PSBR) of 15 per cent and 17 per cent of GNP in

1978 and 1979 and an external deficit of 4 per cent and 11 per cent GNP in 1978 and 1979 (using GNP and Balance of Payments figures available at the time). Both of these were unsustainable (Bacon, *et al.*, 1982). Indeed, the National Understanding added directly to the budget deficit. Furthermore, although the economy was fully employed, a significant element of this represented increased public sector employment funded by borrowing. The National Understanding took no account of this and ignored the need to simultaneously release resources from the public sector and to have lower pay increases in the private sector to achieve full employment.

Whilst these problems were recognised and commented on at the time there was too optimistic a view about the shift in the perception of pay as an instrument of policy:

In spite of these problems the explicit recognition of the importance of pay for employment was positive. The use of wages as an instrument of policy for full employment will not come either readily or without consent so that even a minor shift in this direction must be built upon (Bacon *et al.*, 1982).

The Second National Understanding made it clear that incomes policies would not be developed from the recognition of the relationship between pay and employment and that the economy would find it difficult to reach full employment. The increase in basic rates of pay in the Second National Understanding were inconsistent with that recognition. Officials of the Government, trade unions and employees' organisations had agreed on a low increase in pay — an increase that in the context of the world recession and future recovery was likely to confer a competitive gain on industry. However, government responded to last minute pressure and announced an increase in pay significantly above that agreed. The actual shape of the agreement made no sense from the point of view of any of the parties.

For government the increase in pay exacerbated the budget problem. Superficially it made government look good at a time when electoral factors were important to it. For employers the agreement increased costs excessively and forced a period of rationalisation at a time when they were already adjusting to the world recession. It is difficult to understand why employers agreed to the increase, beyond an unwillingness to go against the wishes of government. For trade unions the increase led to a significant decline in employment and in the numbers of trade unionists. All parties offered some justification for the positions adopted, but it is difficult to avoid the conclusion that the Second National Understanding was in nobody's interest and significantly it marked the end of centralised bargaining up to end 1987.

With hindsight it is possible to see that at some time the politicisation of

the centralised bargaining process would result in pay increases that were damaging, rather than being too high by 2-3 per cent. Electoral considerations represent a bargaining tool for trade unions. For it not to be used requires that trade unions internalise the long-term interests of their members. Clearly this had not occurred in the early 1980s.

The Second National Understanding marked the end of centralised bargaining begun in 1970. It also effectively ended the attempts to construct incomes policies on the Austrian/Swedish models. In a study contained in Bacon, *et al.* (1982), preconditions for the pursuit of a successful incomes policy, based on an analysis of several countries, were derived. These preconditions can be summarised as *permanence* and a *common framework of analysis*.

The issue of permanence is important as it allows long-term structural adjustments to take place and will sacrifice short-term income growth for full employment and higher further incomes.

The common framework of analysis required that all sides of the incomes policy have:

- (i) a shared set of objectives for incomes policies,
- (ii) a common broad model of how the economy works,
- (iii) a common strategy for achieving policy objectives.

Neither precondition was satisfied at the beginning of the 1980s.

What conclusions can we draw from the period of centralised bargaining and from the breakdown of centralised bargaining. First, if industrial relations are the focus of centralised bargaining, it is likely that increases in basic rates of pay will reflect this rather than an incomes policy need. Second, two-tier bargaining will cause very large increases in pay. At a central level increases must satisfy general criteria for pay increases as a minimum — local bargaining will add to this. Third, the involvement of government can politicise the wage negotiation process. This adds to the bargaining power of trade unions on an ongoing basis. Fourth, the electoral cycle can result in serious mistakes.

V DECENTRALISED BARGAINING 1982-1987

The breakdown of centralised bargaining occurred with the Second National Understanding. Employers simply refused to participate in further agreements. Several attempts were made to restore centralised bargaining with an incomes policy element. *The Way Forward* proposed wage restraint as the mechanism for easing the budget deficit, increasing employment and reducing unemployment, and reducing the external deficit. However,

government had no instrument to control incomes. The Planning Board in their *Proposal for Plan* also had wage restraint as a policy instrument to achieve similar objectives but this was to be backed up by a variety of controls.

Both *The Way Forward* and *Proposal for Plan* proved inoperative. The former because of a change in government, the latter because the government wanted to disengage from the effort associated with incomes policies. The experience in Britain, where the Thatcher government had abandoned the almost continuous confrontation with the trade union movement that characterised the previous 15 years, without serious consequences, acted to influence the climate of opinion about the advisability of government attempting to direct the growth in incomes. Thus, once again experience in Britain had an impact on domestic policy. There was also the recognition that centralised bargaining was not the same as incomes policy and that centralised bargaining represented a no-win situation for government. Finally, given the fiscal problem it was clear that government could not engage in an integrated programme as the fiscal adjustment was inevitably going to result in expenditure reductions and tax increases.

The breakdown of centralised bargaining did not result in an outbreak of industrial disputes. The original basis for centralised bargaining was the industrial relations aspect. Centralised bargaining was not a necessary condition for industrial peace. While it can be argued that other factors were at work (e.g., the rise in unemployment) the basic point remains that industrial peace was the rationale for centralised bargaining. This suggests that centralised bargaining, in terms of industrial peace, could have been abandoned in the mid-1970s.

Pay negotiations were carried on at individual firm level. Two principal results emerged. First, pay awards reflected the economic circumstances of firms and sectors to a greater degree than under centralised bargaining. By eliminating one stage in the negotiation process the topping up aspect of localised bargaining disappeared. However, in the early years of decentralised bargaining government increased direct and indirect taxes very heavily. The widening of the tax wedge associated with this still led to wage increases being excessive relative to output prices even though average real incomes were declining. The real product wage rose while the real consumption wage fell.

Second, the wage round was lengthened. During the period of centralised bargaining wage rounds were shortened. This had the effect of reducing the time difference between increases in pay for those at the two extremes of the round. When centralised bargaining was abandoned one consequence was the lengthening of the wage round. This in part reflects the first point, as firms in

financial difficulties as a result of the recession were able to change the timing as well as the amount of wage increased.

During the period of decentralised bargaining there was a sharp deceleration in wage inflation (Table 1). This deceleration, when viewed against the increasing wage inflation in the UK, was an important element of the recovery in the economy. The latest ESRI Medium Term Review (Bradley, *et al.*, 1991) using the ESRI model explains the deceleration in wage inflation in industry in terms of reduced price inflation, the tax wedge, rising unemployment and productivity growth, i.e., the factors one would normally look to even in a collective bargaining environment. A situation where centralised bargaining had continued would, on previous experience, have added to wage inflation by virtue of the two-tier approach and the politicisation of the process, not to mention the budgetary implications of continuing with inte-

Table 1: *Average Earnings (Manufacturing) and Prices 1970-1991*
Percentage Changes

	<i>Average Earnings</i>	<i>Basic Rates of Pay*</i>	<i>Consumer Prices</i>	<i>Wholesale Prices</i>
1970	13.8	16.9	8.2	—
1971	14.9	16.9	9.0	—
1972	15.5	14.3	8.6	—
1973	20.5	20.1	11.4	—
1974	19.3	23.2	17.0	—
1975	30.2	31.7	20.8	—
1976	19.9	17.4	17.3	18.4
1977	17.9	14.8	13.6	17.8
1978	14.8	14.4	7.6	9.0
1979	15.2	16.0	13.2	11.8
1980	18.2	22.4	18.2	11.0
1981	16.7	16.7	20.4	15.9
1982	12.9	15.8	17.1	11.7
1983	11.7	11.7	10.4	6.8
1984	12.2	10.0	8.6	6.7
1985	8.0	8.2	5.4	3.5
1986	7.5	5.6	3.9	-1.2
1987	5.1	5.1	3.2	1.6
1988	4.7	4.0	2.1	4.1
1989	4.0	4.0	4.0	4.8
1990	3.9	5.0	3.4	-1.6
1991	5.0	6.5	3.2	—

*Constructed from Earnings and Hours Worked Series.

grated programmes. The lessons learned in this short period of decentralised wage bargaining were:

- industrial disputes were not an inevitable consequence of not having a central agreement on pay,
- a decentralised framework would not result in an acceleration in pay. Economic factors were just as important here as in other decentralised wage-setting economies with collective bargaining,
- firms were well able to manage the wage negotiation process. One of the main claims of those who favour centralised bargaining is that firms find it difficult to plan unless wages are fixed. Yet fixing wage rates reduces one level of flexibility that firms enjoy under decentralised bargaining.

VI CENTRALISED BARGAINING 1987

The Programme of National Recovery was published in October 1987. The Programme was agreed between government, trade unions, employer and industry organisations. In Section II, "Macroeconomic Policies" it was stated that "an appropriate pattern of pay developments has an essential part to play in the success of this Programme".

Within the context of the Programme it was further stated that "pay increases can be provided at a level not exceeding 2½ per cent in each of the years 1988, 1989 and 1990". Associated with the Programme there were two pay agreements – one covering the Public Sector, while the other was an agreement between ICTU, FUE and the CIF.

At the time of the Programme announcement the general belief was that the wage agreements were just wage agreements, not an outbreak of incomes policies. It was only with the emergence of the Programme for Economic and Social Progress that the Programmes were being presented as heralding the emergence of consensus policies — perhaps picking up on the conceptual framework of the 1976 attempt at consensus and the later First National Understanding. To what extent can we say there has been a fundamental change.

It was noted earlier that the wage agreement element of the Programme for National Recovery was generally seen as simply a wage agreement, along the lines of previous National Wage Agreements and not the expression of an incomes policy. The expectation was that in the private sector wage increases would exceed the 2½ per cent specified. Pay increases would reflect the economic circumstances of firms and the Programme would not succeed in keeping pay increases to 2½ per cent. As expected, private sector increases did exceed 2½ per cent. However, the low increase agreed at national level

was clearly more favourable than a larger increase. The 2½ per cent made it easier to negotiate a low increase in pay in cases where firms were having difficulties — but it is not obvious that the rise, in the absence of the agreement would have been any higher in the private sector as a whole. The ESRI Medium-Term Review: 1991-1996 (Bradley, *et al.*, 1991) is more certain than this. The model predictions for the period 1988-1990 do not suggest that the agreement added anything to the forces already at work at the time, i.e. the PNR did not cause wage inflation to be less than if the centralised bargaining situation had prevailed. Without going too far there seems little reason to change the view that the Programme was inoperative, but with the important caveat that it could have been much worse. In an earlier paper, Durkan (1991) made a slightly more positive assessment:

The basic increase of 2½ per cent, once agreed by trade unions, eased the industrial relations problems associated with low increases in basic rates of pay.

If there had been no agreement on pay, the out-turn for many firms would have been similar, but for those where low increases were warranted, low increases would have been more difficult to achieve.

This possibly puts the private sector agreement more positively than is justified, as there may have been some firms for whom an increase of 2½ per cent was too much. While the option of pleading an inability to pay was open to those firms, companies are generally reluctant to pursue this because of the associated industrial relations problems.

The Public Sector Wage Agreement also provides clear cut evidence that incomes policies were not in force. The basic increases of 2½ per cent were paid in each of the years 1988, 1989 and 1990. However, it is now clear that the agreement simply delayed increases in basic rates of pay. Special awards made under the current institutional framework have effectively undone the gains to the Exchequer of the Programme for National Recovery (Table 2). It is very difficult to understand the scale of the special awards in the context of the three previous years. They are presented as restoring comparability with the private sector — yet the increases seem seriously out of line with the excess over the Programme that emerged in the private sector. Or is this really saying that there was a lack of comparability at the time the Programme was agreed and this was going to be restored? If the latter, then so much for incomes policies.

Thus, the evidence from the outcome on pay increases would not support the view that incomes policies were operative, i.e., that pay increases were less than would have occurred in a decentralised collective bargaining environment. It was ironic that when the Programme for Economic and Social

Table 2: *Public Service Pay 1988-1993 Percentage Change*

	<i>Public Service Pay Bill¹</i>	<i>PNR & PESP</i>
1988	3.1	2.5
1989	2.4	2.5
1990	8.4	2.5
1991	8.1	4.0
1992	9.0	3.0
1993	10.0	3.75

1. Includes effect of increments, special awards, employment changes as well as basic increases. For 1992 and 1993 the figures are forecast changes on the basis of PESP and special claims, revised to take account of policy changes with regard to PESP.

Progress was being negotiated and publicised, political and other comment suggested that Ireland was moving to a new phase of consensus, when the evidence was to the contrary. The Programme for Economic and Social Progress was accepted as a further stage in this consensus view of the world. It is difficult to see how this could have happened given the Programme itself.

First, the increase in basic rates of pay agreed for 1991, 1992 and 1993 were 4, 3 and 3¾ per cent respectively — over 3 per cent above the increase in the Programme for National Recovery. Second, government agreed to further reductions in the taxation of personal incomes. The net effect of these two forces is to increase the real take-home pay of trade-unionists over the period of the agreement. This was the clear stated objective of the trade union movement and the pay elements, coupled with the tax changes proposed in the agreements, were the instruments. Is this what incomes policies are for in an economy with one fifth of the labour force unemployed?

The Programme for Economic and Social Progress lies well within the type of wage agreement previously experienced under centralised bargaining. Centralised bargaining once again has accelerated the pace of wage inflation. If this society really believed in incomes policies then the Programme for Economic and Social Progress would have resulted in increases in pay even lower than in the Programme for National Recovery to minimise further the difficulties faced by some firms. If society were interested in full employment then centralised bargaining provides the possibility of realising it, but the level of pay reached by central agreement must reflect that priority.

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. Incomes policies are unlikely to be effective without an agreement as to how the economy functions, and unless there are clear long-term objectives, independent of the government.

It is still necessary to explain the outbreak of "consensus" analysis. In fact, the Foundation for Fiscal Studies paper did, although it was disguised by the emphasis on fiscal policy:

It is no surprise that once lobby groups get together the result is sub-optimal. The result of bargaining will suit lobby groups, but how does it suit those excluded from the negotiations? The most that can be said for the proposed agreement, if accepted, is that it will not harm those currently employed — there will just be less people than there could be, and of course others will lobby to improve the lot of those on social welfare. The society can congratulate itself again on real incomes gains without worsening the position of those in receipt of welfare. But this is not an incomes policy. It is a cosy way to set pay.

It is sufficient to leave out the last two sentences and to see the society as less than the sum of its parts.

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