A NEW DEPARTURE FOR SOCIAL PARTNERSHIP

Agreed Statement by Fine Gael and The Labour Party

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A New Departure for Social Partnership

Social Partnership has been one of the cornerstones of Ireland’s economic success. Since 1987, our capacity as a country to resolve key economic and social issues through negotiation and joint problem solving, rather than through industrial and social conflict, has been a major competitive advantage, and has contributed to improvements in our economy and in our society. In the global marketplace, a small open economy benefits greatly from a consensual approach to key strategic issues.

That approach, however, must also be agile in the face of changing circumstances and needs, both internally and externally. The Partnership model must adapt and evolve if it is to continue to contribute to Ireland’s economic success.

The forthcoming round of negotiations on a successor to *Sustaining Progress* will test the agility and strategic capacity of the social partners and of the process itself. There are significant outstanding challenges that must be addressed. There are significant fragilities in the Irish economy which cannot be ignored.

Equally, important failings in the partnership model must be tackled. A reformed partnership must include a strong voice for consumers, become more democratically accountable, and itself be more transparent and focused, if partnership is continue to thrive, as we believe it must.

The Changing Nature of Partnership

If negotiations on a successor to Sustaining Progress are successful, they will yield the seventh successive social partnership agreement, in an unbroken line that stretches back to 1987.

The partnership process has undergone significant changes in that time. While it has retained a broadly similar form, the underlying dynamic has altered with the performance and needs of the Irish economy. The first agreement entitled *Programme for National Recovery* was driven by the imperative of resolving the fiscal crisis of that time. Expectations for economic growth were not high, though the preceding NESC Strategy Study had identified the possibility that fiscal stabilisation could yield a growth dividend through lower interest rates. While Irish interest rates did fall in the period of the PNR,
wage moderation under the PNR also enhanced competitiveness, and bolstered the impact of the 1986 currency devaluation.

Such was the success of that programme that the social partners readily agreed a number of successor agreements. Over time, the emphasis shifted away from fiscal stabilisation and towards job creation. In particular, negotiation over net rather than gross wages allowed a dynamic to develop whereby tax increases were traded off against wage moderation. The ensuing growth and job creation yielded dividends to the exchequer, and provided for the possibility of further tax cuts. This virtuous circle fed into the boom of the 1990s.

As the boom developed, however, that dynamic began to erode. As the numbers at work expanded, as emigration was replaced by immigration, as the level of economic activity increased, and as the population grew, increasing pressures came on quality of life issues, and on the infrastructural capacity of the economy. Childcare, the health service, housing, and transport were but some of the problems that were becoming critical, and which made the social partnership model based on tax reductions unsustainable. There was no agreement, however, on how to shift the process away from tax reductions and towards one that addressed issues of investment in infrastructure, or on delivering a challenging agenda of public sector reform, which would turn increased spending into improved public services.

The combination of these factors meant that the partnership process was in serious difficulties as the PPF came to an end. Paradoxically, what saved partnership was the downturn in the economy in 2001. This took much of the heat out of the problems facing the process, and allowed the partners to return to a mode of problem solving with which they were familiar. As the title implies, Sustaining Progress, was focused on managing through a difficult period, rather than addressing the problems of a rapidly growing economy.

The resumption of growth means that the social partners must return to the problems thrown up by a rapidly growing economy, including the management of expectations, which such growth throws up. At the same time, the emerging fragilities of the economy must also be addressed.

**The Dual Competitiveness Challenge**
The Department of Finance, Economic Review and Outlook published in August 2005, reveals the Irish economy to now be more fragile than it has been for many years. Beneath the healthy projection of economic growth in the 2005 there are worrying indications of vulnerability.

There has been a sharp fall-off in exports, industrial productivity is faltering, there have been a stream of job losses in traditional manufacturing, and the economy relies heavily on the construction industry and consumerism in order to maintain growth.

This is in sharp contrast to the very strong performance in export-led growth over the past decade, which was a key basis for Ireland’s economic success. Additionally, employment in companies supported by industrial development agencies has fallen consistently for four years in a row. Even in a modern economy where there is strong growth in the professions, we cannot afford to ignore internationally-traded goods and services.

The Irish economy also faces significant uncertainties. Record oil prices pose problems both for the buoyancy of our export markets, and for domestic inflation. Nor has there been any rigorous official analysis of the possible inflationary implications of the maturation of SSIA’s in 2006, and particularly in 2007. In a monetary union, with a non-accommodating interest rate policy, domestically induced inflationary pressures will ultimately result in lower employment and income growth.

While there has been a welcome return to growth following the slowdown in the early part of this decade, important competitiveness issues have not been addressed. Future competitiveness must be built on a combination of skills, innovation and infrastructure. While there has been some progress in these areas, the Government has not addressed these competitiveness challenges in a convincing fashion. Be it the alarming deficit in broadband, delays in transport projects, continued under-investment in primary education, or sheer dithering on matters such as Dublin Airport, they have quite simply failed to address in any timely or forward-looking manner, our medium term competitiveness challenges.
There is a responsibility on Government to implement a rigorous competitiveness programme which sets key indicators for delivery in areas such as broadband, physical infrastructure, educational attainment, investment in innovation and removal of barriers to competition.

Ireland now faces a dual competitiveness challenge. We must, on the one hand, manage the expectations thrown up by the return to economic growth. At the same time, we must deal with the medium term fragilities that are now emerging in the economy.

**Quality of Life**
There is a clear gap emerging between the success of our economy, and the quality of life for which it provides. Young families routinely pay more for their childcare than for their mortgage. The health service continues to lurch along in crisis. In some parts of the country, simply finding a place in a school is a major problem for parents, while large class sizes and inadequate school buildings remain a feature of Irish education. Greater prosperity has not led to improvements in the quality of our lives in the manner that was possible.

This poses a major challenge for social partnership. While the social partners can agree improvements in wages, and Government can give commitments on personal taxation, quality of life also depends on sustained and sustainable improvements in the basket of goods and services provided by Government. This means real advances in areas like childcare, social and affordable housing, transport, and so on. Where Government fails to deliver such services, wage demands will accelerate, as families seek to compensate in income terms for the expense and pressures resulting from Government failures.

Childcare is a particularly important example. While the Irish economy has benefited greatly from enhanced female labour force participation, Irish society has not engaged with the childcare issues which this has thrown up. Parents face major problems in accessing affordable childcare, and in managing the conflicting obligations of family and work. Government failure in this area has left many families to seek solutions which are far from their preferred outcome, and there has been a complete failure to develop an integrated policy which puts children themselves first. An end to the lip-service on child care must result in the expansion of paid parental leave, improved pre-school education and fiscal support for families with children.
Public Service Reform
While Ireland’s economic success in the last decade is beyond dispute, we cannot say the same about the way in which resources for the delivery of public services have been managed. The constantly unfolding litany of waste after eight years of FF/PD Government has undermined the capacity of the state to address central quality of life issues. There is a substantial price to be paid, both in terms of short-term wage pressures, and in respect of medium to long-term competitiveness. Waste, and inefficiency, of course, also have a serious social impact, since they lessen the impact of social programmes.

We need to carve-out an ambitious agenda for public service reform. The Social Partners will play a huge role in its implementation. This process will affect the livelihoods and working conditions of the members of Trade Unions. It will also shape the capacity to deliver key objectives in economic and social policy. Social Partnership negotiation must be based on a challenging agenda of public service reform. That agenda must include setting meaningful delivery targets for public agencies, creating genuine accountability in units delivering public services, increasing the influence of the users of public services, and facilitating diversity in delivery.

It is the responsibility of Government and the Oireachtas to maintain momentum for this programme of reform.

Democratic Accountability
A proper relationship between the institutions of Social Partnership and the Oireachtas has never been developed. Indeed, the most recent Agreement in Sustaining Progress was never put to the Oireachtas for debate or approval. Nor does the Oireachtas have any role in setting the agenda for negotiations. The Government is currently seeking to enshrine in law a provision that the task of

“analyzing and reporting on the strategic issues relating to the efficient development of the economy and the achievement of social justice and the development of a strategic framework for the conduct of relations and the negotiation of agreements between the Government and the Social Partners”
is a function which is allocated to the National and Economic Social Council on which the Oireachtas has no representation. This strategic framework is never presented to the Dáil in advance of the commencement of negotiations. The Dáil has no role in shaping the challenges which Partnership must address. Moreover, the Government regularly uses the existence of partnership agreements to circumvent its obligation of accountability to the Oireachtas for economic and social policy. Issues raised by the opposition are frequently dismissed on the grounds that they fall within the remit of partnership agreements.

Even though Social Partnership has developed extensive structures for monitoring progress in respect of agreed policy objectives, no formal interaction between the Oireachtas and the institutions of Social Partnership have been developed. Indeed, the development of a strong institutional underpinning of Social Partnership has coincided with a period when there has been little evolution of the institutional framework in the Oireachtas. The existing structures of the Oireachtas for scrutinizing the spending of public money are hopelessly inadequate. Its role as a forum for resolving key policy conflicts has not been developed. Its investigative capacity has been reduced both by the strengthening of the executive arm of Government and by decisions of the Courts. Its role in influencing the direction of policy-making is minimal.

A key issue in the continuing development of Social Partnership is the need to address the issue of the inevitable democratic deficit in this process. From where do the institutions derive their mission and their legitimacy? This cannot be resolved until a new relationship is forged between the Oireachtas, which represents broad civil society, and the individual interests which are represented in the Partnership process.

The recent NESDO Bill seeks to cement the existing dysfunctional relationships with the Oireachtas into law. The idea that adding a token fifteen representatives to the Partnership body that deals with research on social justice issues is not addressing the underlying question of legitimacy. The role of the Oireachtas needs to be developed separately but with a clear authority to interact with the Social Partners.

The management of a new round of Partnership talks should be preceded by the adoption by the Oireachtas of a motion outlining the key challenges, which emerges from assessments in the appropriate Committee of NESC’s advice.
We believe that social partnership agreements and their implementation should become transparent and should be discussed by the Oireachtas Committee on Finance and the Public Service, and that there should be on-going engagement between this Committee and the Social Partners.

**Pay**

**Private Sector:** The practice of bargaining over pay at national level came under pressure under the Programme for Prosperity and Fairness, as wages in some firms and sectors moved ahead of nationally agreed norms. Employers complained that wage settlements at national level were being seen in some workplaces as minima. In a booming economy, partnership was not restraining the bidding up of wages in such sectors. Nor did the idea of gain-sharing become widespread practice. This pay escalation threatened to undermine the legitimacy of the process for employers, and to highlight the problem of how a national level agreement could cope with variance in sectoral productivity growth rates. Gain sharing arrangements, which might address this issue, have not become widespread throughout the economy. This problem may emerge again, should the economy continue to grow and the labour market tighten. The next agreement must address this issue.

**Public Sector:** At the height of the Celtic Tiger boom, there was considerable concern about the inability of public sector pay determination to respond to changes in the labour market, including structural changes in the skill-content of certain jobs, and to the impact of competition for staff from the private sector. There were shortages in key areas, including IT and nursing, to which the system could not effectively respond without costly knock-on effects based on long-established relativities. More generally, where once it was believed that public sector workers had done better out of partnership than the private sector, at the height of the boom there was a belief that the public sector might have fallen behind in key areas. This was the reasoning behind the benchmarking process.

While, as part of *Sustaining Progress*, it was agreed to implement the report of the public sector benchmarking study, there were considerable problems with the transparency of the benchmarking process. The basis for individual awards was never revealed even though they were supposed to be based on objective evidence of comparative pay in the
private sector and specific recruitment difficulties in relation to certain posts within the public sector. The programme of reform which was to be the price of 75% of the award degenerated into a box ticking exercise instead of genuinely challenging the service to reform in order to achieve best practice. This in turn related to the inability of the Government to articulate a convincing set of requirements for change and reform in return for the payment of benchmarking awards.

The fundamental idea behind benchmarking is an important one. Replacing traditional relativities with a serious analysis of the content and skill requirements of particular jobs should produce a more rational system of pay determination, and prevent the build-up of skill shortages in key occupations. Benchmarking must, however, be conducted in a transparent fashion, with the basis of awards being made public, and with awards being linked to a meaningful agenda of public service reform.

**Cost of Living/Rip-Off Ireland:**
A particularly damaging feature of Ireland’s economic success has been the very rapid rise in the cost of living by comparison with what families and workers have to pay in our competitor countries. Margins have increased sharply and even though it is recognized that ‘rip off’ erodes pay increases and impacts particularly severely on the less well off, there has been a tendency to back off the reform of key markets to give a more competitive deal to Irish consumers.

Effective competition regulation is essential to protecting the interest of consumers. Despite improvements in the powers of the Competition Authority, we are yet to see convincing evidence of action being taken to tackle anti-competitive practices, which will have a tangible and substantial benefit for consumers. The Competition Authority needs to focus its resources on this objective.

The consumer has been a soft target for Government too. The Government has used its charges and stealth taxes as a convenient way of filling a gap in finances. Publicly owned companies have taken significant price increases. Regulators have also sanctioned massive price hikes, particularly in utilities bills.

The interests of consumers have not been heard in Partnership discussions. Partnership needs the dynamic of a strong consumer voice.
This Government has failed to represent the consumer and to pursue a rigorous pro-consumer agenda. Within partnership, Government must counterbalance the influence which producers groups exert through providing a voice for consumers, for users of public services, for parents and families.

As part of the Euro-zone, when domestic inflation exceeds that of other Euro-zone countries, Ireland losses competitiveness, and there is a consequent loss of jobs and incomes. This process is a painful one, with casualties often being found in the traditional sectors, where people find it difficult to secure alternative employment. It is vital, therefore, not to lose sight of the disciplines required of Eurozone membership. The scenario which arose in the early part of this decade when higher inflation forced a renegotiation of the pay terms of the *Programme for Prosperity and Fairness* can be avoided, with appropriate discipline in wage setting and fiscal policy. The pattern of pre-election splurges, followed by so-called ‘adjustments’, including increases in indirect taxes and charges, having damaging consequences for competitiveness in medium and long-term, must be avoided.

**Poverty and Disadvantage**

Despite the development of the social partnership model to include the Community and Voluntary sector under the Rainbow Government, the record of achievement in respect of tackling poverty since 1997 has been poor. Relative income poverty has grown, there has been little attempt to reform social welfare, educational disadvantage has not been prioritised as an issue and the RAPID Programme was cynically abandoned. One in seven Irish children continue to live in the kind of poverty that means going without proper clothing and an adequate diet. Serious action to tackle poverty has been lacking. The Government has considerable ground to make up if it is to meet its obligations under the National Anti-Poverty Strategy. The unwillingness of some C&V groups to sign up to *Sustaining Progress* has been a reflection of this frustration with lip-service on the part of Government to really tackling poverty and disadvantage.

**Sustainability**

Time and again, the Government has been allowed to put off major environmental challenges, without being ‘called’ on them by the social partnership model. The failure to develop a convincing strategy on greenhouse gasses is but one example of how the
partnership process has not adopted the long-term developmental perspective that is required, both for the Irish economy, and for the internal dynamics of the process itself.

**Reforming the Process**

One of the challenges for the continuing development of Social Partnership is the need to create a greater sense of ownership and transparency in the process. The process must be more open to scrutiny.

There also a requirement for a more focused approach to non-wage issues, including greater concentration on key priorities, and the adoption of realistic time frames. This means combining a long-term developmental perspective with an insistence on more rapid progress by Government in achieving intermediate targets. Better economic governance also requires the development of mechanisms to assess and react in a timely manner to emerging strategic threats, such as the possible inflationary impact of SSIs, the rise in world oil prices, or over-reliance on construction as a driver of employment growth.
Conclusion

The Partnership process has been one of the key factors in Ireland’s economic success.

The Partnership process must be reformed to face the new challenges including important competitiveness and other structural challenges.

Real advances in public services must be a core objective, linked to a strong reform agenda.

A strong and effective relationship between the Oireachtas and the Partnership process must be established.

The consumer must be given a stronger voice in the Partnership process and there is a particular responsibility on Government to represent users of public services and families under pressure.