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**The impact of the eurozone
crisis on Irish social
partnership: A political
economy analysis**

Aidan Regan

April 2013



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the European
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Governance
and Tripartism
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Foreword

This paper is part of a series of studies funded by the European Commission in the framework of an ILO research project on “Promoting a balanced and inclusive recovery from the crisis in Europe through sound industrial relations and social dialogue”. This project resulted from a partnership agreement between the ILO and the European Commission, which is aimed at the study of the impact of the crisis and crisis-response policies on national tripartite social dialogue, collective bargaining, and labour law in the member States of the ILO and those of the European Union (EU). A special focus is on the role of social dialogue actors and institutions in an admittedly difficult economic and political context marked by austerity policies.

The present study on Ireland by Dr. Aidan Regan (European University Institute (EUI), Florence, Italy) shows that the first casualty of the economic crisis in this country was social partnership and centralized wage bargaining. Despite the fact that a consensual approach to socio-economic policy was the default position of the country’s political economy for 23 years, the Irish government has so far pursued a unilateral rather than a negotiated adjustment. The policy constraints of the European Monetary Union (EMU) and the narrow focus on public sector austerity, in the context of an unprecedented economic crisis, has undermined the capacity of the actors to engage in a strategy of social partnership. Internal devaluation has reinforced the liberal market orientation of Ireland’s public policy regime.

The author details the failed attempt at a negotiated response to the crisis in 2009, the implicit reform strategy of the public sector agreement reached in 2010, and analyses the impact of decentralized collective bargaining in the private sector. He concludes with an assessment of the future of Irish social partnership in the context of increased European integration, weakened trade unions and a changing role for the Prime Minister’s office. A centralized income policy is only likely to re-emerge in a period of economic and wage growth.

The present paper was presented at the EC-funded ILO seminar on “The governance of policy reform in Ireland: Social dialogue, actors and institutions in times of economic downturn and austerity” (7 December 2012, Dublin Castle, Bedford Hall). An earlier version was presented and debated at the research workshop on “The governance of policy reforms in Europe: Social dialogue actors and institutions in times of economic downturn and austerity” (28–29 May 2012, Geneva, Switzerland).

I wish to thank the European Commission (DG Employment, Social Affairs and Inclusion) for funding this research project, as well as Kostas Papadakis for coordinating it on behalf of the ILO’s Governance and Tripartism Department, along with national studies on Spain, Italy, Greece and Portugal which are part of the same project.

The responsibility for opinions expressed in this paper rests solely with its author, and its publication does not constitute an endorsement by the Governance and Tripartism Department of the International Labour Office, or the European Commission.

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1. The institutional architecture of the eurozone

Labour market policy

The most erroneous liberal-market premise of the EMU is the assumption that labour market actors, particularly trade unions, either do not exist or are too weak to resist competitive downward pressure on wages. The design of Europe's shared currency is premised on the non-existence of organized labour (Crouch, 2000) and shares the neoclassical assumption that labour markets can and do operate in perfectly competitive markets. This implicit design of the monetary union assumes that if asymmetric shocks hit, national economies, regions and sectoral industries will automatically adapt through a reduction in labour costs. This reduction in labour costs is presumed to act as a functional equivalent to currency devaluations at a macro level (see Hall and Gingerich, 2004).

Currency devaluation traditionally externalized excessive endogenous labour costs to the main trading partners of a given national economy (Crouch, 2000). Devaluation and exchange rate adjustments acted as a cushion to avoid social dislocation when national economies became over inflated. This option is no longer available for countries of the eurozone. The implication is that an 'internal devaluation' must be pursued by Member States when confronted with an economic shock. This does not take into consideration the structural and current account imbalances within the eurozone nor the distributional implications of shifting the burden of adjustment on to wages and public spending.

The assumption that the entire burden of cost adjustment can fall on labour market actors completely ignores the embedded and historically diverse institutional structures of collective bargaining in European economies. Collective bargaining and negotiated wage setting is one of the core features of coordinated market capitalism or 'social Europe'. Figure 1 illustrates the different levels of bargaining coverage across the eurozone. Every economy, with the exception of Ireland and Slovakia, has collective bargaining coverage of over 60 per cent. Austria, Belgium, Finland, France, Greece, Italy, the Netherlands, Slovenia and Spain all have collective bargaining coverage at 80 per cent or more (see Visser, 2009). This involvement of organized labour in wage setting makes it difficult to impose downward labour cost reductions across the economy. Neither will adjustment be so extensive that it can act as the functional equivalent to currency devaluation. Any adjustment in labour costs will be negotiated between labour market actors (at sectoral or national level) unless labour is so weak that it cannot resist a unilateral imposition of wage cuts. However, the rigid constraints of the EMU's budget deficit requirement, and the newly proposed fiscal treaty, means that government as employer may have no option but to impose a reduction in pay rates in the public sector.

Given the institutionally and historically evolved structure of coordinated wage setting in Europe, one should not assume that organized labour markets are strategically incapable of reducing labour costs through collective bargaining. Most research indicates that those sectors most exposed to international competition have been capable of concession bargaining and internalizing significant levels of wage restraint (Hancké & Johnston, 2009, Traxler & Brandl, 2010, Crouch 2000) or adopting alternative labour market policies such as short-term working to reduce costs. The question for the State, however, is under what conditions can those sectors not exposed to international trade, particularly those within the public sector, do the same? This is a significant problem for countries under the conditions of a severe public finance crisis where public sector pay bargaining is systematically associated with national social partnership arrangements, as is the case in Ireland.

The Calmfors and Drifill (1988) model presented two scenarios for non-inflationary wage growth. On one side of the u-trough are self-clearing liberal markets. There is no empirical evidence to support this scenario (outside the US and the UK) even if it is

deduced to be the most efficient mechanism of coordinating wages (see Soskice, 1990). On the other side of the u-trough are peak level wage bargaining actors who coordinate wages at a national level. This national level coordination is a required incentive for trade unions to internalize the costs of inflationary wage agreements. Most corporatist economies, however, have evolved away from national level coordination. This led many economists to conclude that the advent of the EMU would provide an incentive for the complete deregulation of wage setting akin to self-clearing markets. This did not occur. As illustrated by Crouch (2000), wage setting institutions evolved and adapted to new economic constraints. Most labour market actors adopted an ‘organized decentralization’ (Austria, Germany and Sweden) of collective bargaining whilst some integrated centralized wage negotiations into national tax-based income agreements (Finland and Ireland). Hence, whilst the new monetarist paradigm acted as a stimulus for institutions of coordinated wage setting to evolve, these institutions did not disappear. Wages and labour markets are still institutionally regulated by collective organizations.

The design of the EMU simply assumes that embedded institutions of collective bargaining do not exist, or if they do, the State and employers can effectively ignore them. In the Irish case, centralized wage agreements continued under the auspices of the EMU, but the actors never internalized the constraint that if confronted with a macroeconomic shock, and lacking the capacity to engage in currency devaluation, the entire burden of adjustment would have to fall on wage, labour and fiscal policy. Nor did they provide for collective buffers to offset the negative effects of an economic shock, as provided for in the Finnish income agreements.

Fiscal policy

The EMU was designed for a symmetric pan-European economy but operates in an asymmetric way (see Hancké et al., 2009). The narrow focus on wage-cost competitiveness and fiscal consolidation ignores the institutional diversity, complex problems and structural imbalances both across and within eurozone economies. Policy-makers in the ECB assumed that all eurozone economies would converge in both price and wage costs. Most of the evidence indicates, however, that post-EMU, national and regional economies increasingly diverged on these indicators (see Lane, 2009). Countries shared a monetary currency but not the corresponding institutional governance required to coordinate economic policy. Market processes alone, and a narrow focus on liberalisation, have proved to be an ineffective means of European integration (see Scharpf, 2011).

From 1999 to 2008, large export countries at the centre of the eurozone (Germany) continued to run current account surpluses. This surplus capital and savings was channelled into peripheral economies of the eurozone (Ireland and Spain, in particular) creating an unnecessary oversupply of credit (facilitated by low ECB interest rates) that was channelled into a poorly regulated domestic financial market, which in turn channelled the cheap credit into real estate, as will be shown in later sections. This structural divergence cannot be accommodated by monetary policy alone. In the absence of a central government or a functional equivalent, each national economy operates as though it is institutionally independent. The crisis in the sovereign bond markets that emerged in 2008, however, provided an exogenous stimulus for eurozone economies to recognize the extent of their financial interdependence and the instability of integrated European finance-capital markets. Yet the policy prescriptions adopted were oriented toward nationalistic austerity packages, not coordinated strategies of collective action to tackle structural trade imbalances that had accumulated since 2000 (see Felipe & Kumar, 2011).

The implicit assumption of the EMU is that economic problems only emerge from budgetary indiscipline, not risky and unsustainable economic behaviour in the private market (see Pissani-Ferry, 2010). The growth and stability pact was designed on the basis that public spending is the primary problem facing national governments. The crisis in Ireland, however, was the direct result of a collapse in private property investment and the

associated tax revenues the government had come to depend upon. Both Ireland and Spain experienced an asset price (housing) boom upon entry to the EMU. Non-fiscal asset price bubbles facilitated by cheap credit and low ECB interest rates created this problem, not government spending (see next section). Or, more precisely, the problem is not labour costs and government spending but the mismanagement of private capital by private actors coupled with an unsustainable tax base. The ECB, however, operates according to average (mean) indicators of labour costs and inflation across seventeen eurozone economies. Hence, whilst the Irish economy was overheating internally, the ECB continued to cut interest rates to encourage higher levels of economic growth in what was perceived to be the underperforming economies of France and Germany.

Furthermore, during the period 1999–2009, it was Greece, Germany, Italy and France that regularly exceeded the 3 per cent deficit requirement of the growth and stability pact. Ireland, as will be shown in later sections, went from a stable budget balance to a fiscal deficit of 14.7 per cent in less than two years. Spain went from a stable budget surplus to a deficit of 10.1 per cent in less than 18 months. Spain actually ran a fiscal surplus in 2005, 2006 and 2007 (European Commission, 2010). This begs the question as to whether it is genuinely feasible to use the statistical mean of the growth and stability pact, and the new fiscal treaty, as a basis for how national economies should manage their budget deficits in an economic crisis. With the exception of Greece, all European political economies, by this ‘fiscal’ indicator, behaved relatively prudently in the post-EMU era.

These fiscal indicators, however, mask the type and level of government tax and spend policies specific to particular national economies. Ireland did not run a significant deficit but successive governments institutionalized an unsustainable low tax regime based around ‘political budget cycles’ (see Cousins, 2007). Government revenue became reliant upon consumption and pro-cyclical taxes (i.e. stamp duty on property) that evaporated when its liquidity-rich and credit-fuelled housing bubble burst. Furthermore, social partnership legitimized this process. The EMU is not designed to tackle unsustainable growth strategies of national economies or the structural composition of tax revenues. It simply assumes that government spending in itself is the problem. Therefore, the European Commission and international rating agencies never questioned Ireland’s economic growth model or its fiscal policy regime.

Hence, the narrow focus on fiscal and cost competitiveness (central to European monetary policy) meant that when the crisis emerged in 2008, it was assumed the problems facing ‘peripheral’ economies of the eurozone (Greece, Ireland, Italy, Portugal and Spain) were the same. This was not the case. The Greek problem was definitively fiscal, related to government spending and specific to its own national economy. On the other hand, Ireland and Spain regularly ran budget surpluses and institutionalized a low tax regime that was supported by international bodies such as the IMF and the OECD. Both countries rank below the EU-27 average on two policy indicators that normally impact upon budget deficits: total government expenditure as a percentage of GDP, and total spending on social protection as a percentage of GDP. Total taxation as a percentage of GDP is also significantly below the EU-27. Yet given the neoclassical design of the EMU, both countries must cut expenditure to tackle their deficits despite having relatively low levels of public spending as a percentage of national income.

In a stochastic world, monetary constraints are the primary collective action problem facing countries in the eurozone, not fiscal deficits or wage competitiveness (Darvas, Pissani-Ferry, 2011). But the politics of fiscal adjustment is mediated through country-specific institutions of collective bargaining, industrial relations and social policy regimes (i.e. the historically embedded institutions in the labour market that provide the strategic capacity for trade unions, government and employers to engage with one another as social partners), to which I will now turn my attention.

2. The institutional architecture of Irish industrial relations

The legal and institutional framework of collective bargaining is the most important variable in accounting for the diversity of responses to the economic crisis across Europe (Glassner & Keune, 2010). It is also the most important variable in accounting for national industrial relations regimes. Social partnership, as it evolved in Ireland, is a particular mode of governance that can be distinguished from sectoral and firm negotiation in wage bargaining. It is a government-led tripartite strategy to involve organized interests in the formulation of public policy but systematically tied to the negotiation of income agreements in sheltered sectors of the economy (Traxler & Brandl 2010). In the absence of this wage-setting function, social partnership provides an 'expressive' function that acts as a symbolic legitimization of government policy (see Traxler, 2010). The social partnership arrangements of Central and Eastern Europe arguably fall into this latter category.

If social partnership is a political strategy to coordinate income policy in sheltered sectors of the economy (in particular, the public sector), then it is this form of centralized wage coordination that will come under greatest pressure for downward wage flexibility in the current crisis. Governments faced with the requirement to cut budget deficits have very little to trade with trade unions when public sector pay is a significant portion of general government expenditure. If centralized wage agreements only cover the unionized sectors of the economy (as is the case in Ireland but not Finland, the Netherlands or Slovenia), then wage setting excludes the majority of the workforce. It is this structure of 'inclusive' and 'exclusive' bargaining that conditions whether the social partners adopt a market or collective bargaining response to the crisis. Governments operating within a labour market with 'exclusive' bargaining are more likely to pursue a unilateral strategy of adjustment. They can opt out of a social partnership agreement with little repercussion because trade unions have neither 'carrot nor stick' to be considered a necessary political partner. Governments only have to engage with public sector unions as an employer.

Coordinated wage bargaining that is inclusive across the economy confers significant bargaining power upon the social partners to negotiate labour cost reductions. This multi-employer type of bargaining (as witnessed in Austria, Germany, and the Netherlands) confers bargaining coverage of over 70 per cent and empowers trade unions and employer associations to coordinate their interests autonomously. Given this institutional structure, labour market actors are likely to use internal (firm/sectoral) and external (national) collective bargaining strategies when negotiating a cost adjustment, despite the constraints of the EMU. In this regard, it is those economies that have exclusive bargaining coverage (only Ireland, Estonia and Slovakia have collective bargaining coverage below 45 per cent in the eurozone) that are more likely to experience a fragmented collective bargaining regime.¹ The microconditions in these labour markets do not act as a counter-force to asymmetric macroeconomic shocks, and limit the capacity to adopt a coordinated response. This is particularly the case when negotiated wage agreements are not just exclusive to particular sectors of the economy but contain no legal requirement on multinationals or small firms to implement negotiated wage settlements. This voluntarist dimension complements a market-based adjustment. Employer associations do not encompass the majority of firms covered by national wage agreements, making tripartite structures of social dialogue dependent upon the political preference of the government. This explains the central role of the State in Ireland.

Hence, voluntarist institutions of social partnership that are only applicable to unionized sectors of the economy (Ireland), as opposed to inclusive and legally binding

¹ In Ireland this leads to increased dualisation between the unionized (public and semi-state) and the non-unionized workforce.

institutions of wage setting (Finland, the Netherlands and Slovenia), weaken the capacity of trade unions to be included as an encompassing actor in the politics of adjustment, and decrease the possibility of a negotiated response to the economic crisis. Higher levels of trade union and employer density increase the capacity for negotiated labour market cost reductions when combined with high levels of collective bargaining coverage. From the perspective of the government and employers, weak institutional foundations in the labour market make it easier for them to avoid social partnership, even if this is less effective than a negotiated adjustment based on deliberative agreement. Employer associations are organized on the basis of business lobby groups and their labour market strategies are primarily mediated by employment rights legislation (i.e. individual-based adjudication rather than collective bargaining).

In this regard, liberal market political economies (where market processes act as the main incentive for economic coordination and legislation prioritized over collective bargaining in resolving employment disputes) are better placed to internalize the macroeconomic shocks in the eurozone. In the EMU, only Ireland falls into this category. The industrial relations regime in this country makes it easier to implement orthodox economic policies as the institutional complementarities governing labour market, fiscal and wage policy fit the liberal design of the EMU. Conflict is primarily mediated through dialogue and adjudication via the Labour Relations Commission (detailed in section 6). This dimension of social partnership has remained intact during the crisis whereas the national consensus-based approach to socio-economic policy and pay bargaining has collapsed, leading to the absence of coordination and increased deregulation of the labour market.²

3. The origins of the Irish economic crisis – the euro?

The origin of the Irish economic crisis can be found in the reckless behaviour of private market actors in global finance markets. Post-2000 the aggressive deregulation of global finance markets and domestic credit-mortgage markets led to unprecedented levels of interbank lending within Member States of the eurozone (Lane, 2011). In 2003 Irish banks borrowed the equivalent of 60 per cent of its gross national product (GNP) on European money markets. By 2007 this had risen to almost 280 per cent when securitized mortgages are included (see figure 2). This cheap credit was primarily channelled into real estate and property speculation. The outcome was a colossal increase in house prices in the Irish domestic market (see figure 3). Direct and indirect employment associated with residential construction grew from 7.2 per cent in 1998 to almost 17 per cent in 2007. When this construction bubble burst, the GNP collapsed and unemployment soared. It is a classic balance sheet recession (Koo, 2011). Three out of every four construction workers lost their jobs during the period 2008–2011. In the wholesale and retail sector (the largest employment sector during the ‘Celtic Tiger’ period), 16.2 per cent of all jobs were lost, whereas industrial employment contracted by 18 per cent (see figures 4, 5 and 5.3).

The subsequent fiscal *cum* sovereign debt crisis in Ireland is the direct outcome of the Irish government decision to guarantee all of the private liabilities of its three main domestic banks: Anglo-Irish, Allied Irish Banks and the Bank of Ireland. The bad debt owed by property developers to these banks, in addition to the collapsed tax revenue associated with the construction boom, resulted in the insolvency of the State,³ and

² This makes it difficult to develop a coordinated strategy that reduces job losses.

³ The Irish crisis is primarily a banking crisis. This paper does not go into the fine details of this problem. But it is fair to assume that until the bank debt issue is resolved at a European level, the Irish economy will struggle to recover. The government hopes that a pick-up in exports will do the heavy lifting in resolving the debt-to-GDP ratio.

represents a spectacular failure of the Irish public policy regime. The Irish general government deficit went from 1.2 per cent in 2007 to 32 per cent in 2010 when the full cost of bank recapitalization is included. In the same period the debt-to-GDP ratio went from less than 40 to 110 per cent (see figure 6) and unemployment soared from 4 to 14.7 per cent. Between 2008 and 2010, in an attempt to bring down the fiscal deficit, the government introduced three austerity packages that amounted to 14 per cent of GDP, the largest adjustment recorded by any developed economy in the western world (IMF, 2010). These austerity packages did not have the desired impact. In 2010 the Irish State was priced out of international bond markets and had to resort to a European Commission, ECB-IMF financial loan. The condition of this Troika-led 'bailout' is the introduction of an additional €15 billion austerity package, and a series of structural reforms, to be implemented over four years.

The transmission effect of finance into the real economy has produced what Colin Crouch (2009) calls 'privatized Keynesianism'. Demand-managed Keynesianism associated with the Fordist era of production enabled the expansion of mass production with mass consumption through real wage growth. As growth stagnated with the demise of '*les trente glorieuses*', capitalist democracies had to find new ways to combine the need for accumulation, mass consumer demand and social stability. Policy-makers across the western world responded by opening up product, finance and labour markets to increased trade and competition. This increased flexibility in the labour market created the conundrum of how to sustain domestic demand and high levels of consumption. Countries with a strong manufacturing base such as Germany exported the problem by securing confident consumers in countries such as Ireland, the UK and the USA. These countries increasingly relied upon personally delivered domestic services to generate employment. The problem of how to sustain a consumption economy in an insecure, flexible labour market was resolved by increasing the availability of cheap credit.

The growth of credit markets in Ireland, the UK and the USA meant that these economies became premised on debt-financed consumer spending. Hence, unlike the post-war European welfare state, individuals rather than the state took on debt to stimulate the economy. This debt in Ireland was mostly accounted for by household mortgages, hence the shift from 'State' to 'privatized' Keynesianism. Government policies began to encourage house-price inflation as a means to enable households to leverage credit for consumer spending. The rapid increase in the price of land and housing was considered 'good inflation' (Hay, 2009). Rather than focus on increasing competitiveness through productive investment or the buying and selling of goods and services, the liberal oriented Anglo-Irish-American economies began to sell houses to one another as a means to increase wealth.

Ireland is generally recognized as the only 'liberal market economy' (LME) in the eurozone (Hall and Soskice, 2002). It was the fastest growing economy to enter the European Monetary Union (EMU) and has a business model that is closer to the USA than Germany. In the pre-EMU period Ireland constructed an export economy premised on internationally traded goods and services in the information and communications technology (ICT) and pharmaceutical sectors. When the economy began to slow down after the dotcom bubble, a new growth model premised on credit-driven finance emerged. Irish banks took advantage of the absence of exchange rate controls and low European Central Bank (ECB) interest rates by borrowing excessively on the interbank money markets. Successive centre-right governments deregulated finance and mortgage markets, and introduced a whole series of tax breaks for property construction. The outcome, as stated, was a colossal house price bubble.

The ECB maintained historically low interest rates in the eurozone as a response to stagnant domestic demand in the German economy. The sluggish domestic demand in the German economy was a result of a decade of wage restraint (ILO, 2010). Wage growth in the highly productive export sectors, particularly in chemicals, engineering, steel and metal fabrication has been lower than in almost every other OECD country. In some sectors, it

has declined. But industrial output from these sectors has been growing steadily from the mid-1990s. Hence, their rate of profit has increased whilst wages have declined. Most of this profit has been recycled into the finance industry. The growth in derivatives and other complex financial products has created what Streeck (2011) calls ‘money factories’. These money factories recycle and repackage financial products and make their profit not from increasing productivity or investing in the real economy but through fluctuating interest rates, inter alia.

The ECB-Frankfurt interest rates were aimed at mean or average inflation levels in the eurozone. But in practice interest rates were kept low because of stagnant domestic demand in the German economy, which was the direct outcome of holding down real wage growth. The impact in Ireland was negative interest rates and an influx of cheap money into the economy (see figure 7). Domestic policy-makers could not use monetary tools to contain inflationary pressures associated with rapidly rising house prices (which fuelled residential construction). In the context of an average 6 per cent economic growth rate per annum from 2000 to 2007, it would have been inconceivable for the Irish Central Bank to adopt negative interest rates. But the ECB was targeting the harmonized index of consumer prices (HICP) and this index does not include house prices or mortgage repayments. The Irish Central Bank would have been targeting the domestic consumer price inflation (CPI), as this is the measure used by trade unions to determine nominal wage demand.

The eurozone was an exogenous factor that facilitated an unsustainable boom in Ireland’s property market, and a central factor that must be considered when examining the origins and impact of the crisis on social partnership.

4. The origins of the Irish economic crisis – domestic policies?

In an ideal world, Ireland would have mirrored the German political economy after its entry into the EMU. But given extensive historic-empirical research on the diversity of institutional configurations that make up national labour, fiscal and wage policy in Europe, this was unlikely to happen. The seventeen economies that make up the eurozone have distinct welfare, wage and industrial relations regimes. Irish policy-makers entered the eurozone with a political economy that was gradually converging on European standards of living. But its expenditure on social protection and education as a percentage of GNP was significantly below the EU-15 average. In addition, Ireland’s physical infrastructure, a core factor in long-term economic competitiveness, lagged significantly behind European standards. The largesse that was made available from the pre-EMU Celtic Tiger and European Structural Adjustment funds facilitated a massive capital expenditure programme from 2000 (see figure 8.2). Capital expenditure in 2004 was double the EU-15 average. The National Development Plan was the strategic mechanism through which productive investment in roads, buildings, electricity and waste sewerage took place. This investment contributed to inflationary pressures in the Irish economy but it also generated significant employment in construction.

The unproductive investment in Ireland’s economy occurred in the private real estate market. According to White (2010), real estate accounted for two-thirds of the €477 billion available for capital investment from 2000 to 2008. During this period bank lending tripled, rising from 60 per cent of GNP in 1998 to 270 per cent at the peak of the construction boom in 2007. Real estate increased from 37 per cent to 72 per cent of total bank lending. It was this increase in bank lending on wholesale money markets that created the house price bubble in the Irish economy. Between 1991 and 2007 house prices in Dublin increased by 490 per cent. By 2006, land prices in Ireland were the highest in Europe. By 2007 almost 20 per cent of GNP was accounted for by construction.

This domestic-driven growth created an employment boom in crafts related trades, general labourers and associated professions. Ireland experienced a jobs miracle from 1993 to 2000 with 650,000 jobs created in the private service market. This slowed down after 2000. Unemployment remained at approximately 6–7 per cent. Between 2002 and 2007, Ireland experienced a second employment miracle with an additional 400,000 jobs created. Less than 2 per cent of these were accounted for by Ireland’s export economy. Almost all of these jobs were created in construction, retail and public services. By 2006 one in four males under the age of 25 was employed in the construction sector, mostly as a low-skilled labourer. By 2004, labour shortages were overcome by a huge influx of inward migration from Central and Eastern Europe, putting increased pressure on the dispute resolution agencies of the State.

The expansion of credit fuelled house prices and shifted the Irish economic growth model from one premised on exports (pre-EMU) to one premised on construction (post-EMU). As detailed by Norris and Coates (2010), the commercial mortgage sector was deregulated as part of a wider process of domestic financial liberalisation. Policy-makers were aware that house price inflation would lead to increased wage demands. But to tackle house price inflation the government adopted policies to increase the supply of housing (i.e. build more) rather than ‘interfere’ in the property market by managing lending criteria or controlling prices. The National Institute for Regional and Spatial Analysis (NIRSA) has described the Irish government’s approach to economic policy as a ‘patchwork system of neoliberal governance’. At a macro level it involved the abolition of quantitative restrictions on credit growth, lowering bank reserve requirements, dismantling capital controls and the removal of restrictions on interest rates. At the domestic level Irish policy-makers adopted pro-cyclical fiscal policies, developer- rather than government-led planning, light touch regulation, poor corporate governance and minimal taxation. The patchwork quilt of ‘neoliberal governance’, however, was complicated by the existence of national social partnership, centralized pay bargaining and a relatively generous welfare safety net. Trade unions were not excluded from the national governance framework but central to it. Nominal wage growth, unlike in the UK and the USA, averaged 3 per cent per annum during this period. Real disposable income increased at a faster rate because of cuts in income tax.

Economic growth rates of 5–6 per cent per annum from 2000 to 2007 increased government revenue and employment growth. The 2002 budget, in particular, was designed by the governing Fianna Fáil coalition to win electoral support, after the economy began to slow down. The government introduced a series of tax reliefs on the purchase of rented residential and commercial property. The 2003 and 2004 budgets extended and widened these property-related schemes with the result that Irish fiscal policy became aggressively pro-cyclical and directly linked to construction-related capital investment (Gurdgiev et al., 2010). The increased revenue enabled government expenditure to increase by approximately 11 per cent during this period (see figures 8, 8.1). Most of this expenditure went towards increasing social welfare payments and public sector pay. This satisfied and kept intact the underlying distributional coalition of Irish social partnership. The Irish variant of corporatism was premised on centralized wage restraint in return for decreasing income taxes. The net effect was a path-dependent route of sharing out growth through rising personal incomes rather than an improvement and collective investment in public services.

Ireland’s fiscal policy regime was totally inappropriate to the conditions of a monetary union. The tax-to-GNP ratio remained steady throughout the construction boom. But this masked a significant change in the underlying composition of the tax base. Income tax as a percentage of the total tax take declined from 37 per cent in 1994 to 27 per cent in 2006. In addition, the tax base was increasingly narrowed with the net effect that 50 per cent of employees were taken out of the income tax net altogether. By 2007 Irish revenue was hugely dependent on domestic consumer spending (VAT and indirect taxes) and property related taxes (stamp duty, VAT on new homes, capital acquisition taxes). Property related taxes went from 8 per cent of total tax revenue in 2002 to over 15 per cent in 2006. Hence,

when the property market collapsed, tax revenues plummeted (see figure 8). From 2008 to 2009 government revenues fell by almost €18 billion or almost 20 per cent of GNP. Given the rapid rise in unemployment and the associated social protection payments, government expenditure increased from 37 to 47 per cent of GNP.

Ireland's low tax regime was the consequence of domestic political economy and choices, and legitimated by the privatized political exchange governing the process of social partnership. The irreconcilable tension between instituting a low tax regime, whilst permanently increasing public spending, is a central factor in explaining the collapse of centralized pay bargaining in the Irish case.

5. The collapse of social partnership – monetary and fiscal policy (2008–2010)

In September 2008, the Irish housing bubble burst and the Irish State guaranteed all the private liabilities of the banking sector. Ireland subsequently experienced a 14 per cent contraction in national income between September 2008 and June 2011 (see figure 9). The recession in Ireland, statistically, began one year earlier than in the eurozone. In mid-2009, the eurozone statistically exited the recession and returned to growth (European Commission, 2010); by 2011 Ireland had not. The OECD (2010) predicted growth would return to the Irish economy in the final quarter of 2012. Based on these optimistic forecasts, the recession lasted 36 months longer than the eurozone average. In 2008–2010 Ireland's budget deficit deteriorated, and by 2011 it was the largest in the EMU at 14.7 per cent of GDP (32 per cent when the final cost of bank bailout is included). By 2012 its public debt rose to over 110 per cent of GDP and unemployment 14.7 per cent. The increase in all of these indicators (as stated in the opening section) occurred after the introduction of three fiscal austerity packages in 2008, 2009 and 2010. By 2012, the government had imposed an austerity package that amounted to €25 billion (or 16 per cent of GDP).

The strategy adopted by the Irish government was to internalize the policy constraints of the EMU and target public spending and unit labour costs as a means of adjustment. In terms of wage policy, the government introduced emergency legislation to override the Payment of Wages Act for the public sector in the 2009 budget. This enabled the government to implement a pay cut that averaged between 5 and 15 per cent. It also sent a signal to the entire economy that the Payment of Wages Act was not an obstacle to downward wage flexibility in labour costs. This began a competitive devaluation of wages (although the evidence for pay cuts in the private sector is negligible). In labour market policy, the government introduced some measures to offset unemployment but there was no statutory support for wage subsidies or short-time working.

In fiscal policy, most of the adjustment occurred via spending cuts rather than increased revenue (two-thirds of the adjustment occurred on the spending side). In 2009 €4.6 billion was taken out of expenditure but net government spending increased due to the surge in unemployment and expenditure on automatic stabilizers. Between 2010 and 2011 an additional €10 billion adjustment was pursued, primarily through cuts in public sector pay, social welfare, capital investment and flat rate tax increases. Despite fiscal 'consolidation', the premium on government bonds increased. In 2008 the yield was 4.3 per cent. In May 2010 the yield had increased to 5.9 per cent. In November 2010, the government announced another €15 billion austerity package to be introduced over four years. Bond yields subsequently rose to over 7 per cent.⁴ Fiscal austerity did not appease international investors and Ireland had to resort to an EU–IMF rescue package in

⁴ The bond yield by November 2012 dropped to 5 per cent, primarily because of a European commitment to consider the separation of bank and sovereign debt in Ireland. It is too early to assess whether Ireland will require a second financial package.

December 2010, losing economic sovereignty (see Wolff, 2011). But the conditions of this ‘bailout’ are no different from the four-year programme for ‘national recovery’, adopted by the government prior to the Troika agreement. The latter has become a political tool to ensure its implementation.

The Irish government adopted and internalized the constraints of the EMU in how it has responded to asymmetric shocks. It has pursued an internal devaluation that shifts the entire burden of adjustment on to the labour market without a corresponding investment strategy to boost the growth side of the debt–GNP equation. There has been no recovery in employment nor a tripartite agreement aimed at creating or maintaining jobs. The social partners attempted a negotiated solution to the crisis in 2009 but failed. We will now explain why, and the subsequent political and policy consequences in 2010–2012.

6. The collapse of social partnership – national wage and fiscal policies

One month prior to the economic collapse in November 2008 the social partners negotiated a National Wage Agreement titled ‘Towards 2016: Review and Transitional Agreement 2008/2009’. This agreed on a pay pause for 11 months in the public sector and three months in the private sector, followed by a 6 per cent increase over 18 months. It also included a commitment by the government to improve collective bargaining rights, legislate employment rights, continue public sector reform and conclude an EU directive on temporary agency workers. The Transitional Social Partnership Agreement (T16) social plan negotiated in 2006 was for ten years but the pay aspect of the agreement was to be renegotiated every 24–36 months. The new transitional pay agreement was barely signed when the full extent of the crisis facing Ireland’s economy emerged. Immediately the government signalled its intention to seek a coordinated response and discussions began in the National Economic and Social Council (NESCC). This was the beginning of a 12-month process aimed at negotiating a social partnership agreement that ultimately failed.

Negotiations on a national pact took place throughout December 2009. Significantly, the trade union movement agreed to a reduction of €4 billion in current expenditure. This agreement fundamentally shifted the balance of power away from a public investment strategy. The Irish Congress of Trade Unions (ICTU) now had to find a strategy to take €4 billion out of current expenditure without a reduction in the rates of public sector pay. In return, the Public Service Committee of the ICTU provided a complex package of public sector reform and productivity increases, particularly in the education and health sectors. The government appeared to have accepted a reduction of €4 billion via short-term working schemes and a ‘transformation agenda’ aimed at productivity increases. Peter McLoone, leader of IMPACT, one of the largest public sector unions, exited the talks on December 3, 2009 and publicly announced to the media that a social pact had been completed on ‘unpaid leave’.

The government subsequently issued a statement saying the ICTU proposals did not provide an acceptable alternative to pay cuts and legislated for a second public sector pay cut amounting to approximately €1.3 billion. Emergency legislation was introduced to override the Non-Payment of Wages Act (which makes it illegal to unilaterally cut pay without agreement). The main cuts in public sector pay were as follows: 5 per cent on the first €30,000 salary, 7.5 per cent on the next €40,000 salary, 10 per cent on the next €55,000 salary. The Irish Business and Employers’ Confederation (IBEC) subsequently made the unprecedented decision to withdraw from the private sector transitional pay agreement of the 2006 social pact ‘Towards 2016’. For the first time in 23 years, trade unions, employers and the government were operating in the absence of a national partnership agreement. However, an informal private sector accord was agreed between the IBEC and ICTU in 2011, illustrating the willingness of both actors to engage in social dialogue aimed at minimizing industrial action.

The publication of a report in September 2009 by the Economic and Social Research Institute (see McGuinness et al., 2009) played a significant role in shifting the politics of labour relations to unit labour costs in the public sector. The report found that public sector workers earn, on average, 22 per cent more than their counterparts in the private sector, after taking into account age, experience and education. The report was central to a coordinating policy discourse that resulted in increased politicization of labour relations in the Irish public sphere. Whilst many economists supported the report's conclusions, it was not without its critics. Industrial relations scholars argued that it was too simplistic to statistically compare a homogenous public sector to a homogenous private sector when there was such significant sectoral and occupational differentiation both within and across these sectors (see Geary, 2010). This challenged not the politics of wage coordination in the sheltered sectors of the economy but the methodological complexity of measuring unit labour costs in a heterogeneous economy.

Many trade unionists argued that the 22 per cent did not account for the pension levy (March 2009) or the pay cut (Dec 2009). The ESRI data was from 2006 when a wage agreement was concluded but not implemented. Others argued (Sweeny, 2009) that if the government was cutting wages, it had to indicate whether it was for cost saving, competitiveness or sustaining employment. That is, many questioned the logic of cutting wages to improve national competitiveness. Furthermore, the same authors, in a separate ESRI publication (2008), found that centralized wage bargaining in Ireland generated wage restraint and that many sectors in the private sector used the national wage agreements as a floor – not a ceiling – in their company wage negotiations (McGuinness, Kelly and O'Connell, 2010). Social partnership improved economy-wide cost competitiveness when measured in unit labour costs. The report concluded that export firms can increase their competitiveness by locating in countries with centralized wage agreements. This conclusion seems to be supported by data that analyses trends in sectoral labour costs as indicated in figure 10.1. This shows unit labour costs in the traded 'competitive oriented' manufacturing sectors of Ireland decreasing relative to the OECD average from 2000 to 2007.

Figures 10.2 and 10.3, however, indicate that overall unit labour costs in the economy (labour costs divided by entire working population) have increased beyond the eurozone average. This is particularly the case when the public and semi-state sectors are included in the analysis. This, in turn, would support the thesis by Traxler et al. (2010) that the type of social partnership arrangements that emerged in Ireland are associated with sheltered pay bargains that do not internalize non-inflationary wage growth. The collective increase in unit labour costs supports the argument that public sector wage costs have driven up overall unit labour costs in the economy. But saving costs in the government sector is not the same as improving competitiveness across the economy. It was the latter argument that was used in the Irish case for a collective devaluation of wages. Labour costs chased monetary induced inflation in the Irish economy post-EMU. The causal factor behind this was a house-price boom associated with an oversupply of cheap credit and facilitated by pro-cyclical fiscal policies, not social partnership.

Hence, the absence of a shared analysis on the competitiveness problem and a unilateral pay cut by the government altered the political context within which a negotiated solution could be reached. This is categorically different from the public finance crisis that gave birth to the coordinating role of the Prime Minister's Department in the social partnership process in 1987. In this agreement trade unions were granted income tax reductions, a 2 per cent nominal increase in pay, and active participation in a national development programme aimed at employment growth. From this period on, centralized wage agreements and social partnership became directly associated with the politics of Fianna Fáil.

7. The impact of fiscal adjustment on wage, labour and social policy (2010–2012)

The strategy pursued by the centre-right Fianna Fáil/Green coalition from 2009 to 2010 has been continued by a centre-right Fine Gael/Labour coalition elected in February 2011. Both support the implementation of the Troika agreement: increased labour market flexibility and supply-side reforms, wage competitiveness and the weakening of wage-setting institutions, limited employment protection and minimal State support for collective bargaining aimed at short-term working over collective redundancy. All public policies since 2008 have been designed to restore sustainability to the public finances, repair the banking system, encourage foreign investment, maintain the low tax regime, generate stability and increase national competitiveness. Central to this is reform of wage-setting institutions.

Wage

The public sector pay cut that averaged 18 per cent was designed to encourage a collective reduction in wages across the economy. In 2010 the Fianna Fail government cut the minimum wage by 11.2 per cent but this was subsequently restored by the Fine Gael/Labour coalition in 2011. Recent research by the ESRI (2012) on pay trends in the private sector from 2007 to 2011 indicate limited evidence to suggest that employers cut wages as a means of adjustment. The strategy has been to cut jobs and working hours.⁵ Hence, there has not been an internal devaluation. Whether this is considered a case of wage and price rigidity (requiring structural reform) or an example that an internal devaluation cannot work, ultimately depends on one's political preference. What matters is the empirical observation that there has not been a systematic reduction in wages. Labour costs have been reduced through employment losses. Whether this could have been avoided via a centralized social partnership agreement is a moot point. But it does suggest that institutional coordination by the social partners, rather than market forces, is a better mechanism for negotiating a series of trade-offs in favour of job protection and flexibility. In Ireland, the preference has been for market-clearing.

The EU/IMF Support Programme in 2010 required the government to establish an independent review of two distinct wage-setting mechanisms for the low paid in the Irish economy: Employment Regulation Orders (EROs) and Registered Employment Agreements (REAs). EROs primarily cover the pay of employees in hotels, restaurants and retail outlets. These are negotiated by joint labour committees (JLCs) composed of employer and trade union representatives who generally set wage floors that are 8 per cent above the national minimum wage (€8.65). The REAs legally extend collective agreements across particular sectors. These are primarily used in the construction and electrical contracting sectors. An independent review recommended that these wage-setting mechanisms be retained but reformed,⁶ arguing that there was little competitiveness gains to be achieved through deregulating collective bargaining. This recommendation did not fit the preference of the Irish Business and Economic Confederation (IBEC), and of the main voice calling for flexibilization of these institutions, the Small Firms Association (SFA).

In July 2011 the High Court declared sections of the legislation governing the ERO system unconstitutional. Subsequent to this, the pay and conditions of 200,000 workers remained in a precarious position, with some employers seeking unilateral pay cuts

⁵ A separate survey, published on 24th May 2012, by the retail based MANDATE Union, has shown that on average their members have suffered income cuts of €107 per week, primarily because of working hour reductions.

⁶ Similar to an ESRI (2012) study, this report found that there were little competitiveness or employment gains to be achieved through deregulating labour markets, collective bargaining and wage setting institutions.

(contravening the 1991 Non-Payment of Wages Act). Importantly, one of the main defenders of the wage-setting system after the High Court judgement were employers in the contract cleaning and security sectors. This exposed sectoral divisions and a lack of coordination among employer associations, calling into the question the representativeness of important business lobby groups such as the SFA.⁷ The government coalition, under pressure from the Labour party, has reinstated the system, albeit with significant reform (i.e. increased flexibility and inability to pay clauses). It is reform of this labour market institution that has caused the most political turbulence among the social partners, as its reestablishment is generally considered a victory for trade unions.

Labour market and labour relations

Using the OECD index of ‘strictness of employment protection’, only one country (UK) in the EU has a more flexible labour market than Ireland. This flexibility has made it easier for employers to let staff go during the crisis. Minimal support has been provided by the state for policies aimed at short-term working or alternative labour market policies to minimize employment losses through additional income supports – reflecting the liberal nature of the Irish labour market. The focus is on supply-side reforms which includes the restructuring of the main training agency (FÁS). Whilst the public finance crisis has removed the resources required for a job stimulus, an ambitious ‘action plan for jobs’, to be achieved over four years, has been adopted, with a lot of input from employer associations. In addition to this, the government has prioritized tax breaks for the financial sector, introduced a flat rate of tax for all households/employees, developed a national internship scheme, reduced payments of statutory redundancy to employers, and developed a comprehensive sector-based employment plan for the export sectors of the economy. None of this is done in conjunction with the social partners.

The social partners have observed an absence of policy coherence by the newly elected government on labour market issues, including the ‘pathways to work’ scheme, job-bridge and springboard programmes, all of which are spread out over three administrative departments. The labour market policy unit, previously based in the Department of Enterprise and Jobs (where FÁS used to be located), has been transferred between the Department of Education and the Department of Social Protection. This reflects a long-standing shift in the Department of Enterprise away from industrial relations and labour market issues toward competition, supply-side reforms in training and skills, trade and innovation. This structure is quite unlike most European countries in which departments dedicated to labour market and social policy support the administrative management of Bismarckian-type social security regimes. Ireland has the second highest job vacancy-to-unemployment ratio in the OECD. There are 56 unemployed persons for every job vacancy. Given the skillset of unemployed construction workers and those in the retail sector, these are faced with the prospect of long-term unemployment, reskilling for future jobs or emigration. The employment crisis is one of demand not supply.

As part of efficiency savings efforts, the Department of Enterprise has announced the reform of the dispute resolution agencies of the State. This involves merging the Labour Relations Commission, the Labour Court, the Rights Commissioner, and the Employment Appeals Tribunal under a new Workplace Relations Service. This is broadly supported by the social partners, despite the absence of their involvement in its design. The Department of Enterprise is actively seeking to reform and make more efficient 40 pieces of employment rights legislation. The two governments since 2008 have scrapped the employment rights programme contained in the T16 Agreement. The employment strategy is to facilitate labour market deregulation, competitiveness and entrepreneurial activity, not public investment or stimulus.

⁷ There is minimal data available from employer associations in Ireland on who they actually represent, and how decisions are actually taken. This makes them more like ‘lobby groups’, quite unlike European employer associations.

Social security and employment protection

Headline social welfare payments rates have not been cut in Ireland, despite an austerity package that after six years will amount to more than 16 per cent of GDP. However, this masks significant reductions in the payment of child and single parent support supplements (amounting to €475 million or 2 per cent of total departmental spending). In other government departments, the burden of adjustment has primarily occurred in education, community welfare schemes and healthcare. New active labour market policies are being developed, requiring the unemployed to take up all offers of employment. A pathway to work scheme has been introduced, aimed at retraining and upskilling. But none of this is done in conjunction with the social partners.

The overall objective is increasing flexibility and ensuring a business friendly regime. Few question this focus on labour market ‘supply’ and its impact on an increasingly precarious workforce, in a context of an aggregate ‘demand’ crisis. Reforms of wage setting, labour market and social security are all premised on saving costs, and have not enhanced the institutional or payment support for those on radically reduced incomes.⁸ Previously, all of the above reforms would have occurred through a social partnership agreement, coordinated by the Prime Minister’s Office. Presently they are being pursued unilaterally by government departments, via cabinet subcommittees, or bilateral relationships with government ministers. This represents a significant shift away from inclusive concertation to pluralist lobbying in the formulation of public policy in the Irish State.

8. The impact of fiscal adjustment on collective bargaining – private and public sector

Notwithstanding all the above reforms, the Irish social partners continue to support the ‘rules of the game’ in resolving industrial conflict in the public and private sector. Whilst national-level partnership is not being pursued by the State, and wage determination has shifted back to firm level, there are significant changes taking place through bipartite collective bargaining at the company and sectoral levels. There have been two separate systems of collective bargaining governing industrial relations during the crisis: the public service agreement 2010–2014 (the Croke Park Agreement), and the IBEC-ICTU national protocol for the orderly conduct of industrial relations and local bargaining in the private (unionised) sector (2011), which has since been renewed in November 2012.

The Croke Park Agreement and public sector reform

The Croke Park Agreement is the most important and high profile collective bargaining response to the crisis in the public sector. It was negotiated through the chief executive of the LRC in 2010, after the failed social partnership negotiations in 2009. Through this Agreement, public sector unions, rather than the ICTU, are heavily involved in the management of the public finance crisis. For the government it provides political cover and a framework for delivering the necessary industrial stability to implement cost-saving measures. The core features of the agreement include: no more pay cuts for public servants in return for industrial peace, reform of bonus payments, a recruitment freeze in health and education, and new pay and conditions for new entrants to the public service. Importantly, the majority of cost reductions in the public sector, to reduce the pay bill by an additional

⁸ The CSO Survey (2012) on Income and Living Conditions (SILC) has shown that the cumulative impact of the crisis (and budgetary adjustments) has been deeply regressive. The bottom decile has seen their incomes reduced by 25 per cent whilst the top decile has seen their income increase by 5 per cent.

€3 billion by 2014, are occurring via voluntary redundancies. Where these will be implemented is not part of the Croke Park Agreement. Hence, for the government, it may be argued that the agreement is a strategy to guarantee industrial peace in pursuit of its public sector reform agenda. Central to this is a lean policy focused public service, the sale of semi-state assets and greater use of external service providers.

In April 2013, the Fine-Gael/Labour government attempted to renegotiate the Croke Park Agreement with public sector unions.⁹ This was rejected by popular ballot despite the leadership of SIPTU calling for a ‘yes’ vote. Given the extent of the debt crisis facing the Irish State, and the percentage of expenditure on public sector salaries, it is highly uncertain whether the government will pursue another unilateral pay cut. Presently the health and education sectors are doing most of the cost savings through a radical reduction in staff numbers. This will put unforeseen pressure on a public sector which according to the OECD (2009) is already small by international standards. But efficiency savings in the public sector, as a mechanism to reduce the budget deficit, will not solve Ireland’s public debt or fiscal crisis. The impact of the austerity-driven reforms will open up new cleavages among public sector employees as new entrants will have significantly reduced pay and conditions compared to their unionized colleagues. This dualisation is a serious problem that needs to be confronted by public sector unions.

ICTU–IBEC Protocol in the private sector

The Croke Park Agreement illustrates that collective bargaining is most influential in the most unionized sectors of the economy: the semi-state and public services. Outside the public sector there has been a decentralization of wage bargaining to the company level, managed by the IBEC-ICTU protocol. This AGREEMENT is premised on a strategy to sustain employment when companies face economic difficulty. In practice, it is symbolic, and serves as a mechanism to show the dispute resolution agencies of the State that ICTU and IBEC still recognize one another. Outside this protocol there are examples of innovative approaches to company-level partnership in the unionized private sector. Kirchhoff, Leo, Kerry Foods, Becton Dickenson, Saica and Theo Benning have all engaged with the SIPTU’s (Service, Industrial and Professional Trade Union) ideas aimed at developing a bipartite approach to change. But in the non-unionized sectors of the economy, reforms are being driven by employers, not by coordinated collective bargaining. This has led to increased fragmentation and dualisation in the Irish labour market. Collective bargaining only exists in the declining unionized sectors of the economy and the public sector. In recognition of this, trade unions have made the legal right to collective bargaining a core part of their strategy for 2012–2013.

Many of the 55 ICTU affiliates can only be described as staff or professional associations representing very specific interests. SIPTU and UNITE are the only large scale industry based unions with cross-sectoral representation, and these, in addition to MANDATE, are driving the core strategy of ICTU’s public investment proposal. Simultaneously, SIPTU, MANDATE and UNITE have developed an ‘organizing agenda’ in response to a rapid decline in trade union density and the ‘casualisation’ of the workforce in the private sector, but this is proving difficult. SIPTU, in particular, has been equipped to service its members via government-sponsored social partnership. Large private sector unions are struggling more than their public sector associations to find an identity in the absence of direct access to government. SIPTU has, however, developed a variety of sector-based responses in the chemical, pharmaceutical and electronics sectors. Presently, few of the large unions would support a partnership deal that would link them with responsibility for managing the public finance crisis.

In the absence of a social partnership agreement, and with the new role of Labour in government, ICTU has yet to develop an encompassing strategy beyond strong advocacy

⁹ This is the first time a national agreement has been rejected in over twenty five years.

for an investment stimulus aimed at employment growth. It has prioritized resources to fund a new economic think tank, the Nevin Institute, with the role of providing an alternative economic analysis to the Department of Finance and the ESRI. But there is no underlying shared technical analysis on how the ICTU, IBEC and the government can generate economic and employment growth, even though they all agree that ‘growth’ is the only way to resolve the debt crisis. ICTU wants the government to pursue a public investment strategy, using national pension and European strategic investment funds, in addition to off-balance stimulus. IBEC shares this growth agenda but not public investment, whilst the government is firmly committed to its fiscal adjustment targets. It has introduced a fiscal advisory council, medium-term spending ceilings in all government departments, and is currently in the process of legislating a ‘fiscal responsibility bill’. Economic growth is to be achieved through labour market and product reforms.

The withdrawal of the State from social partnership has exposed an underlying weakness of trade union and employer associations in coordinating their interests autonomously. There has not been an organized decentralization of wage coordination, limited support has been provided to collective bargaining, and there is no State support for statutory short-term working schemes or the flexible reduction of working time with partial compensation for income losses.¹⁰ This narrow focus on labour costs and fiscal consolidation has led some to conclude that twenty-two years of social partnership is a case of ‘Thatcherism delayed’. But given the monetary constraints of the EMU, Member States must pursue an internal devaluation (Baccaro & Armingeon, 2012). The implication is that the entire distributional burden of adjustment is shifted on to fiscal and labour market policy.¹¹ To move beyond this requires a transnational European response. This is a challenge for all the actors in Ireland.

9. Assessing the impact of the crisis on social partnership

In the majority of non-unionized and precarious sectors of the labour market there is little or no interaction with the industrial relations institutions of the State. This has exposed a representational crisis for ICTU, whose affiliates have experienced a gradual decline in trade union density and bargaining coverage.¹² After twenty-two years of centralized bargaining, trade union officials are not equipped with the skills for firm or sector-based negotiation.¹³ Remarkably, given the employment crisis, there has been very little industrial action. There were only eight strikes in 2011, with 3,695 days lost – one the lowest in the OECD. Most conflict is resolved through state-led dispute resolution agencies, leading to an increased role for the Labour Relations Commission. But given the voluntary nature of Irish industrial relations and a flexible approach to enforced employment rights legislation, some employers are developing innovative strategies to avoid contractual obligations. Protests by workers in Vita Cortex, Lagan Brick, La Senza, Game, Waterford Crystal, SR Technics and Thomas Cook reflect the difficulties faced by employees in enforcing the terms of their contracts.

The most important lasting change from the collapse of social partnership is the role of the Prime Minister’s office. This office was central to the negotiation, continuation and

¹⁰ There is no equivalent to the German *Kurzarbeit* scheme, the French *chomage partiel*, the Italian *cassa integrazione guadagni*, or Swedish style temporary layoff schemes, all of which are implemented by collective agreement at sectoral level.

¹¹ This is not to say the government has no domestic choices. In fiscal policy, it could increase corporate taxes as an alternative to public cuts. In labour market policy it could choose to support collective bargaining and income supports.

¹² To what extent social partnership ‘caused’ this decline is beyond the scope of this paper.

¹³ This is something that came up in the interviews with the leadership of private sector unions

institutionalization of the social partnership process. Under the current Fine Gael Prime Minister, this role has effectively ended. The National Economic and Social Council (NESC), an agency central to the underlying shared analysis of social partnership in origins and consolidation of social partnership, has been tasked with continuing social dialogue. Its role has arguably increased during the crisis, even if its influence has certainly been diminished, given the shift back to the Department of Finance in policy coordination. An internal report by the Department of Finance concluded that social partnership, as a mechanism for the Prime Minister's office to increase its role in government by sharing policy space with organized interests, was a causal factor in Ireland's public finance crisis. This assumption is also shared by a large part of the governing coalition.

Business associations, particularly the small firms association (SFA), appear to have more access to government decision-making than under formal social partnership agreements, reflected in the formulation of the government's job strategy. Some trade union leaders have close relationships with Labour ministers in government, and use this as an indicator of 'social dialogue'. But none of these informal bilateral relationships with ministers, in a more open government, have an impact on the main actors driving economic policy: the Department of Finance and the Department of Public Expenditure and Reform. This engine room of the state supports the policy assertions and oversees the implementation of the Troika (European Commission, the ECB and IMF) adjustment programme. The focus is firmly fixed on fiscal consolidation (to generate a Ricardian equivalence in the macroeconomy, and achieve a budget deficit below 3 per cent of GDP by 2015), not economic growth or investment.¹⁴ In this context, a renewal of labour inclusive social partnership, under the constraints of the Troika adjustment program, is highly unlikely.

10. The future of social partnership in the EMU

The economic crisis has not resulted in a breakdown in industrial relations because of a pragmatic preference by the social partners for stability. Whilst there is no formal social partnership agreement, the relationships built up over twenty-two years has led to important sector-based agreements such as Croke Park. In the private sector there is no incentive for Irish employers to engage in a coordinated labour market response to the crisis. The strategy has been to cut jobs rather than wages as a strategy of adjustment. In the absence of beneficial constraints on employers, to improve labour market coordination, social partnership will remain a centralized process dependent on the political preference of the government. This illustrates the limits of voluntarism in a context of weakened private sector unions and non-encompassing employer associations. To improve economic growth, production strategies, employment performance and social dialogue requires an institutional reconfiguration aimed at embedding social partnership, and equalizing power relations, in the labour market. The role of the State in facilitating this process is central, but it remains unlikely that the government will legislate for a right to collective bargaining.

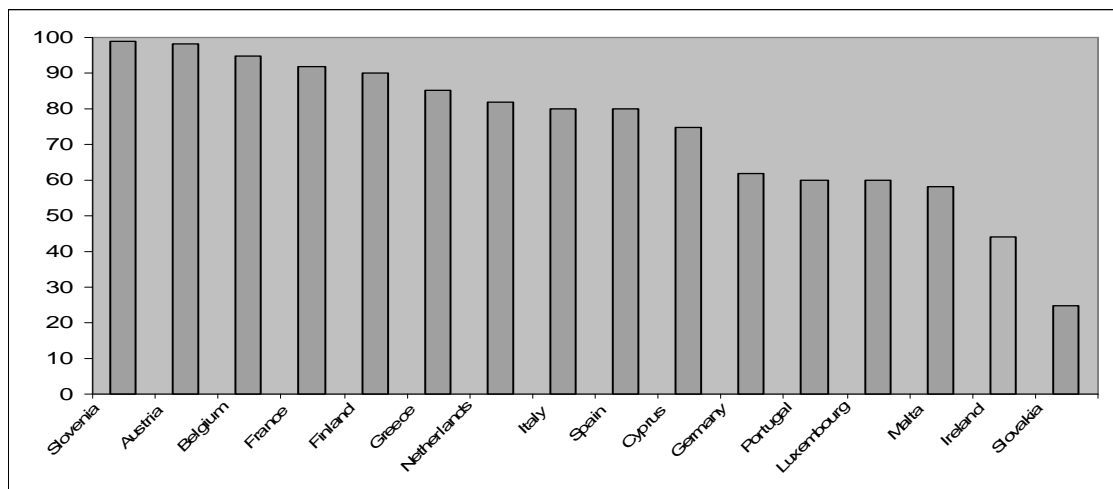
The complete mismanagement of the macroeconomy in the post-EMU era represents a spectacular failure of Ireland's model of capitalist development. For this reason social partnership has been identified as part of the problem, not the solution. In the absence of economic growth, a centralized wage agreement is not likely to be resurrected anytime soon. However, two factors might combine to change this. Firstly, when pay pressures emerge in the private sector, employers may seek a centralized wage agreement to control

¹⁴ The Minister for Expenditure and Reform, Brendan Howlin, has since indicated his strong willingness to consider ICTU proposals for off-balance sheet public investment stimulus. The impetus for this has been increased since recent political changes in Europe, particularly the election of Francois Hollande in France.

labour costs, and secure the competitiveness gains of several years of non-wage growth. Secondly, in a context of increased EU monetary and fiscal integration, the government will attach increased importance to incomes and labour market policy in managing the economy. The government, in this context, may want a national ‘competitiveness oriented’ income policy to ensure that the gains of an internal devaluation are not lost. Whether trade unions want to get into this type of relationship with the government, in the absence of a coordinating role for the Prime Minister’s office, is an open question. But they are not likely to refuse access to the policy-making apparatus of the State in a context of weak collective bargaining rights in the labour market.

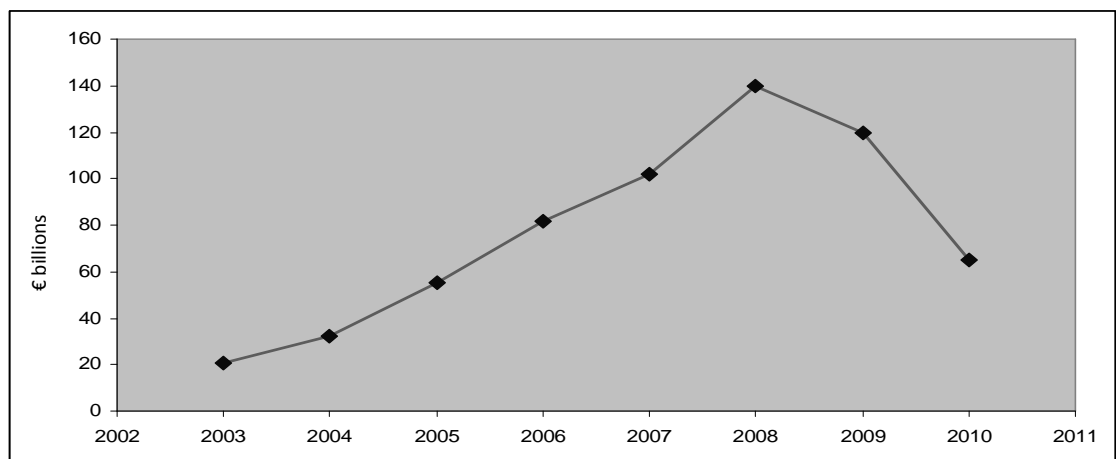
Annex

Figure 1. Collective bargaining coverage in the eurozone



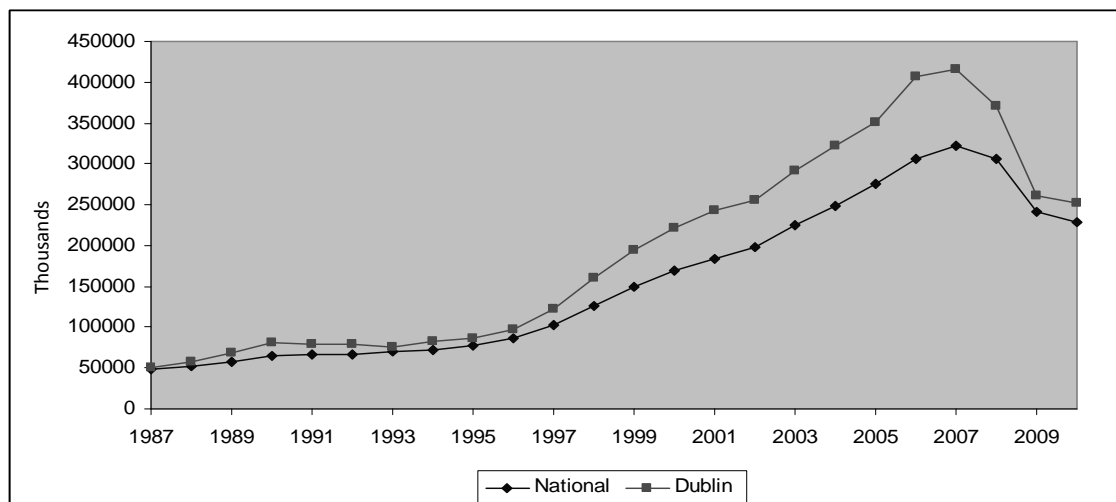
Source: ICTWSS Database

Figure 2. Net foreign liabilities of Irish banks



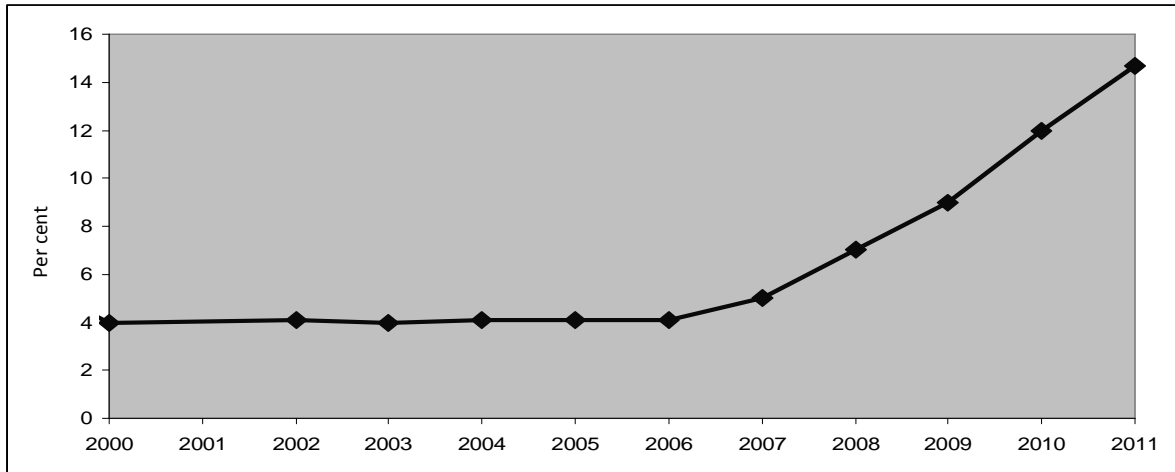
Source: Department of Finance (2011)

Figure 3. House prices in Ireland, 1987–2010



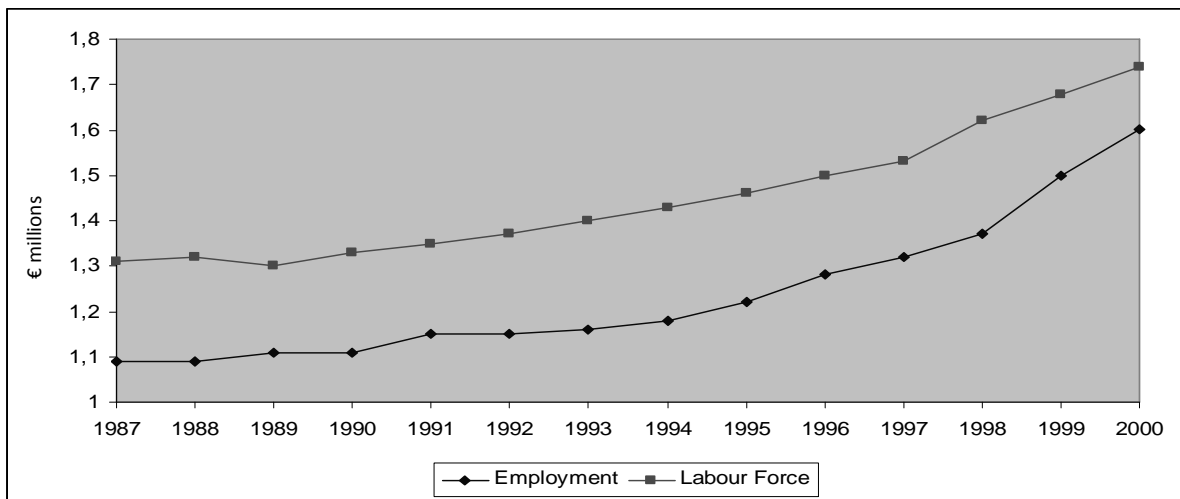
Source: Department of Finance and budgetary Statistics (s2011)

Figure 4. Unemployment rate as percentage in the Irish economy, 2000–2010



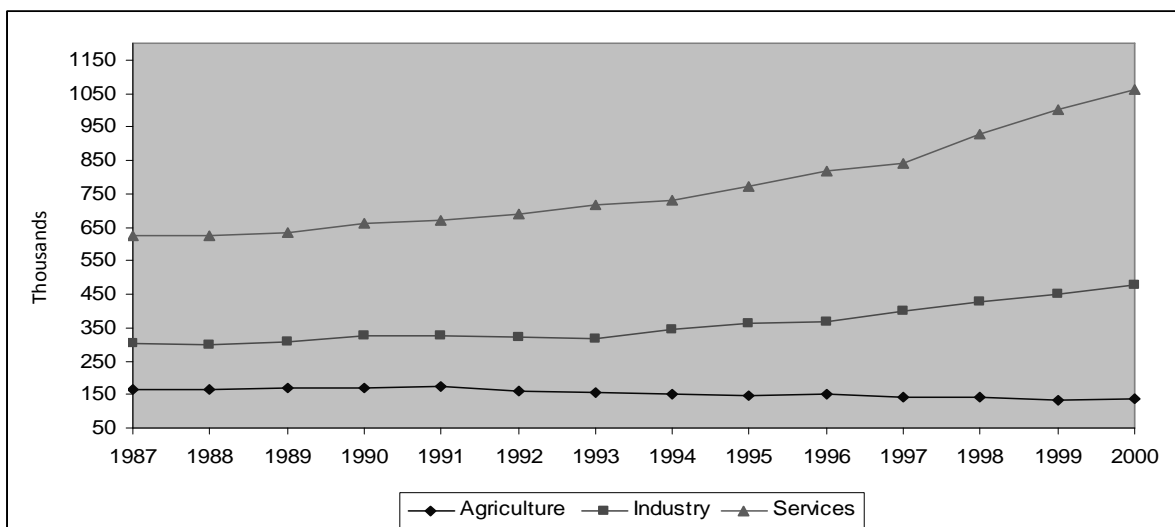
Source: Department of Finance and Budgetary Statistics (2011)

Figure 5. Total employment and labour force in the Irish economy, 1987–2000



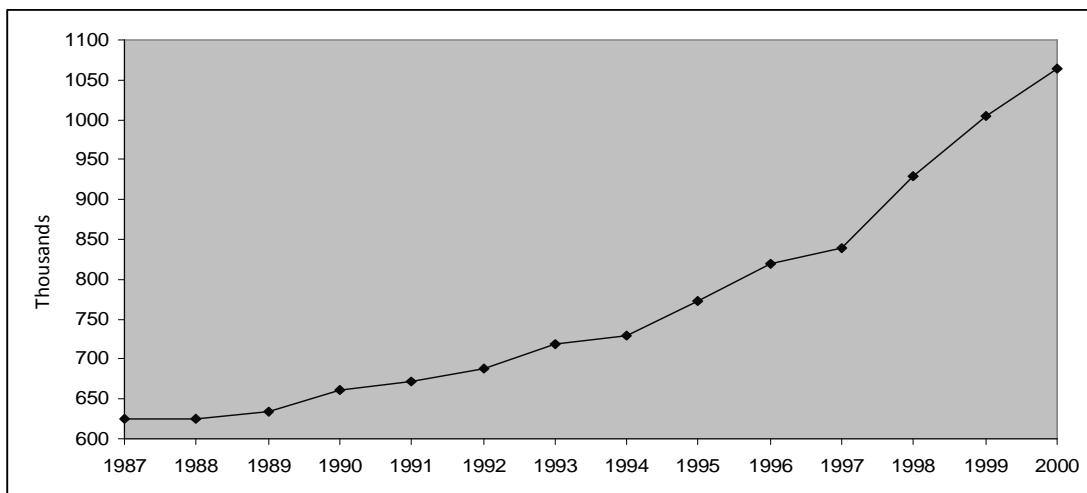
Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 5.1. Sectoral composition of the labour market, 1987–2011



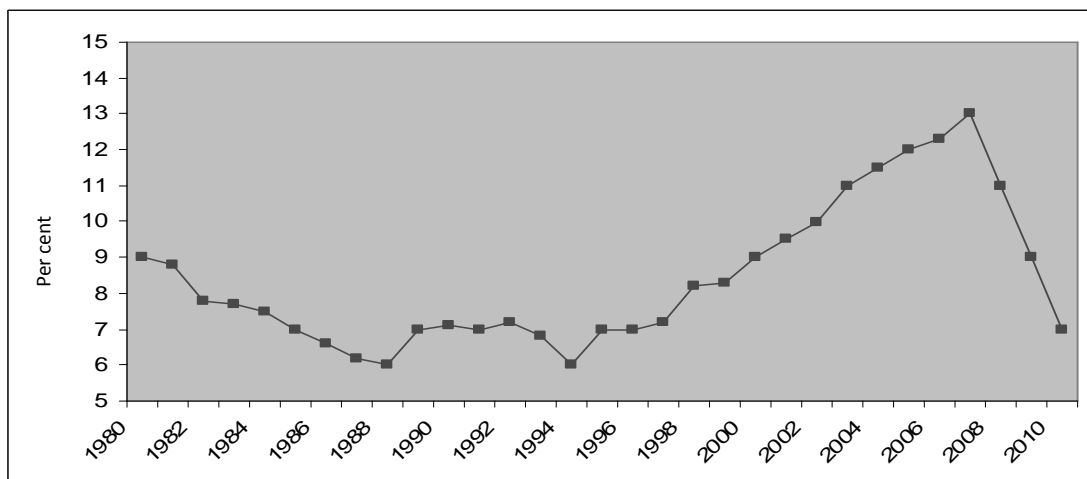
Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 5.2. Total employment in services, 1987–2000



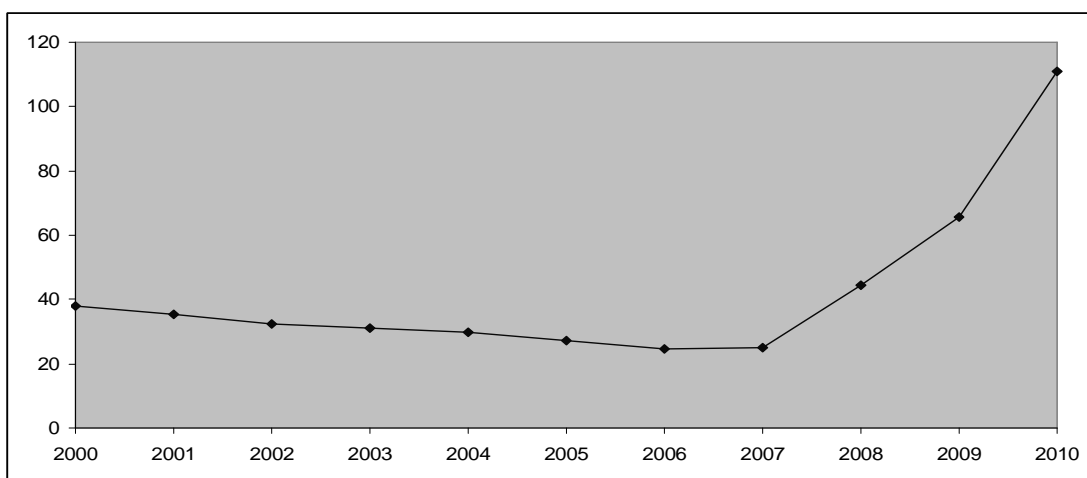
Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 5.3. Construction as percentage of total employment



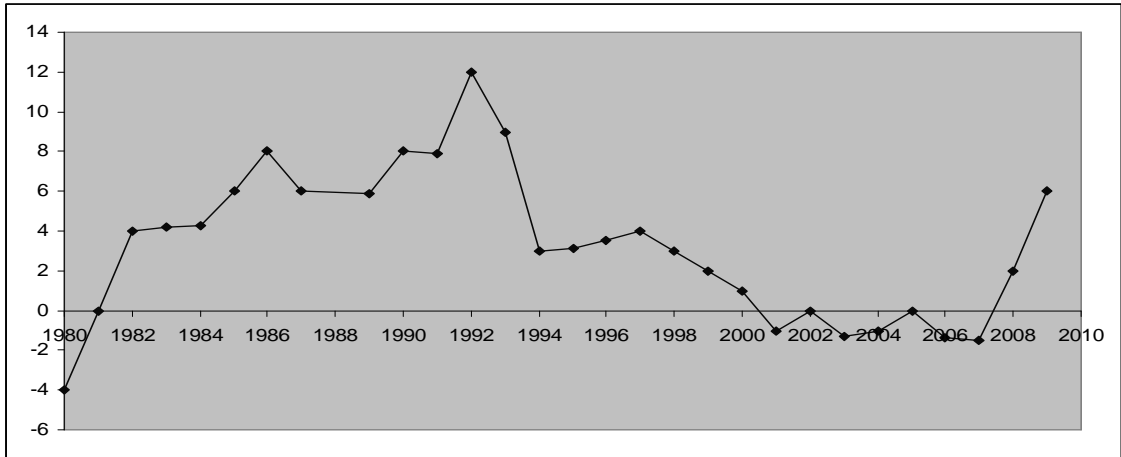
Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 6. National debt as percentage of GDP, 2000–2010



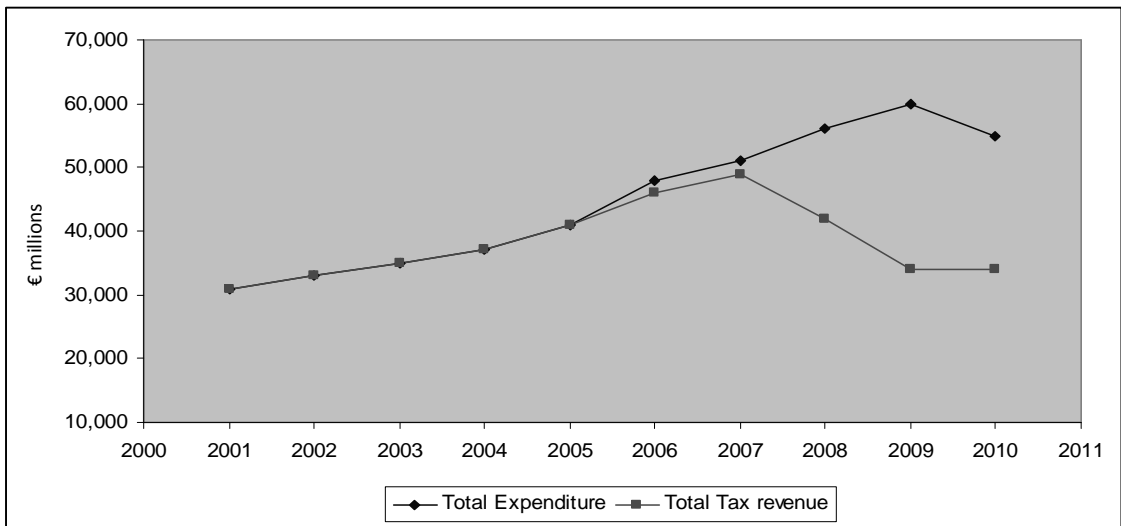
Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 7. Interbank interest rate, adjusted for inflation, 1980–2009



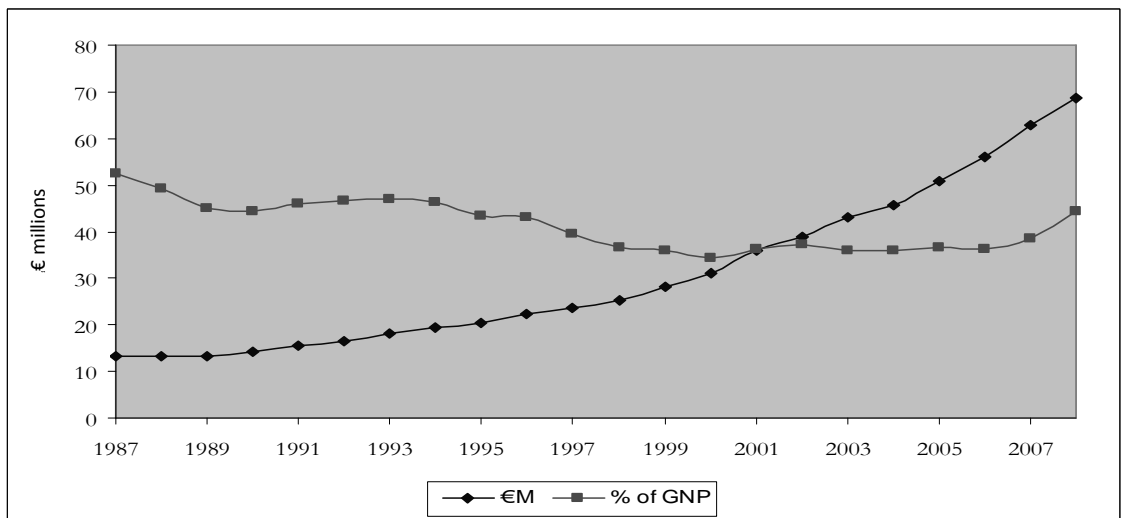
Source: Irish Central Bank

Figure 8. Total tax revenue and expenditure in Ireland, 2000–2010



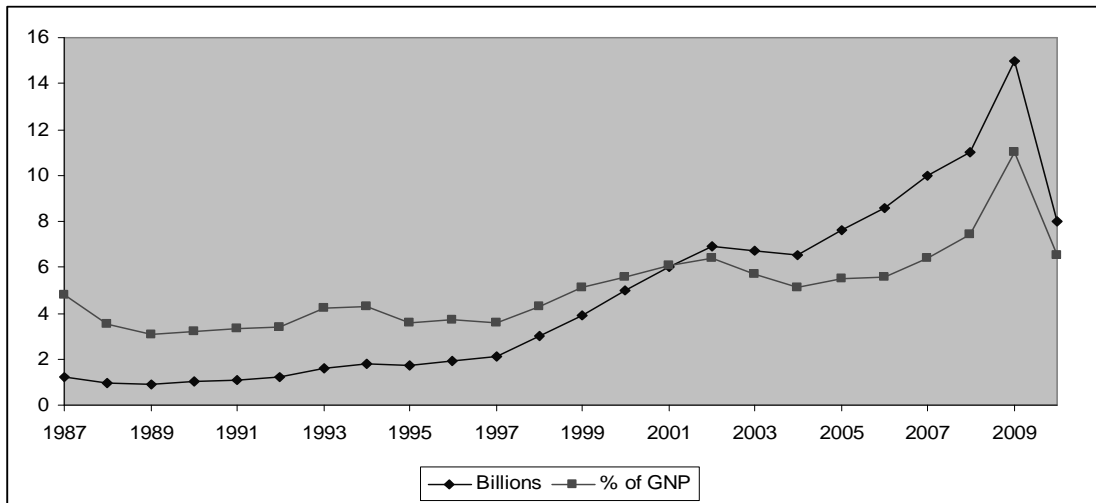
Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 8.1. Total government expenditure, 1987–2008



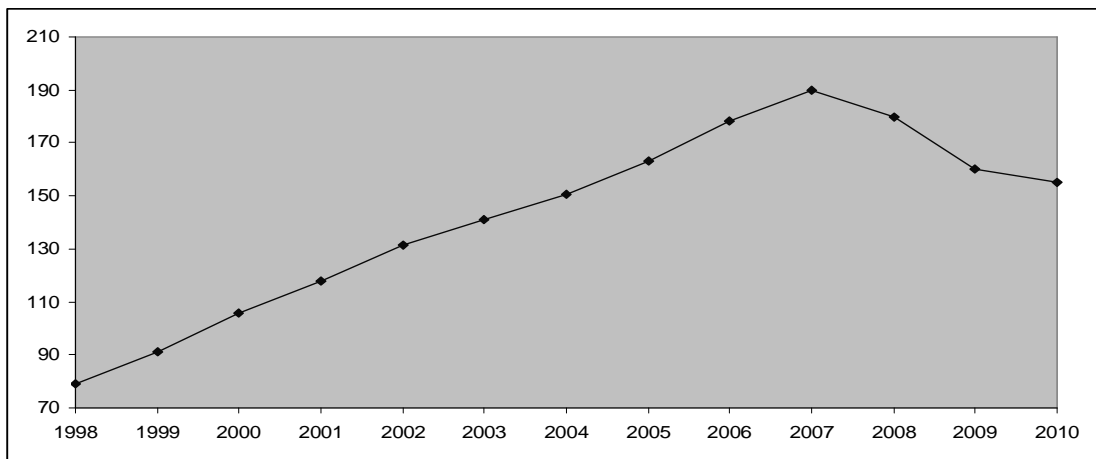
Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 8.2. Total government-capital expenditure, 1987–2008



Source: Department of Finance Budgetary and Economic Statistics (2011)

Figure 9. Growth and decline of GDP, 1998–2010



Source: Department of Finance and Budgetary Statistics (2011)

Figure 10.1. Trends in manufacturing unit labour costs relative to OECD average

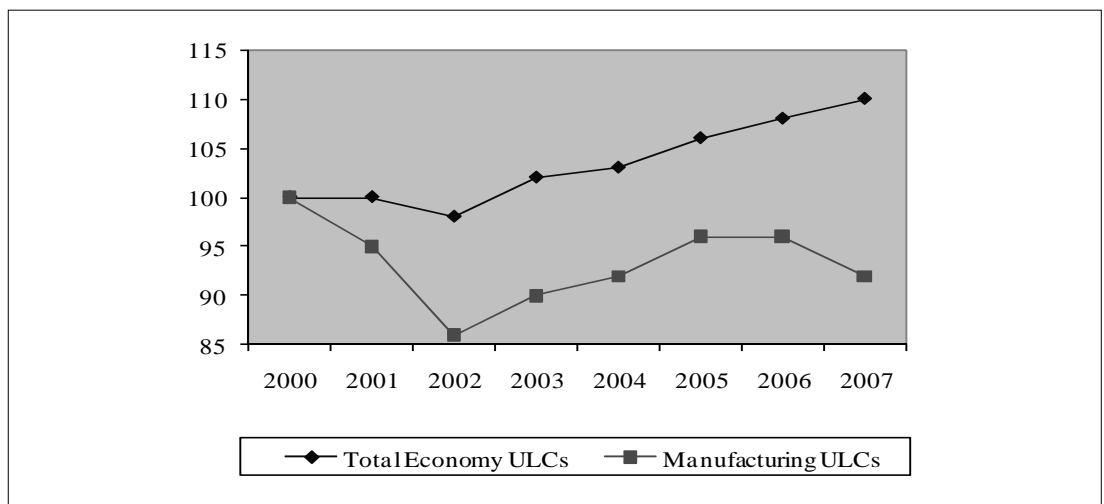


Figure 10.2. Trends in total unit labour costs in Ireland and the eurozone

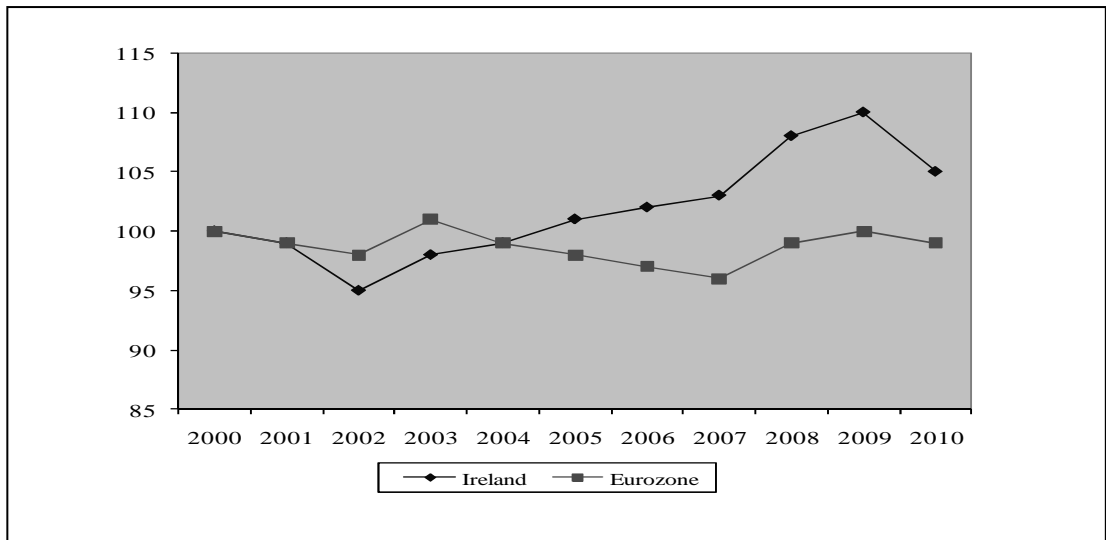
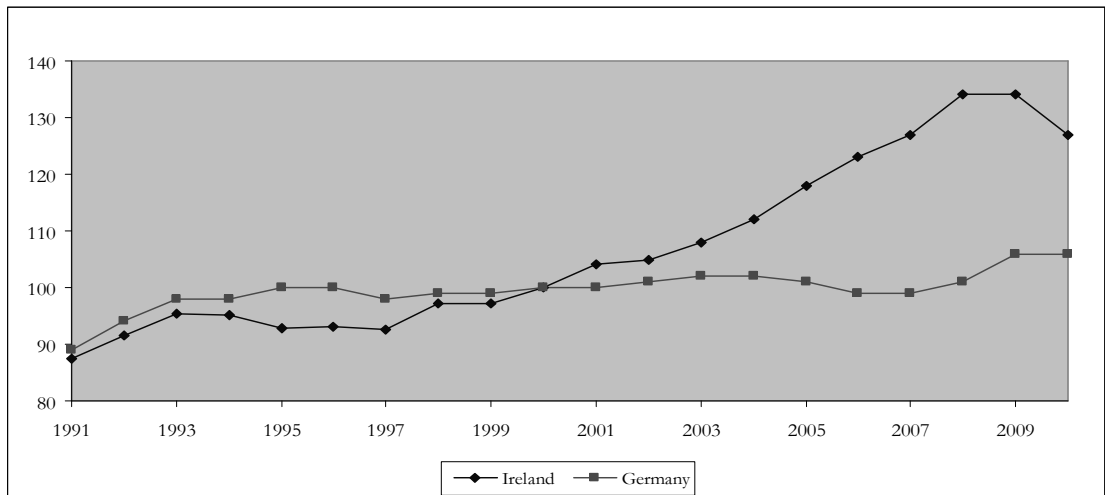
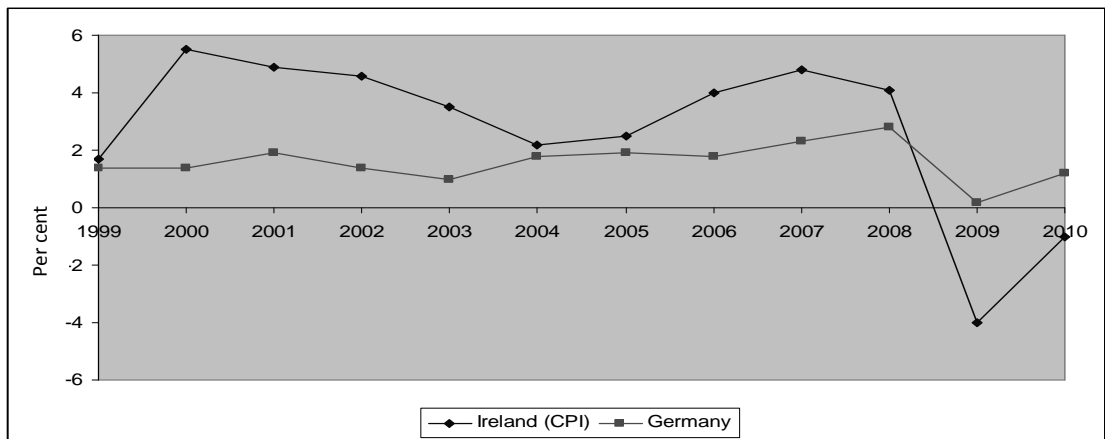


Figure 10.3. Nominal unit labour costs in Ireland and Germany, 1990–2010



Source: European Commission, Statistical Annex (2010)

Figure 11. Inflation in Ireland and Germany, 1999–2010



Source: Irish Central Bank (2010)

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