

## **1. Introduction**

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Social partnership is at the heart of Ireland's enhanced competitiveness and economic success over the last decade. The social partnership agreements have contributed to a significant deepening of social cohesion generally in Irish society since 1987. The four partnership agreements established an institutional framework and process in which key economic and social decisions are taken by Government and representatives of the employer organisations and trade unions, ensuring a high degree of support from all stakeholders in the economy.

The National Competitiveness Council believes it essential that formal social partnership agreements be maintained:

- in order to consolidate and build further on the social and economic progress that the agreements have helped to sustain to date and to avoid the risk of placing this progress in jeopardy;
- to advance to a new platform for further social and economic achievement in the future.

## 2. Social Partnership and Economic Transformation

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The creation under social partnership of a virtuous circle in the economy encompassing pay, profitability, investment, employment and tax reform has been the cornerstone of Ireland's economic transformation over the past decade.

Moderate wage increases under the pay terms of the agreements helped restore Ireland's cost competitiveness, boosting business sector activity and therefore profitability and resulting in rapid growth in employment-rich investment, both domestic and foreign. The massive scale of job creation helped secure a remarkable turnaround in Ireland's public finances. The consequent sharp reduction in the burden of national debt in the economy permitted a strong expansion in public spending on essential services - health, education and social welfare. It also facilitated the undertaking of ambitious tax reform. Large reductions in the burden of personal taxation in the economy supported very strong growth in take-home pay for a greatly expanded workforce.

The development of the virtuous circle under social partnership has benefited all participants - employees, the unemployed, employers, investors, the Government and society at large. The restoration of Ireland's competitiveness and the maintenance of industrial peace have provided a stable economic environment conducive to enhanced competitiveness, domestic investment, productivity growth and strong inflows of foreign direct investment.

### Employees have gained:

- Pay rates have risen by about 30 per cent in real (inflation adjusted) terms over the last 11 years. This is two and a half times greater than the increase for the EU as a whole and almost four times that for the US. The reform of personal taxation has been central to the agreements. Over this period, it is estimated that about one-third of the post-tax income gains for Irish workers were delivered by tax reductions;
- The level of **employment** has increased by about 30 per cent (350,000 people) since the mid-1990s and the unemployment rate has fallen by almost two-thirds since 1993 to under 6 per cent.

### Investors and employers have gained:

- The **scale** of the enterprise sector in the economy has increased significantly;
- The **profitability** of capital has almost doubled over the last decade in contrast to an average increase for the EU of just over one-third. The profitability of Irish-owned general manufacturing companies as a percentage of sales has risen by three quarters (albeit from a generally low profitability base) since 1990;
- Fixed **investment** has expanded by 80 per cent in volume terms over the 1990s boosting the economy's productive capacity;
- The operating environment for enterprise in Ireland has been enhanced by an extended period of **industrial peace**;
- The stock of US manufacturing foreign direct investment in Ireland has more than doubled from \$3.8bn. in 1994 to \$8.1bn. in 1998;
- Irish-owned enterprises have been the source of the greatest overall employment growth.

### The country as a whole has gained:

- **Living standards**, as measured by GNP per head, have risen from two-thirds of the EU average in 1987 to 90 per cent at present;
- Ireland has been the fastest **growing economy** in the OECD for the past four years, a performance projected to be repeated this year;

- The **public finances** have been transformed. Persistent budget deficits have given way to large surpluses. The enormous burden of the national debt on the country has been lifted with the debt ratio declining from 125 per cent in 1987 to about 58 per cent of national income (GNP) at end 1998 – a fall of almost 70 percentage points;
- This has permitted significant growth in expenditure on essential public services. Since 1987 real (inflation adjusted) expenditure on health has increased by 150 per cent, education spending has increased by 84 per cent and social welfare spending by 70 per cent. It has also facilitated large reductions in personal taxation, a key ingredient in the virtuous circle. The top rate of income tax has been cut from 58 per cent in 1987 to 46 per cent and the standard rate of income tax has been cut by 11 percentage points from 35 per cent in 1987 to 24 per cent.

### 3. Social Partnership and Competitive Advantage in a Rapidly Changing Global Environment

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The context for a new agreement is quite different to that for any of the previous agreements. During the earlier agreements, the Irish economy was at times, characterised by:

- weak employment growth;
- high and persistent unemployment;
- involuntary emigration;
- poor competitiveness;
- high interest rates; and
- unsustainable public finances.

The sense of national economic and social crisis in the mid 1980s generated by these problems forced the development of shared goals among the social partners including:

- In the late 1980s, acceptance of the pressing need to avoid a crisis of confidence in Ireland's financial stability by imposing order on the public finances and re-establishing economic stability - by reversing a spiralling Government debt/GNP ratio and large and persisting Government budget deficits;
- In the mid-1990s, acceptance of the momentous goal of EMU qualification through adherence to the Maastricht criteria on debt, deficits, inflation, interest and exchange rates;
- Over the whole period, acceptance of the imperative of creating sustainable employment.

Today, however, against the backdrop of a booming economy approaching full employment, successful membership of the eurozone and buoyant public finances, these shared goals that have underpinned the social and economic progress achieved under social partnership since 1987 no longer provide the same clear impetus for partnership agreement as previously.

These largely external drivers of change in the management of the economy and in achieving progressive, competitiveness-enhancing relationships between employers and trade unions now require to be replaced by an internally generated sense of common purpose which acknowledges that a shared set of goals between the social partners can contribute to the achievement of higher living standards for all sections of Irish society.

The National Competitiveness Council believes that social partnership has been a key - probably the key - competitive advantage for the Irish economy over the last decade. Its contribution can be consolidated and strengthened through a new agreement that prepares Ireland to take advantage of the enormous opportunities created by:

- The globalisation of international capital and financial markets, investment and trade flows which is accelerating the integration of the world economy;
- The Information Revolution driven by the rapid growth of the digital economy and information and communication technologies which is creating vast potential in areas such as e-commerce;
- The launch of EMU which is leading inexorably to the creation of a truly integrated Single European Market of almost 300 million consumers;
- The process of EU enlargement which is shifting the centre of gravity in economic development in Europe eastwards;
- The swift movement to a knowledge-based economy which is placing a premium on human capital development and scientific and technological capabilities.

While these do represent opportunities for a vibrant country like Ireland, failure to compete in the global market, will quickly transform them into threats as others overhaul us.

A new social partnership agreement can play a central role in safeguarding Ireland's competitiveness and the sustainability of its economic performance in the face of a set of emerging threats:

- The competitive forces unleashed by such factors as globalisation, the Single European Market and the pace of technological change are resulting in an intensification of competition in trade and for internationally mobile investment;
- Continued rapid economic growth is vulnerable to a slowdown in mobile investment from the US, particularly in a small number of target sectors such as chemicals, computers and electrical engineering. These have been at the centre of Ireland's economic growth during the 1990s accounting directly for over one-third of growth in real GDP;
- EMU membership has eliminated the scope for exchange rate and interest rate adjustment to offset economic shocks. A sharp and sustained fall in sterling from present levels would lead to a significant deterioration in Ireland's cost competitiveness vis-à-vis the UK, particularly given the current level of labour costs in Ireland relative to the UK. The Irish economy is also vulnerable to a reversal of the strength of the US dollar;
- A broad range of competitiveness issues, such as skill and labour shortages leading to wage inflation, inadequate transport and telecommunications infrastructure and housing supply may interact in the future to erode the attractiveness of Ireland for internationally mobile investment as the development agencies attempt to re-orientate Ireland's competitive advantage up the chain of economic value;
- Despite good progress in recent years, Ireland still lags behind some competitor countries in building enduring competitive strength in critical areas such as human capital, R&D and innovation.

Against this background failure to achieve a new agreement would threaten Ireland's capacity to respond effectively to these opportunities and threats. It is essential that any new agreement ensures that productivity developments move in step with pay growth in order to protect and then further enhance Ireland's international cost competitiveness. Within EMU any sustained deterioration in Ireland's cost competitiveness cannot be offset by the exchange rate and would lead to a damaging deterioration in Ireland's growth and employment performance. This could seriously undermine the prospect of achieving continued economic convergence with our EU partners and of sustaining the social progress of recent years.

#### 4. Social Partnership and a New Shared Set of Goals for Economic and Social Development

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The overriding challenge in laying firm foundations for a successful new social partnership agreement is the re-creation of a shared sense of national purpose with which all sections of the community can identify and around which detailed negotiations between the social partners can take place. This requires the construction of shared goals for Ireland's future economic and social development that must be firmly underpinned by a shared analysis of where Ireland stands at the present time. A new agreement must be consistent with the imperative of a more flexible, dynamic and competitive economy and with the core objectives of social partnership.

The Council believes that this objective can be attained by protecting, consolidating and building on the achievements of social partnership to date and through measures which give rise to further improvements in the competitiveness and productivity of the economy.

The shared goals of social partnership should fully encompass issues integral to the sustainability of Ireland's economic and social development such as:

- improving the competitiveness of the traded goods and services sector;
- further improvements in real take-home pay;
- improving the efficiency and quality of Government services;
- improving educational opportunities and standards and alleviating educational disadvantage;
- the provision of affordable housing;
- the achievement of more balanced regional development;
- decisively tackling poverty, urban deprivation and social exclusion;
- the provision of high-quality affordable health services;
- significantly improving Ireland's national transportation infrastructure and public transport; and
- maintaining environmental quality (and the need to plan for the achievement of the Kyoto restrictions on greenhouse gas emissions).

**The National Competitiveness Council is of the view that the fundamental common goal which should guide us to the achievement of a new partnership agreement is:**

- **the compelling need to protect and consolidate the substantial progress achieved so far;**
- **the opportunity to progress to a new platform of success where we achieve an enduring balance of economic development, further increases in real incomes, a deepening of social cohesion in society, the enhancement of our economic and social infrastructure and protection of the environment.**

We must now create a widespread recognition and acceptance among all sections of the community that higher living standards - encompassing all of the factors above in addition to income levels - are crucially dependent on sustainable economic progress secured by ongoing progress in competitiveness.

The Council has, therefore, identified a number of major issues pivotal to Ireland's international competitiveness, which require to be addressed in a new agreement:

#### **Tax and public expenditure**

- Rewarding wage restraint with income tax reductions should continue to be an essential component of a new agreement. The partnership process provides a suitable forum for considering the appropriate balance between further tax reductions and increases in public expenditure with due regard to the Stability and Growth Pact entered into as part of Ireland's participation in EMU - while recognising the need for further expenditure on infrastructural development and for alleviating poverty and social exclusion.

#### **Social exclusion, housing and childcare**

- Social cohesion must be strengthened at a fundamental level by tackling poverty and income inequality, ensuring the affordability of housing and the availability of childcare facilities.

#### **Public service pay**

- Public service pay arrangements should allow for greater flexibility and provide for stronger linkages between pay and performance. A fundamental examination of the complex web of "relativities" that is driving rapid growth in the public service pay bill is essential.

#### **Labour compensation**

- Innovative and creative arrangements in the area of labour compensation should be encouraged, encompassing a variety of reward and recognition initiatives including investment in training and development and new forms of performance related financial incentives for employees. The provisions in the 1999 Finance Act which support the development of Save As You Earn (SAYE) share option schemes indicate how such mechanisms can be encouraged within a competitive labour market. The system of personal taxation should encourage the widespread adoption of new forms of profit or performance related employee compensation.

#### **Varying economic performance**

- Differences in economic performance between sectors and structural change generally in the economy should continue to be addressed within the social partnership arrangements at enterprise level.

## 5. Conclusion

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The social partnership process has been central to the significant social and economic progress made in Ireland over the past 10 years and more. At its core has been a recognition that measures which sustain and improve the competitiveness of the internationally traded goods and services sectors pay rich dividends in employment creation, in increased income levels and in generating the resources for the provision of essential public services. The challenge now is to fashion the process to the requirements of a new set of social and economic circumstances. The acid-test of social partnership is the extent to which it contributes to the provision of well-paid sustainable employment, increased income levels and improved living standards across all sections of society.

Under a new social partnership agreement all groups in Irish society should have a stronger stakeholding in the achievement of continued economic and social progress on a sustainable and enduring basis and in the deepening of social cohesion.

While the pay element of the social partnership process is only one of a complex of elements around which a new social partnership agreement is negotiated, it is a pivotal issue. Notwithstanding the role played by four successive social partnership agreements in advancing economic and social progress since 1987 there is, unequivocally, no scope for a new agreement 'at any price' ( i.e. an agreement which damages Ireland's international competitiveness and its future growth, employment and income creating potential). It is essential that pay increases negotiated are underpinned by corresponding productivity increases if investment and jobs are not to be lost, both immediately and in the future. In the public sector and in those other areas of the economy sheltered from international competition, it is equally essential that pay increases are subject to performance levels and productivity improvements.

Any new partnership agreement must also encompass a range of factors, other than pay, which ensure that the fruits of economic growth are widely shared across all sections of Irish society.

In negotiating on the full set of issues, it is crucially important that there is full recognition by the social partners that the significant social and economic progress achieved over the past decade is of relatively short duration. It has been hard-won from the lessons of earlier generations that suffered the impact of high inflation, low investment, high unemployment and emigration. For that reason it is essential that expectations are maintained at a realistic level and that they are based on the twin pillars of national competitiveness and social equity which are the foundation stones of a sustainable social partnership process.



## Council Members

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<b>Brian Patterson</b>	Chairman
<b>William Burgess</b>	IBM Ireland
<b>Des Geraghty</b>	Vice President, SIPTU
<b>Jackie Harrison</b>	Director - Enterprise, IBEC
<b>Annette Hughes</b>	Economist, DKM Economic Consultants Limited
<b>Billy McCann</b>	Chairman, ESB
<b>John Travers</b>	CEO, Forfás

### The following members retired by rota on 4 June 1999

<b>Patricia O'Donovan</b>	Deputy General Secretary, ICTU
<b>Kevin Bonner</b>	Partner, Business Insight
<b>Donal Byrne</b>	Chairman, Cadbury Ireland
<b>Alan Gray</b>	Managing Director, Indecon Economic Consultants