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The Case for a New Partnership Agreement Embodying the Concepts of Fairness and Well Being

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When the social partners sat down to negotiate what subsequently became "Sustaining Progress" towards the end of 2002 economic conditions were far from encouraging. It was then evident that Ireland was becalmed in a period of economic stagnation. Gone suddenly was the optimism of previous years when economic growth exceeded eight per cent annually. The post nine/eleven stock market collapse was reflecting itself in a global downturn. Unusually the three main economic blocs – Europe, the US and Japan – were on the floor at the same time. Inflation in Ireland was approaching 6 per cent and rising. The ESRI Medium Term Review published in July of 2002 was forecasting a return to growth rates of 5 per cent by 2005 and continuing at that level until the end of the decade. But this could have been wishful thinking and people began to feel that the Irish economic experience was more mirage than miracle.

As we now know the ESRI turned out to be substantially right. Economic growth did rebound to 5 per cent, unemployment stayed below 5 per cent and is now 4.2 per cent while labour force participation continued to rise and is in fact augmented by immigration from Eastern Europe increasing at the rate of 7,000 a month. Interest rates have remained low and inflation has remained low held by an appreciating Euro (although not to an extent that posed a serious problem for competitiveness except in specific cases). Fears of a housing market collapse predicted by "The Economist" have not materialised and actually the construction industry continues to account for a significant proportion of the extra jobs created. The CSO reported in September, 2005 that the annual turnover of all firms with 20 or more employees increased by €1.5 billion to €10 billion in 2003. Notwithstanding this economic rebound wage levels have not exceeded the terms of "Sustaining Progress" and indeed, in some large employments like An Post and Waterford Glass the "inability to pay" provisions of the agreement have been activated by management.

While not without its risks, the economic environment for a new round of talks is incomparably more favourable than in 2002. Global economic growth is at its highest level for 30 years and as an open economy this is good for Ireland. Nevertheless account should be taken of the risks and these are:

- Rising oil prices caused mainly by increasing demand and a shortage of refining capacity exacerbated by the recent storms in the Gulf of Mexico;
- The size of the US trade and fiscal deficits and their implications for exchange rates and competitiveness;
- Pressures on manufacturing due to competition from low cost countries.

At a domestic level we have serious deficits to deal with in relation to social policy which, if not confronted, will impact on our economic performance. This is an area of difference between trade unions and business interests. The business view essentially is that priority must be given to economic issues and social priorities can then be addressed if the financial wherewithal is available as a consequence of favourable economic circumstances. Acceptance of this analysis also however implies acceptance of low business taxation and low public spending – which means that the adequate funding is never available to deal with social needs effectively.

Congress does not prioritise either economic or social policy. We see them as complementary and self reinforcing. This appears to be perhaps no more than a difference of emphasis but, for reasons I will return to later, it goes to the heart of our respective visions for the future of this country.

A fair criticism that can be directed at the social partnership model in the past is that the agreements tried to cover every aspect of economic and social policy and succeeded in delivering limited outcomes. By trying to do everything they succeeded in doing nothing! There is no doubt that in the media, and to a large extent amongst trade union members too if truth be told, the agreements were seen to be mainly about pay.

In “Sustaining Progress” we tried to bring a greater focus on key issues of social and economic policy by identifying 10 “Special Initiatives”. From a Congress perspective the flagship social objective was the provision of 10,000 affordable houses. The thinking behind this was twofold:

- To give people on modest incomes an opportunity to access home ownership;
- To interdict the carefully structured supply and demand relationship, driven by acquisition of land and land options, which allows developers to “release” houses to the market at a rate that keeps prices high.

There can be little doubt that one consequence of the building boom of recent years has been a massive transfer of wealth from those who can least afford it to those who least need it.

The Affordable Housing initiative will not meet its target of 10,000 houses within the lifetime of the agreement. In that respect it has been a major disappointment. In time, however, it may develop into a separate market segment going well beyond that number. The availability of tailored mortgages now should help to make this a reality.

Perhaps the most important achievement so far has been the learning about policy making and implementation of the Affordable Housing initiative. Its slowness in coming to fruition is not, as far as I can judge anyway, any lack of political will or dedication on the part of the public servants charged with its implementation. What has been shown up is the difficulty in getting the apparatus of government, both national and local, to function in an optimal way. This experience teaches us three things:

i. It takes longer to get things done than is possible in a 3 year timeframe, especially if they are big ticket items;
ii. Big projects need an wholistic government focus and political commitment to get them implemented;
iii. To make a difference in outcomes partnership agreements should be limited to those issues where the process can add value.

Applying these lessons to Ireland's current stage of development would suggest that the social partnership model needs some re-engineering.

Ireland's current economic and social positioning is not sustainable in the long run. Our failure to effect the necessary social investment to underpin our future is symptomatic of a national psyche which does not seem to have assimilated the change in our fortunes that has happened over the last ten years. It is as if we fear that the bubble may burst and we will revert to where we were. How else can we explain our lack of willingness to consolidate our economic success and convert it into social well-being by investing in the future? The role of government and policy makers is to take the longer term view and to counter the materialist "live now, live hard, while we can" attitude of many. There is one exception to this generalisation, viz; the National Pensions Reserve Fund (NPRF), but that is no longer a sufficient response to the pensions' crises.

To inform debate on social progress it was agreed under Sustaining Progress that the CSO would regularly publish information on a range of indicators of social progress. The most recent publication was in March 2005 and this revealed, inter alia, that:

- The proportion of people living close to poverty was the joint highest in the EU at 21 percent, indicating a high proportion of working poor in Ireland. (A report just published by the ESRI "Trends in Welfare for Vulnerable Groups in Ireland 1994-2001" quantified this as covering about 400,000 people, mainly lone parents and the elderly);
- Pensions and other social transfer have little impact in terms of removing the risk of poverty compared to other member states;
- Ireland has the lowest rate of spending on social protection of the pre-enlargement EU 15;
- Ireland spends below average on health and education services.

By contrast, growth is three times the EU average and direct inward investment is ten times the Eurozone 12 average. Ireland also has the lowest total taxes (including social contributions) as a percentage of GDP of the original EU 15. The OECD shows that income taxes in Ireland are amongst the lowest in its 30 member countries. The bottom line is that public services have to be paid for somehow. In an attempt to stimulate debate on this crucial issue, Congress published a detailed discussion paper on tax and public spending late last year. Realistically though, the impact of doing something like this does not compare with Eddie Hobbs "Rip Off Ireland" programme. His focus on indirect taxation resonates with an understandable public desire not to pay tax. The same public want better services but rarely see the connection between the two issues. It is ironic that within a couple of months of each other RTE's Joe Duffy could excite major public anger over Accident and Emergency conditions in hospitals and Eddie Hobbs could do the same on tax.

The fact remains that our public services and infrastructure belie the economic achievements of the last decade. There are a number of essentials that must be addressed over the coming years if the quality of life is to be protected and enhanced. These are:

- **Investment in health**, although it has increased significantly, is still below the European average in circumstances where the population is increasing rapidly. In a period of 20 years demand has increased by 30 percent, but bed capacity has reduced by 15 percent;
- **House prices** have been increasing at three to four times the rate of inflation for several years. People are commuting up to 60 miles to work clogging up the roads (the M50 is now the most congested motorway in Europe) because of affordability issues. There are 50,000 families waiting for social housing;
- **The cost and availability of childcare** and eldercare is a major obstacle to labour force participation, particularly by women;
- **Despite the achievements of job creation**, restructuring caused by outsourcing and globalisation is causing job losses in some sectors. We do not yet have the means to move workers exposed to these forces up the skills value chain sufficiently to maintain their employability;
- **Pensions' provision** in the private sector is woefully inadequate to provide security in old age. The position has worsened in recent years through stock market underperformance, low interest rates and changing demographics (people living longer);
- **The growth in our gross national product**, though impressive, has not been uniform either by region or socio-economic class. As a result Ireland is next only to the US in social inequality. The ESRI report on poverty referred to earlier states:
  "*Ireland remains a profoundly unequal society….If the income gap is big across time, there can be potential future problems... People should be able to participate in society at some minimum level without a sense of shame"*
- **Increased mobility for all** through greater and more effective investment in public transport in urban areas especially Dublin to counter congestion, reduce commute times etc. and in intercity connections.

These seven issues, though formidable, can be cracked and if they are Ireland would indeed be a very good country to live in.

We need also to take a more considered look at our economic policy. Since the 1980s our national priority has been jobs, which rightly required us to focus on maximising economic growth. But it is worth asking whether growth at all costs, and almost as a mantra, is appropriate to our current circumstances. To continue to grow at five percent per annum is only possible with immigration of 50,000 – 60,000 people per annum. And that assumes that all the people who come will stay. If there is a replacement factor then gross immigration will be higher. Indeed we could be faced with a situation of jobs being lost to Irish workers due to outsourcing while immigration increases. This could lead to social tensions and the issue of race or nationality being exploited by unscrupulous elements. In addition, it must be borne in mind that people who come here also require houses, hospitals and schools. Given our obvious failures to provide these for our citizens to date, the question must be asked: do the relevant authorities have a coherent plan and strategy on this issue? Would it not perhaps be wiser to have a target rate of growth of say twice the EU average. It might take us a couple of years longer to reach the same level of GNP. But national GNP growth anyway is not the same as GNP per capita. Reaching the same target over a longer timeframe might actually increase GNP per capita and thus wellbeing.

The emphasis must surely be on sustainable growth. We have a finite land mass - we cannot cover the island in concrete. Why are we knocking down hotels and putting people out of work in Dublin to build apartments? Is this good planning? We need an intelligent land use management strategy. We should try to maximise indigenous labour force growth including supporting more women to work and reskilling of workers in tandem with sustainable levels of immigration.

I referred earlier to the phenomenon of globalisation and its impacts. China, and to a lesser extent India and Eastern Europe, are reshaping the world. The end of the multifibre agreement, for example, saw a 700 per cent rise in the export of Chinese clothing to Europe. The textile industry in Europe, the United States and even other developing countries will be decimated by the sheer scale of the Chinese operation. From our perspective as an open economy protectionism is not an option to deal with the situation where our manufacturing base is at risk. At the same time manufacturing is critically important for two reasons:

- It is hard to conceptualise an economy prospering without a manufacturing base. Services is a faster developing sector but we cannot all make a living selling each other cappuccino over the internet!
- Increasing prosperity is related to our capacity to achieve continuing productivity growth in the economy. A movement of employment away from manufacturing and into services and construction will make it more difficult to make big productivity gains.

We must recognise too that moving towards a low wage economy is not an option. We have seen the ugly face of exploitation with GAMA and the ferry companies and the trade unions will not allow a "Race to the Bottom" to occur in Ireland without a fight.

There is an alternative and it lies in having an industrial policy which seeks to position Ireland in a niche position in the global supply chain which is not easily replicated in other locations. Moving up the skills ladder is part of that but only a part.

In an economy with full employment we are confronted by the paradox of labour supply issues co-existing with unemployment blackspots like Donegal where the closure of a manufacturing facility has massive implications for local people. Our social welfare model is designed for an era of high unemployment. What would be more appropriate to our current circumstances would be the Danish model, or a variant of it, which would give people made redundant a high proportion of their income while re-equipping them to get back into the labour market as soon as possible. We should try to create the conditions which facilitate maximum labour force participation (Childcare, Eldercare etc.) while recognising that there will always be some vulnerable people who cannot be part of the labour force.

In the period since 1987 we have used a model of social partnership which had job creation as its principle social policy objective and which used tax reductions as a wage subsidy to employers to maximise job creating incentives.

We now have virtually full employment and an increasing labour force approaching two million augmented by high levels of immigration. Population increase is putting further pressure on already inadequate public services and infrastructure.

In my opinion there is no scope for further tax reductions. Indeed we need to widen our tax base and redesign it to make it more progressive. Specifically, we need to move to a model where modest wage increases determined by the productive capacity of the economy are complemented by improvements in public services, in the caring infrastructure and with adequate pensions. Irish workers should be entitled to expect a social wage as good as the best in Europe. Otherwise what is the purpose of having the best performing economy in Europe?

In conclusion I want to return to a point I made at the beginning of this paper. Getting another agreement depends on IBEC and ourselves being on the same wavelength. Unless we can share a common vision of an Ireland, refocusing itself to develop in a sustainable way, and recognising that social development is an essential pre-condition for continued economic prosperity, then we are wasting our time. To be blunt, in the absence of such a shared vision, there is a compelling case for unions, in tight labour market conditions, to seek to maximise wages.

But if we can get on the same wavelength then we need, all of us – employers, government, unions, community and voluntary sector – to agree on a limited number of priorities to be achieved over the next six or seven years. We need to draw on the lessons of the Affordable

Housing initiative and we need indicators of achievement to show that real outcomes are attainable. We also need some very tangible up front changes – I would say in the caring and health areas – to build confidence.

There is nothing revolutionary about the idea that social and economic development go hand in hand. By any standards of competitiveness, economic efficiency, public services and social cohesion the Scandinavian countries are the best in the world. They should be our model, our promised land. We won't get there during my time but we should make a start on the journey.

Some time ago I heard a respected Irish industrialist say in a radio interview that, while social partnership had served the country well, we went two agreements too far. My understanding of what social partnership should be about is completely different. It is an extension of the European idea of social dialogue, a way of doing things. It is not something that can be turned on or off as it suits people. The extent to which our respective constituencies have internalised concepts of the common good of society and social solidarity over the past 18 years will be the ultimate arbiter of whether social partnership continues beyond the end of this year.