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Houses of the Oireachtas

Joint Committee of Inquiry into the Banking Crisis

Witness Statement of

David Begg

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[1] *See s.37 of the Houses of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013*

Supplementary Opening Statement of David Begg

In the core documents you sent me there is a lengthy extract from the 2004 IMF Review of Ireland relating to Social Partnership. This is raised in the context of R1c – Appropriateness of the macroeconomic and prudential policy.

I find it difficult to identify any causal relationship between Social Partnership and the banking crisis. It seems to me that any adverse impact Social Partnership might have could only be in relation to fiscal policy. The fact is that the exchequer was in surplus for the five years preceding the crisis and Ireland's gross debt to GDP ratio was less than 25 per cent, one of the lowest in the whole OECD area. Ireland did not have a fiscal crisis, it had a banking crisis.

Insofar as there is any link between Social Partnership and the 2008 crisis, it is a positive one. According to Fritz W. Scharpf, Director of the Max Planck Institute for the Study of Societies in Cologne, the peripheral economies found no effective way to counteract domestic booms and were driven by the cheap money effect of uniform nominal and divergent real interest rates. In his view:

> 'Spain and Ireland at least tried to achieve some restraint through the instruments of macroeconomic policy that were still available nationally. But their attempts to contain wage inflation through a series of social pacts and to practice fiscal constraint by running budget surpluses proved insufficient'
>
> (Scharpf, 2013: 121)

Overall the IMF document is a broadly positive assessment of Ireland's experience of Social Partnership.

Nevertheless, there are a lot of misconceptions about Social Partnership. It has been conflated with the crisis by some commentators and so it is probably a good thing to ventilate the topic.

The origins of Social Partnership can be traced back to the publication of *Economic Development* in 1958. The subsequent policy decision to move from import substitution industrialisation to export orientation industrialisation and to orientate industrial policy towards foreign direct investment implied the need for labour market stability. This proved to be elusive over the following two decades. A number of centralised wage agreements in the 1970s and early 1980s did not achieve the outcomes desired. This did not happen until 1987 when unions, employers and farmers were brought into the process of economic planning (Suarez, 2001). The *Programme for National Recovery* (PNR) was based on a report by NESC entitled *A Strategy for Development* published in 1986. Thus the conditions for export orientated industrialisation were really only established thirty years after the decision to shift industrial policy in that direction.

Social Partnership is sometimes seen as a uniquely Irish phenomenon, but this is not so. In the late 1980s Ireland's GDP per capita was only 60 per cent of the EU average. For a variety of reasons

Ireland missed out on the golden age of post-war development. We only began to catch up in the 1990s.

Adopting Social Partnership was part of the catching up. In 1985 an American academic, Peter Katzenstein, in a seminal work on industrial policy in the small open economies of Europe, attributed their success to systems of democratic corporatism. Democratic corporatism is built on three pillars, viz;

- Strong Peak organisations of unions and employers;
- An ideology of Social Partnership;

And

- A constant process of bargaining.

In an EU context, Jacques Delors mainstreamed social dialogue as a social counter balance to the liberalising orientation of the Single European Act in 1986. This was refined further in the Cologne process, which aims to coordinate economic policy and improve interaction between wage development and monetary, budgetary and fiscal policy through macroeconomic dialogue (Smith, 2005: 158).

The small open economies of Northern Europe that Katzenstein studied – essentially the Nordic countries (excluding Finland) and the Netherlands – realised that the costs of adjustment to international market forces could not be exported as might be the case with larger countries. They had to be internalised and the only way to manage the situation was to combine openness to trade with flexibility and high levels of social protection. Internal disputes were an indulgence that could not be afforded.

Trade Unions in Ireland were attracted to this approach in 1987 because it seemed like a workable alternative to the zero sum game that industrial relations in Britain had become. By history and culture the Irish Trade Union Movement is closely linked with Britain. However, it did leave a significant minority of unions who, to this day, have never bought in to the idea of Social Partnership.

Over the twenty two years of its existence some misconceptions have arisen from time to time about how Social Partnership operated. Foremost among these, and it is mentioned in the IMF paper too, is that it undermines the powers of the Oireachtas.

In my experience Social Partnership only ever subsisted within the space ceded to it by Government. This is especially true where coalition partners had negotiated A Programme for Government. There is no evidence that this has been a problem in the other European countries where Social Partnership is the norm.

Where fiscal issues arose no Government has ever made a specific commitment outside of the budgetary process.

With regard to competiveness generally, an ESRI paper (McGuinness et al, 2010) found in a survey of 6,500 firms that Social Partnership agreements enhanced the country's competiveness. In particular they stated:

> 'This result suggests that there have been large gains, in terms of competiveness, to Multinational companies that locate in Ireland'

This was also the experience of the Finnish ICT Sector (Vartianin, 2011).

It is worth recalling too that the convergence criteria required for membership of EMU were managed within the Social Partnership process. Not alone that but the wage terms of the various agreements held even where the economy was growing at rates exceeding 10 per cent, in circumstances of extremely tight labour markets and where labour's share of national income fell from 65 per cent in 1990 to 56 per cent in 2009.

The IMF paper advocates wage flexibility, short duration agreements and the incorporation of Social Partnership within a medium-term fiscal framework.

It is the case that a sophisticated system for dealing with employer inability to pay claims was built into the process. A panel of accounting experts was appointed by the Labour Relations Commission and could be drawn upon by the Labour Court to assess the financial health of a firm claiming to be in difficulty. This operated in a broadly satisfactory manner.

The last of the agreements, *Towards 2016*, was a ten year framework agreement with provisions for pay reviews on a two yearly cycle.

The other issue of concern raised in the IMF paper is the linking of tax concessions to pay agreements in the longer term. As it happens, I agree with the IMF on this point, but I suspect, for different reasons.

When I became General Secretary of Congress in 2001 I started shifting away from wage/tax trade offs and towards pay claims based on inflation and productivity. The reason was that I wanted to try to get closer to the Nordic model where universally available, high quality, public services – like, for example, Childcare – are part of the social wage. Having a high level of public service provision is crucial for low to middle income earners. Wage activity alone will not create conditions of equality, or anything like it, for this cohort of the population. Quality Public services cannot be sustained by low levels of taxation.

Refined down to its core the essential purpose of Social Partnership was to settle the distributional issues leaving governments the freedom to get on with the business of growing the economy. My personal conviction is that it is not possible to successfully manage a small open economy without embedded institutions for managing distributional conflict. Writing about the case of Finland, Juhana Vartianen (2011:76) observes that:

> 'Economic theory suggests that loss of monetary autonomy (EMU) will, in an economy with strong Trade Unions, require a more stringent centralisation or pay bargaining than what would be the case with a national Central Bank with an inflation target'

The truth of this is implicitly recognised in the recent report of the five EU Presidents (Juncker, Dijsselbloem, Tusk, Dragi and Schulz) setting out a plan for strengthening EMU published on 1st July. It suggests a common template for national 'competitiveness authorities' to guide wage negotiations and to restrain wage divergences throughout the Eurozone.

We are now in our eight year of wage restraint. I cannot see that lasting indefinitely. A combination of pent up wage pressure, competition between unions, free collective bargaining and a tightening labour market suggests to me that the kind of coordination proposed by the five presidents will be challenging outside of a framework allowing some harmonisation of social wage issues in addition to pay.

The problem I see is that the institutions and institutional knowledge to achieve this outcome are now quite depleted.

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