Irish Business and Society

Governing, Participating and Transforming in the 21st Century

‘*Irish Business and Society* presents the best of Irish social science, neatly packaged around themes of governance, participation and transformation. Many of these original chapters are brilliantly crafted, and while they show an Ireland slipping off a time of rapid growth, themes of hope abound in enterprise, social and economic partnership, civil society, social inclusion and Europeanization. Read it through for a clear view of what makes today’s Ireland click, and sometimes splutter.’

Jon Van Til, Professor Emeritus of Urban Studies and Public Policy, Rutgers University, USA

‘This very stimulating book of essays brought me right back to this quote from Tom Stoppard’s *Arcadia*: “It makes me so happy. To be at the beginning again, knowing almost nothing. … It’s the best possible time to be alive, when almost everything you thought you knew is wrong.” There is a real sense from these essays that, once again, Ireland is at a turning point, in business, society and public governance.’

Peter Cassells, Chairman, National Centre for Partnership and Performance; Chairman, DHR Communications; former general secretary, Irish Congress of Trade Unions (ICTU)

‘*Irish Business and Society* succeeds in drawing an excellent, multidimensional perspective on Ireland from some of our most perceptive academic commentators as we seek to address the role of business in our society in the twenty-first century. It comprehensively addresses the various themes relevant to Irish business and society in one coherent volume and should be required reading for all citizens seeking to improve their understanding of modern Ireland. Its economic and social analysis of the “Celtic Tiger” is particularly insightful, reminding me of George Santayana’s quote: “Those who cannot remember the past are condemned to repeat it.” This book successfully holds that mirror up to our societal structures and institutions in a way that should enable us to learn and develop as a society.’

Jim Barry, Chief Executive, NTR plc; member of Council of Patrons, Special Olympics Ireland; board member, The Ireland Funds

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Edited by
John Hogan, Paul F. Donnelly and
Brendan K. O'Rourke

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Section I

The Making and Unmaking of the Celtic Tiger

The chapters comprising this section look at a number of areas of relevance to the making and unmaking of a period that has become ubiquitously known as the Celtic Tiger: changes in the labour force over the past twenty years; the power of vested interests in Irish politics and the process of economic policy making; the emergence and evolution of the Industrial Development Authority (IDA); the enterprise discourse that has dominated how we talk and think about business and its relationship with society; the politics of welfare in Ireland; and the failures of the Irish economic experiment and some possible remedies to bring about change. Chapter 1, by Nicola Timoney, looks at labour and employment in Ireland in the era of the Celtic Tiger. Seeing the outstanding feature of this era as the expansion of the labour force, the chapter provides an overview of key developments in the Irish labour market over the period 1988 to 2008. It examines the size and composition of the labour force, considers the rewards to labour by way of the minimum wage, the distribution of income, and the issue of internationalisation and competitiveness of labour costs, and explores the experience of social partnership. The chapter closes by discussing some of the major challenges facing the labour market in the near future.

Moving to Chapter 2, which deals with the political economy of policy making in Ireland, Frank Barry argues that the power of vested interests and the particular characteristics of democratic electoral systems frequently lead to policy decisions that operate against the interests of society as a whole. The chapter examines decision making in some of the now widely acknowledged policy errors of the boom period. However, this chapter also considers how 'political cover' has enabled a number of beneficial historical policy changes to be achieved. This analysis provides some suggestions as to how decision-making processes might be reformed to secure more advantageous outcomes in the future.

In Chapter 3, Paul F. Donnelly traces the evolution of the IDA through the lens of path dependence theory. The story charts the IDA's creation within protectionism in 1949 and its subsequent evolution in an environment of free trade. The chapter follows the IDA's emergence as the state's pre-eminent industrial development agency, its re-creation as a state-sponsored organisation and the growing political, institutional and monetary resources afforded it in return for delivery on objectives. However, the increasing reliance on foreign investment to meet targets, at the expense of indigenous industry, eventually surfaces as a challenge in the early 1980s and culminates in the IDA being split into separate agencies in 1994.

Another important element of process in policy making is the language a society uses for talking about business, and Chapter 4 examines how this both facilitates and constrains how business is done. Brendan K. O'Rourke describes and analyses a dominant way of talking and thinking about business, called 'enterprise discourse'. This form of business discourse relies heavily on seeing all organisations as best when following the mythology of how it is imagined that small, but fast-growing, private enterprises are run. An understanding of enterprise discourse, its features and a sense of it as a discourse dependent on the historical circumstance in which it emerged is useful.

Mary P. Murphy, in Chapter 5, looks at the politics of Irish social security policy over the period 1986 to 2006. Offering a case study of the Irish social welfare policy community, and curious about why the Irish social welfare system has developed in a different direction from that of other English-speaking countries, the chapter asks whether a relative absence of Irish social welfare reform can be explained by examining the politics of welfare. 'Policy architecture' is offered as a way of framing an examination of how the general Irish political institutional features interact with the institutions and interests of the Irish social welfare policy community.

Finally, pondering whether the Irish economic experiment is doomed to fail, in Chapter 6 Bill Kingston begins by arguing that the global banking disaster has hurt Ireland more severely than other developed countries because, from the foundation of the state, government intervention progressively became the characteristic way of running the country. Seeing the crisis as delivering proof that intervention does not work, allied with the vagaries of an electoral system that results in constrained and weak governments and a civil service that cannot be held accountable for what it does, or fails to do, the chapter makes a case for dismantling much of the state apparatus supporting, and puts forward some interesting alternatives to, intervention.

Chapter 1

Labour and Employment in Ireland in the Era of the Celtic Tiger

Nicola Timoney

INTRODUCTION

This chapter examines the changes and key developments in the labour market in Ireland over the twenty-year period from 1988 to 2008. The Celtic Tiger was first and foremost an era of strong economic growth at national and per capita levels. But the increase to unprecedented levels in the numbers at work in Ireland was probably the greatest achievement of the period. Improvement in the employment situation was the aspect of economic growth that most directly affected the lives of people in the country.

The first section of this chapter provides an outline of what happened in terms of the labour force increasing with the overall population. Participation rates – percentage of those in an age group actually seeking work – increased. Numbers actually at work increased to over two million for the first time in the history of Ireland. The sectoral pattern of this employment is then examined.

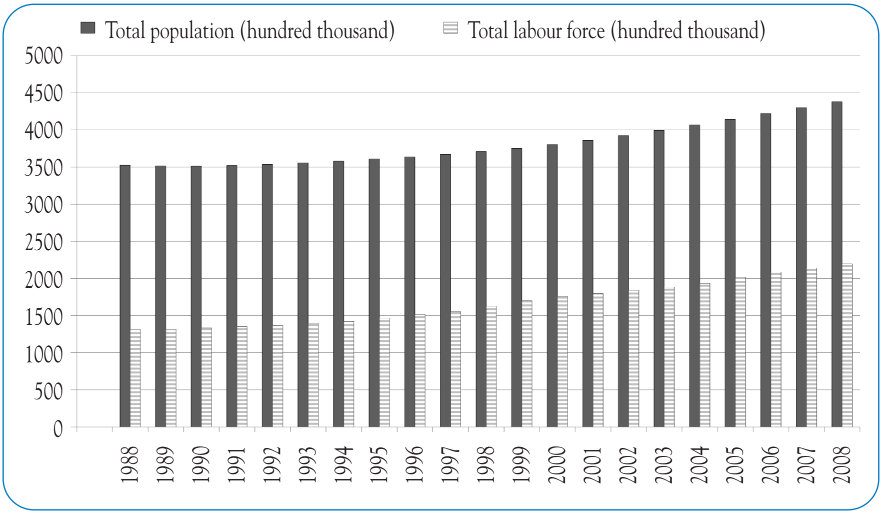
In the second section, the 'rewards' to labour are examined. First, a specific policy initiative affecting rewards to labour – a minimum wage – was introduced in 2000. The pattern of distribution of earnings is then briefly reviewed, together with available data on income distribution. A trend towards internationalisation of the labour force has been present for some time, since net migration became positive from 1995 onwards. Some evidence on the effects of this internationalisation has become available. Drawing together the developments affecting rewards to labour, the effects on competitiveness of labour for a small open economy such as Ireland are considered. The evidence suggests an initial improvement in wage competitiveness, especially in relation to manufacturing, in the 1990s.

The third section of the chapter investigates the role of social partnership in these developments before considering the current challenges. The great improvement in the labour market, as expressed in the dramatic reduction in unemployment, and the outstanding performance in terms of economic growth, coincided, at the very least, with the experience of social partnership. A new form of social partnership (from 1987) preceded the boom: another renewal in Irish neo-corporatism is required now, as a response to the current crisis.

OUTLINE OF THE LABOUR FORCE

Figure 1.1 shows how, in the twenty years from 1988 to 2008, the overall population of Ireland increased by approximately a quarter, while the labour force increased by two-thirds.

Figure 1.1 Total population and labour force (aged 15 and over), 1988–2008



Source: derived from ILO (2009a) © data.

The labour force – defined here as persons aged 15 and over who are economically active – increased from 1.3 million persons in 1988 to 1.6 million in 1998, and to 2.2 million in 2008. Following Hastings, Sheehan and Yeates (2007:75), we may define the period 1997 to 2007 as the 'Eye of the Tiger', although precise timings may differ. We see here that the increase in the size of the labour force – those at work or seeking work – is particularly evident over those years, rising from to almost 1.6 million in 1997 to 2.1 million in 2007. The labour force increased by 38 per cent over those ten years, while the population increase was close to 17 per cent.

Changes in Labour Force Participation in Ireland: Male and Female

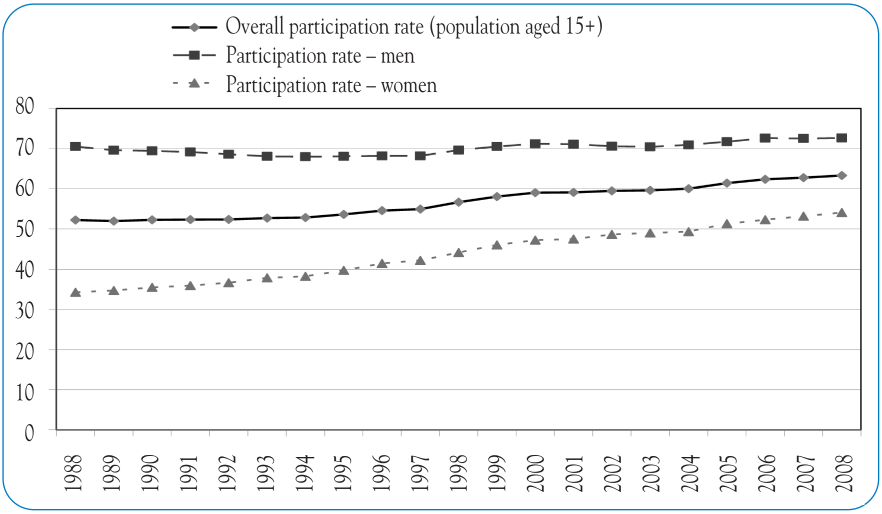
The overall participation rate is the percentage of the population over 15 years that is seeking a job. There had been a steady rise in the Irish participation rate from 1988, when participation of the adult population in the labour force was 52 per cent, as shown in Table 1.1. By 2008, participation had reached 62 per cent. Comparing Ireland internationally, using data from the International Labour Organisation (2009b), we see that Ireland's overall participation rate is now close to the world average. Distinguishing male participation and female participation, Ireland's rate of male participation has been, and remains, a little lower than the world average. The trend for male participation is downwards for the world average, but somewhat upwards for Ireland in recent years. For women, the participation rate in Ireland changed from being below the world average in 1998 to equalling it in 2008. There are thus noticeable differences in the pattern of male and female participation for Ireland, within the context of an overall increase in participation.

Table 1.1 Comparative labour force participation rates (age 15+) in percentage

	1988	1998	2008
World – overall participation	64	63	63
Ireland – overall participation	*52*	*55*	*62*
World – male participation	79	76	74
Ireland – male participation	*71*	*68*	*72*
World – female participation	49	49	52
Ireland – female participation	*34*	*42*	*52*

Source: derived from ILO (2009b) © data.

Figure 1.2 Participation in the labour force: rates for men and women, 1988–2008



Source: derived from ILO (2009a) © data.

Figure 1.2 gives a fuller picture of the trends in participation in Ireland from 1988 to 2008. There is little variation in the participation rate of men over the twenty years, while changes in the participation of women are more marked.

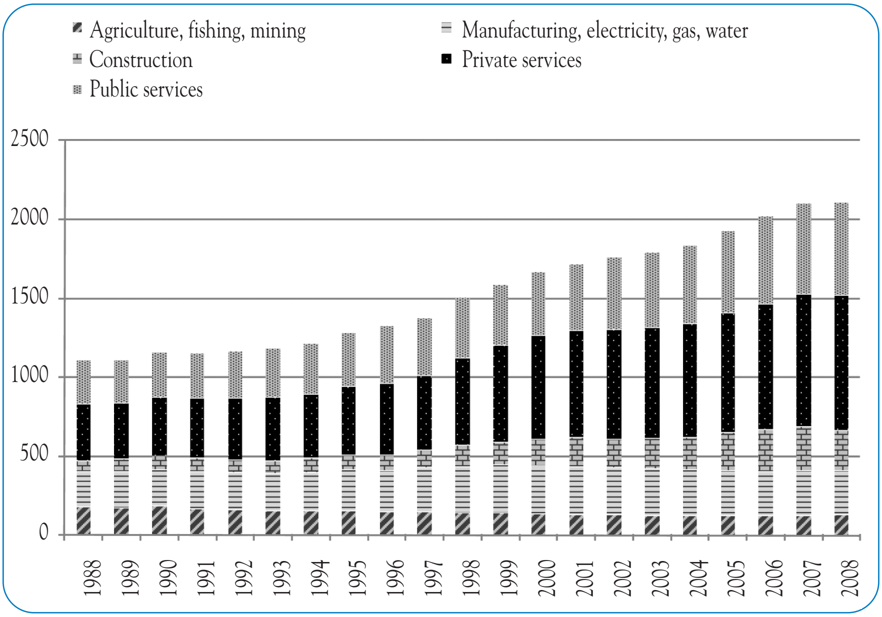
The numbers at work – persons employed – is a central aspect of the country's economic progress over the past twenty years. In Ireland, the numbers at work increased more than either the total population or the population aged 15 and over.

As the height of the bars in Figure 1.3 shows, the total number at work increased from 1.1 million in 1988, to almost 1.5 million in 1998, and reached 2.1 million in 2008. This near doubling of the numbers at work is the most striking feature of the labour market experience in Ireland over the twenty-year spell: again, the increase over the years 1997 to 2007 was particularly strong.

Changes in the Sectoral Composition of the Workforce

In addition to the changes in the numbers of persons at work overall, there have been changes in the sectoral composition of the workforce, that is, in the economic sector or industry in which people work. Changes in occupations are not considered here (see O'Connell and Russell 2008); rather, consideration is given to sectoral changes that have taken place from 1988 to 2008, as illustrated in Figure 1.3.

Figure 1.3 Employment by sectoral classification, 1988–2008



Source: derived from ILO (2009c) © data.

Figure 1.3 shows the sectoral composition of employment, classified into public services, private services, construction, manufacturing and energy, and agriculture (with fishing and mining).[1] The two sectors that stand out as having the largest increases in numbers employed are private services and construction.

In the broad category of private services, numbers employed more than doubled over the period 1988 to 2008, with the largest increases in the time since 1996. Within private services, the largest increases in employment were in the categories of *Real Estate, Renting and Business Services* and *Hotels and Restaurants*, where employment quadrupled. In *Financial Intermediation*, numbers at work more than doubled (from 41,000 to over 90,000 persons), whereas in *Transport, Storage and Communications*, and in *Wholesale and Retail, Motor Vehicles*, numbers employed just less than doubled. This last category nevertheless employs the largest number of persons in the total of private sector services, with over 300,000 persons in 2008.

In construction, employment quadrupled in the total time period from 1988 to 2007, reaching its peak number of 282,000 persons employed in 2007. The surge in numbers employed is most noticeable from 1997 onwards, but a clear decline is evident in construction employment in 2008.

Total numbers employed in public services less than doubled in the two decades from 1988. Within the public service category, larger increases in numbers employed occurred in the *Health and Social Work* area than in *Education* or in *Public Administration and Defence*. Again, the most striking rise in numbers occurred in the *Health* area since 1997. Increased employment in services is a trend common in industrialised economies (Schettkat and Yocarini 2006:128), with possible reasons being the change in the pattern of demand with higher incomes, and the lack of increases in labour productivity in many services compared with manufacturing. For Ireland, a political imperative to improve the health services was present since the late 1980s. Increased government expenditure on health became possible with the marked improvement in the public finances as a result of the Celtic Tiger.

The sector with the most notable drop in numbers employed from 1998 to 2008 is agriculture, continuing its longstanding downward trend. In the combined sector of agriculture, forestry and fishing, numbers working decreased by approximately 40,000 persons. This resulted in the share of the workforce in agriculture and related activities in the total workforce almost halving, from over 10 per cent in 1998 to near 5 per cent in 2008.

These figures show an unusual picture of sectoral composition of employment in a developed country. The decline in numbers at work in agriculture is a usual feature of economic development. An expansion in services is also normal: ‘employment in the advanced economies shifts with remarkable regularity towards services as income per capita rises’ (Schettkat and Yocarini 2006:144), but the rapidity of the increase in employment in marketed services seen here for Ireland is unusual. The increase in employment share in construction was exceptional:

from employing 6 per cent of the total at work in 1988, the construction sector expanded to account for 13 per cent of the total in 2006 and 2007 (ILO 2009c).

REWARDS TO LABOUR

Rewards or returns to labour could be considered from several points of view: from the monetary rewards to the distribution and equality aspect, to the issue of international comparison. This section thus begins with consideration of the minimum wage and then moves on to consider issues related to distribution and inequality, and the internationalisation of labour.

The Minimum Wage

The industrial relations framework in Ireland is described by von Prondzynski (1998) as *voluntaristic* – that is, built on the premise that it will, for the most part, be regulated by voluntary collective bargaining (to be considered in the third section of the chapter). This idea of voluntarism 'not only led trade unions to avoid the law, it also persuaded successive governments to avoid legal intervention where possible, and most employers were also willing to accept an alternative regulatory environment based on collective bargaining' (von Prondzynski 1998:56). The minimum wage – a policy explicitly based on legal enforcement – thus stands out as a major exception to this framework. The national minimum wage was introduced in Ireland in April 2000, following lively debate on its desirability by trade unions and employers' organisations.

Prior to April 2000, minimum wages were set by Joint Labour Committees (JLCs). The wages agreed in these committees were often quite low, and covered less than a quarter of the total labour force. Enforcement was also relatively weak (O'Neill 2004:3). A government-established commission recommended the introduction of a national minimum wage in its 1998 report. It also suggested that the minimum wage should be set at around two-thirds of median earnings, and that it should take into account employment, overall economic conditions and competitiveness. At the time of the report, it was noted that this fraction of median earnings would suggest a wage of £4.40 (€5.59) per hour. Following this, the government introduced legislation in April 2000 setting the national minimum wage at £4.40 per hour for all adult workers (and a lower rate for younger workers). The introduction of this minimum wage directly affected about 15 per cent of the workforce at the time. O'Neill (2004:6–8) shows that those most likely to be affected by the minimum wage, based on an examination of their position in 1997, were younger workers in the 21–24 age group, and women workers. In terms of occupational classification of the low paid, those working in sales, personal services and labourers were most likely to be affected. O'Neill (2004) also shows that three sectors were significantly more likely to have low-paid workers: the textile and apparel sector; the retail sector; and the hotel, restaurant and bar sector. Since its introduction in 2000, the minimum wage has been modified six times, the most recent rate being set in 2007 at €8.65 for adult workers.

The effects of the introduction of a minimum wage on the labour market have been the subject of investigation, and controversy, from the 1980s onwards in the United States (e.g. Brown 1988). The effects of the minimum wage on employment, on unemployment and on distribution of income are investigated, and set against the view of the minimum wage as being fundamentally an issue of justice and fairness. In line with the results for other countries, the finding from O'Neill's (2004) Irish study was that minimum wages have no adverse effect on employment when the internationally comparable survey methodology is used.

However, O'Neill (2004) also examined more closely those firms that reported that they would not have increased wages by as much were it not for the minimum wage legislation. Using this more refined measure of the impact of the legislation, a significant negative effect on employment was found. It appears that employment growth was reduced by the small numbers of firms most severely affected by minimum wage legislation. In terms of the overall labour market in Ireland in the period immediately after the introduction of the minimum wage, employment growth continued. Strong economic growth and tight labour market conditions (the strength of aggregate demand in comparison to aggregate supply in the economy) led to overheating, to pressure on productive capacity. Upward pressure on pay levels resulted from the ensuing tight labour market. From 2002 to 2007, both the labour force and the numbers employed in Ireland continued to grow, as illustrated in Figures 1.1 and 1.3 above. The unemployment rate rose very slightly from 2002 to 2003, but continued at historic low levels of close to 4 per cent for several years more, as will be seen in Figure 1.7.

The existence of legislation on a minimum wage is, nevertheless, a fundamental change in the labour market in Ireland. For future negotiations within social partnership, it sets a different basis from other consensual agreements.

Distribution and Inequality

Another important aspect of the rewards to labour is the issue of distribution. Dimensions of inequality to be considered include: first, changes in relative earnings among employees over time; second, inequality in the distribution of income; and, third, summary measures of inequality.[2]

In many industrialised societies, rising inequality in the distribution of earnings is a feature of economic growth. To examine earnings inequality, a variety of measures may be used. Survey methods, which typically focus on annual earnings of full-time employees, are used in an attempt to view trends over a longer time. Analysis of the trends in dispersion of earnings may be carried out by examining the highest and lowest deciles or quintiles (tenths or fifths) of the distribution, and by expressing the highest or lowest as a proportion of the median (or middle) income. Studies of earnings differentials are also used to consider aspects of returns to education, relative earnings in public or private sectors, and comparative earnings levels of migrant workers.

The study by O'Connell and Russell (2008) examines earnings in the period 1994 to 2000. Their study shows that rapid economic growth in the 1990s in Ireland seems to have reduced wage inequalities. Examination of the data on relative earnings by educational attainment shows a lack of change: the difference in earnings between those with upper secondary education and those with tertiary education was virtually constant. Another study, covering 1994–2001, addresses the question of whether the changing labour market had an effect on the nature of inequality in Ireland, and concludes, 'we find no evidence that the underlying nature of inequality in Ireland was greatly affected by the rapid growth over this period' (Doris *et al.* 2008:18).

Earnings are relevant for those in employment: income may include additional items such as transfer payments. Measurement of the distribution of income is subject to particular difficulties as to data and appropriate methods of comparison. Whether the household or the person is the unit of comparison is one issue. It is now usual to focus, when measuring income inequality, on persons rather than households, and to assume that all members of the household share a common standard of living, which is measured by making an adjustment to household income to reflect the number of people living in the household. This adjustment is done by using 'equivalence scales', which attach different weightings to adult members of the household and to children.

According to the OECD (2008) study, changes in income distribution over the period from the mid-1980s to the mid-1990s were dominated, in Ireland and elsewhere, by changes at the top of the distribution. That is, in many countries, the top quintile increased its share of income. For the time from the mid-1990s to 2000, however, the trend is less clear-cut. In Ireland, middle-income groups gained significantly at the expense of both higher- and lower-income groups, as shown by Förster and Mira d'Ercole (2005:15). This is confirmed until the mid-2000s by the OECD (2008:31).

The Gini coefficient is the most widely used summary measure of inequality.[3] In terms of OECD members, Ireland's figure for the mid-2000s, at 0.328, is above the OECD average.[4] Comparing Ireland with the European Union (EU) of twenty-seven members in 2007, the Gini coefficient for Ireland is also above average, but similar to that of eight other countries, including the UK (Nolan 2009:493). Trends in the Gini coefficient for a longer timeframe (OECD 2008:53) suggest that from the mid-1980s to the mid-1990s there was little change in inequality measured for Ireland, while from the mid-1900s to mid-2000s there is evidence of some reduction. The most recent information available (CSO 2009a:20) confirms stability since 2005 in both the Gini coefficient and the quintile shares as measures of distribution, with some move towards a more equal distribution in 2007 and 2008.

Trends in income distribution are part of the assessment of poverty. Relative poverty, as the phrase implies, is not concerned with the absolute level of goods and services an individual can afford, but with how much an individual can afford relative to others in the society. In general, the poorest households are headed by persons not employed. One measure of relative poverty considers persons with 60 per cent or less of median disposable income as poor. By this definition, there was a significant increase in the poverty rate in Ireland in the latter half of the 1990s. 'The numbers falling below relative income thresholds derived as proportions of mean or median income have certainly risen over the economic boom' (Nolan and Maître 2008:38). This trend of increased risk of poverty continued up to 2005 (Kirby and Murphy 2008:13–14).

In summary, Ireland is a country with relatively high inequality, as summarised by the Gini coefficient. This high level of income inequality has been relatively stable over time. Summary measures of inequality did not worsen between 1988 and the latest data available. How, then, is the popular perception of widening inequality in the boom to be reconciled with the statistical measures? If everyone experienced the same proportional increase in incomes, the conventional inequality measures would be unchanged, but 'absolute widening gaps in incomes could dominate popular perceptions' (Nolan 2009:496). This explanation of the difference in the statistical measures and the popular perception of widening inequality is also illustrated in the Hierarchy of Earnings, Attitudes and Privilege Analysis (TASC 2009:13).

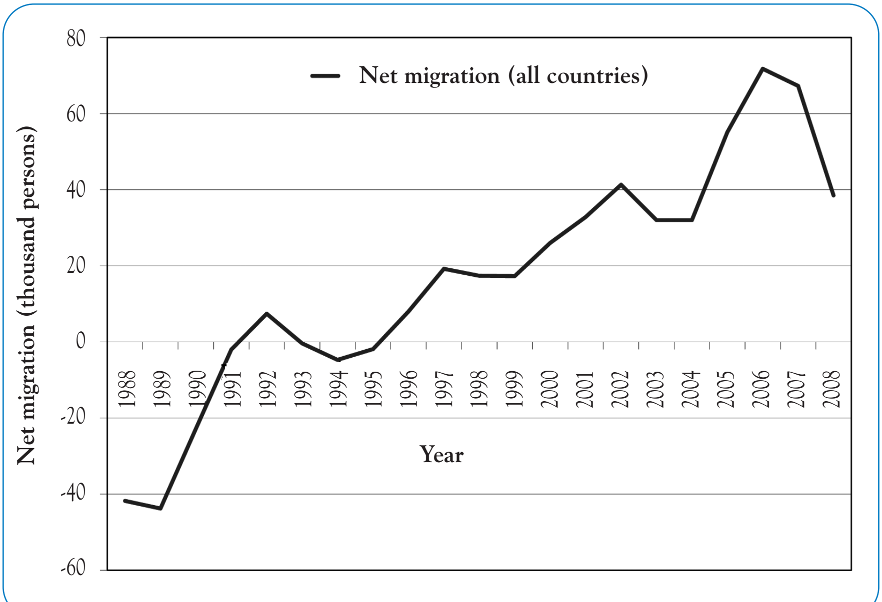
The state's interventions through taxation and income support have an effect on inequality and on the incidence of poverty. According to Nolan and Maître (2008:36–7), the change in income distribution as a result of the state's polices in Ireland is comparable to that of the United Kingdom, less than that of Canada or Australia, but greater than that of the United States. Social transfers, such as social welfare payments and benefits in kind, play a smaller role in reducing poverty in Ireland than the EU average. 'Ireland currently ranks lowest in the EU-15 in terms of social spending as a share of GDP' (Nolan 2009:499).

THE INTERNATIONALISATION OF LABOUR

A new feature of the labour market in Ireland is the trend towards internationalisation of labour, in line with other developed economies. In this section, two aspects of this internationalisation are examined briefly in relation to Ireland. The first is the changing composition of the labour force through migration. The second issue, as addressed by the International Monetary Fund (IMF) (2007:161–92), is whether this larger pool of labour from emerging markets and developing countries is adversely affecting compensation and employment in the advanced economies, such as Ireland.

The transformation of Ireland from a country of outward migration for many decades, to one of inward migration in recent years, is remarkable (see Chapter 23 for more discussion). For more than a hundred years, from 1841 to 1961, the history of Irish population was one of decline. For all that time, net migration exceeded the natural increase resulting from an excess of births over deaths. Positive net migration was first recorded in the 1970s, but it is only from the Census data of 1996 that we begin to see a significantly positive net migration, dominated at first by returning Irish (see O'Hagan and McIndoe 2008:114–17).

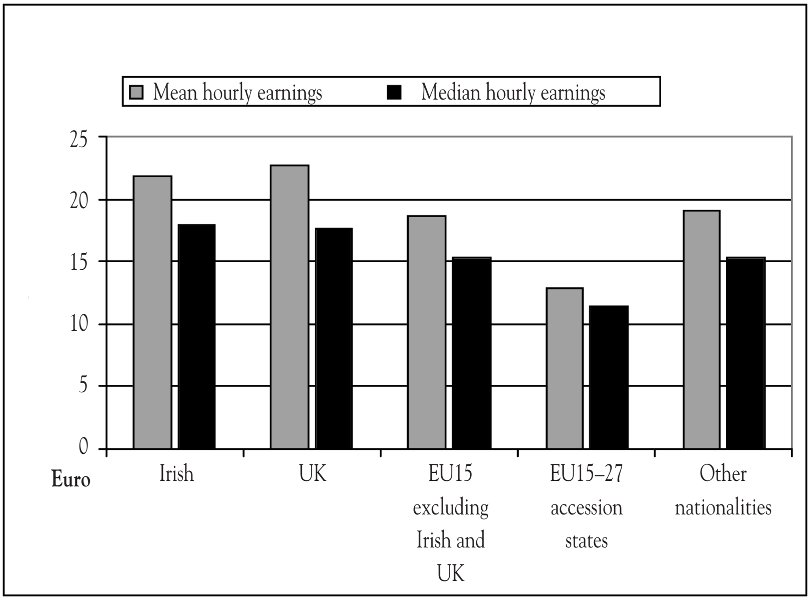
Figure 1.4 Net migration to and from Ireland, 1988–2008



Source: CSO (2009b).

Figure 1.4 shows the net migration out of and into Ireland from 1988 to 2008. The significant out-migration occurring in the later 1980s is evident. Ireland was losing close to 40,000 persons per annum, that is, approximately one per cent of the population. From 1991 (see O'Hagan and McIndoe 2008), this trend began to reverse, with inflows and outflows close to balance. Initially, the inflows consisted of approximately half returning Irish and half immigrants from other countries. The period of definite and increasing in-migration is evident from 1997, and it continued strongly until 2006. From 2004, the acceleration in the inflow is from new member states of the EU, notably those located in Eastern Europe. Ireland was one of the three existing member states to allow full access to work to persons from the newer member states (except Romania and Bulgaria). The Census report (CSO 2007) on employed persons by nationality shows that 85 per cent of the workforce was of Irish nationality at the time of Census 2006. The remaining 15 per cent included 5 per cent from the new accession states to the EU, and 3 per cent from the United Kingdom, with persons from the older EU members and those from all other countries accounting for 2 per cent and 5 per cent respectively of the total workforce.

Figure 1.5 Mean and median hourly earnings by nationality working in Ireland



Source: CSO (2009c).

Consideration of the education level of migrants to Ireland leads Barrett and Duffy (2007:15) to state that 'with respect to educational qualifications, it should be noted that the proportion of immigrants with third-level qualifications (31.8 per cent) is identical to the proportion with third-level qualifications in the native Irish population'. Barrett and Duffy (2007:9) also state that 'it should be noted that collectively immigrants in Ireland are a remarkably educated group'. Their analysis shows that the exceptionally high level of qualification of earlier migrants has been moderated by the lower levels of qualification of more recent arrivals. In terms of occupational attainment, the evidence is that it is lower for immigrants to Ireland than for natives, even controlling for age and education.

Efforts to examine the integration of the immigrant group into the labour force suggest limited integration, without noticeable improvement to date. Barrett and Duffy (2007:13) note, 'all we can conclude is that we are not finding evidence of integration'. The impact of immigration on the compensation of employees is problematic to assess. As a first step, Figure 1.5 gives some suggestion from 2007 data.

Average hourly earnings are highest for Irish workers, both male and female. The levels for workers from the other 'older' EU members are somewhat lower; but those for persons from the newer EU member states are substantially lower. As mentioned earlier, the evidence suggests that more recent migration into Ireland from the more recent EU member states includes persons less well qualified than those of earlier migration. The limited data available suggest, therefore, that the earnings pattern of migrants mirrors their educational levels, as is the case for Irish workers.

Competitiveness

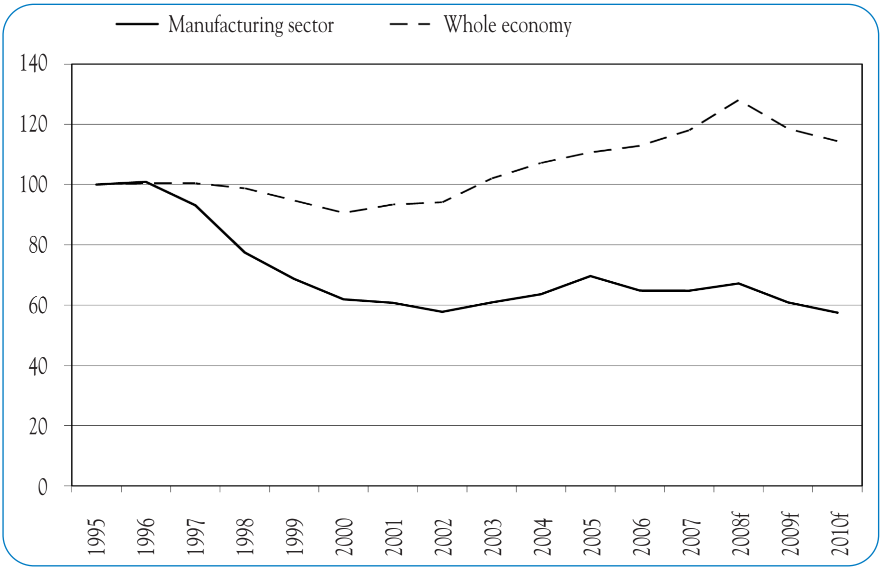
The World Economic Forum (2009:4) in its Global Competitiveness Report, puts forward a definition of competitiveness as '*the set of institutions, policies and factors that determine the level of productivity of a country*. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy' [emphasis in original], and then shows indicators for over a hundred countries. With an overall ranking of twenty-fifth for Ireland, some areas of competitive advantage or disadvantage under the heading of labour market efficiency are identified. Competitive disadvantage is shown for Ireland in the categories of 'flexibility of wage determination and pay and productivity', and competitive advantage for the category of 'co-operation in labor–employee relations'. Recognising that wage costs are one component of competitiveness, information on wage costs in Ireland compared with its trading partners is provided by Central Bank Quarterly Bulletins (e.g. Central Bank 2009:44–5).

Ireland experienced very high unemployment rates in the 1980s. Despite this, in the early 1980s wages in Ireland rose relative to those of the country's trading partners. However, from 1986 to 1996, this trend was reversed (Walsh 2003:13). The interpretation given by Walsh (2003) is that the unprecedented rise in Irish unemployment during the mid-1980s gradually brought about a painful adjustment and this led to a moderation in wage inflation.

A distinction can be made between the trend in wage competitiveness for the economy as a whole, and that for the manufacturing sector in particular. For the economy as a whole, the data suggest that Ireland gained in competitiveness throughout much of the 1990s, with a decline in the cost measure in comparison with the trading partners. However, since 2000, a noticeable deterioration in competitiveness by this measure has taken place. It appears that unit labour costs increased more rapidly than in our trading partners, thanks to weak gains in productivity combined with relatively strong wage increases.

For manufacturing, the picture is different, in that the very competitive position Ireland held in the 1990s would seem to have changed far less. This picture is illustrated in Figure 1.6, where 1995 is the base year. The illustration seems to confirm the idea that wage moderation, especially in the newer technology manufacturing industry, was a major contributor to the recent strong economic growth. The Central Bank of Ireland cautions, however, that within this definition of manufacturing, there are very different experiences for the new technology, largely foreign-owned enterprises and indigenous firms. By and large, the report says, the downward trend in relative unit wage costs in manufacturing industry is dominated by the foreign-owned sector and 'the competitiveness position of many indigenous firms in more traditional sectors is much weaker' (Central Bank 2008:54).

Figure 1.6 Irish unit wage costs relative to trading partners (in common currency)



Source: Central Bank of Ireland (2009) (reprinted with permission).

In the 1990s, earnings in the Irish economy lagged behind those in north-western European countries, and compensation per employee and earnings before deductions increased faster than those of most European countries, especially around the turn of the century (O'Connell and Russell 2008:52).

ROLE OF SOCIAL PARTNERSHIP

Over the decades since the 1960s, a range of institutions emerged which facilitated the development of social partnership (see Chapters 13 and 14). One of these institutions, the National Economic and Social Council (NESC), was established in 1973. Membership of the NESC includes nominees from the Irish Congress of Trade Unions (ICTU), the Irish Business and Employers' Confederation (IBEC), and a range of farming organisations. In addition, the secretaries general of five key government departments are members, and a number of independent experts are also included. The secretary general of the Department of the Taoiseach normally chairs NESC meetings and advises the government through that department.

The function of NESC, in its own description is:

> to analyse and report to the Taoiseach (Prime Minister) on strategic issues relating to the efficient development of the economy and the achievement of social justice and the development of a strategic framework for the conduct of relations and negotiation of agreements between the government and the social partners. (NESC 2009)

The NESC had, for some time, argued the case that 'Ireland's economic and social performance could be enhanced by the development of a more sophisticated and wide-ranging system of social consensus' (O'Donnell 1999:60). A 1986 NESC report, *A Strategy for Development 1986–1990*, showed an analysis of the crisis then facing the Irish economy, and spurred the development of consensus between the main political parties as to how to deal with the situation. The result of this work evolved into an agreed understanding of economic and social problems, the implementation of a consensual approach to distributional issues, and the ability of government to adopt a strategic, as opposed to a typically short-run, perspective. Following years of 'drift', a common negotiated approach to solving problems became possible. It was agreed that, given Ireland's membership of the then European Economic Community (EEC), income levels that would maintain the competitiveness of an internationally trading open economy were necessary. It was also agreed that the process of social partnership should be capable of handling distributional conflict.

Studies and reports prepared by the NESC 'present government with the shared view of the social partners and senior civil servants' (O'Donnell 1999:56). Following the success of the 1986 report in presenting a shared understanding of the problems facing the country, and an approach to resolving them, the NESC developed its analyses of strategic policy issues. Since then, the negotiation of each partnership agreement has been preceded by an NESC strategy report.

From 1997, formal recognition was accorded to the 'social pillar', comprising a large number of community, voluntary and religious groups. Partnership activities have also extended to sectoral, local and workplace levels. Other institutions are concerned with monitoring the progress and the implementation of the agreements. The National Centre for Partnership and Performance has fulfilled this role since the Partnership 2000 agreement.

The institutional 'architecture' of the social partnership had, by the year 2007, evolved to the arrangement summarised in Roche (2007:404). In brief, the social partners comprise government, the trade unions (represented by ICTU) and the employers (represented principally by IBEC). A summary of the seven agreements negotiated to date is shown in Table 1.2.

Table 1.2 The social partnership programmes

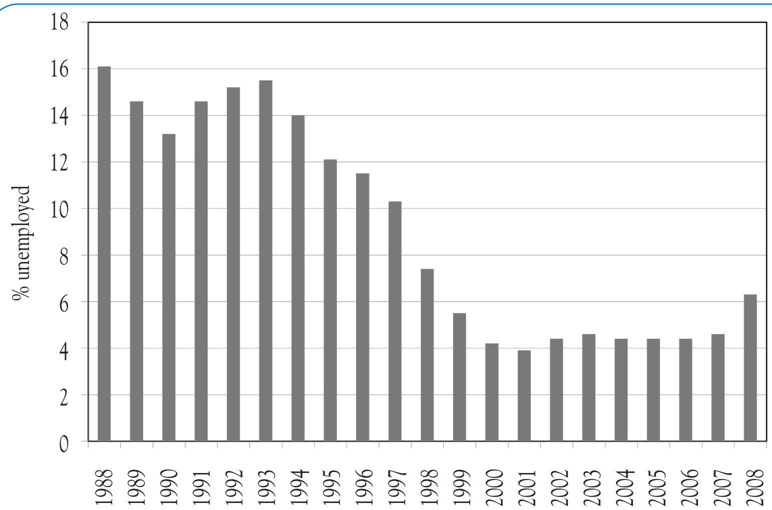
Programme for National Recovery (PNR)	1987–1990
Programme for Economic and Social Progress (PESP)	1991–1994
Programme for Competitiveness and Work (PCW)	1994–1996
Partnership 2000 (P2000)	1997–2000
Programme for Prosperity and Fairness (PPF)	2000–2003
Sustaining Progress	2003–2005
Towards 2016	2006–2016

Source: Irish National Organisation of the Unemployed (2009).

Each social partnership agreement has included a percentage wage increase to be phased in over the life of the agreement. Other economic policy measures, notably on taxation, and social policy measures came to be included in successive agreements.

It may useful to review the agreements in the light of the headings mentioned above. Increases in the labour force and in the numbers at work were shown in Figures 1.1–1.3. Employment creation and reduction in the unemployment rates feature prominently in the earlier partnership agreements. The Programme for National Recovery (PNR) stated that 'the objective of the employment strategy will be to create viable jobs in the legitimate economy and not in the "black economy"' (DoT 1987:26). In the second agreement, 'the creation of employment and the consequent reduction of unemployment and involuntary emigration is the primary policy objective of Government' (DoT 1991:43). Measures on education, training and increased female participation are also mentioned in that agreement, with a view to addressing the long-run employment problems, together with an explicit reference to the 'crisis of long-term unemployment' (DoT 1991:43, 65, 75). Similarly, in the Programme for Competitiveness and Work (PCW), the key challenge is given as increasing 'the number of people at work within our economy and . . . [reducing] the level of unemployment' (DoT 1994:7). By the time of Partnership 2000 (P2000), and the subsequent Programme for Prosperity and Fairness (PPF), long-term unemployment is mentioned principally in the context of ensuring that Irish society becomes more inclusive, and that the benefits of growth are more equally distributed (DoT 1996, 2000:3). By the time of the Sustaining Progress agreement, the huge improvement in the unemployment picture is noted, and the elimination of long-term unemployment by 2007 is targeted. Unemployment was not mentioned in the original Towards 2016 document. Figure 1.7 shows the improvement in the unemployment rates in Ireland from 1988.

Figure 1.7 Seasonally adjusted annual average standardised unemployment rates



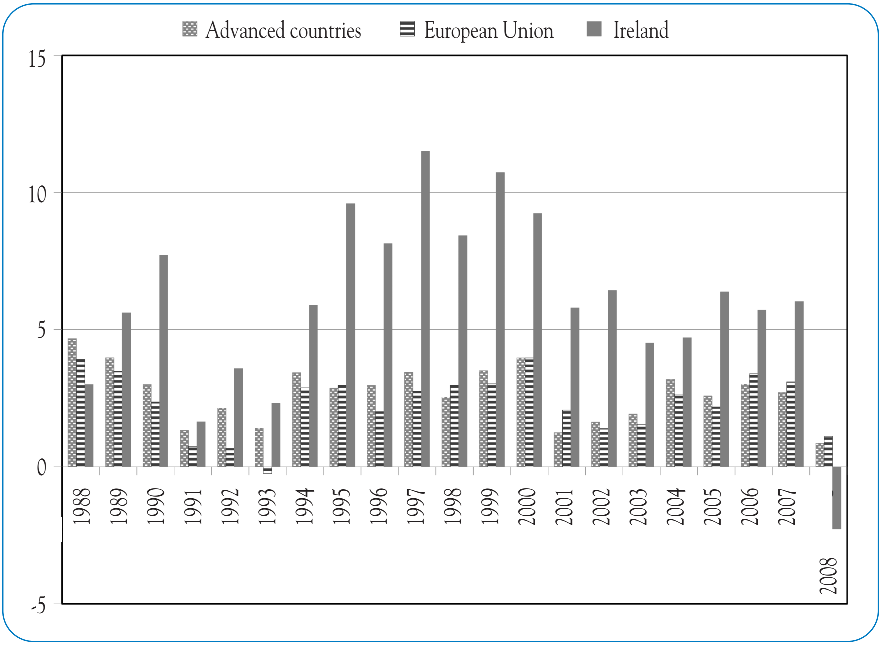
Source: CSO (2009d).

The concept of a minimum wage is first mentioned in the second of the social partnership agreements in the early 1990s. In the PCW and P2000 agreements, concern is expressed about full enforcement of the rates of pay agreed by the JLCs. It was not until the PPF that a formal commitment to introduce a minimum wage appeared: this commitment was honoured in 2000, the first year of that programme. Later partnership agreements adjusted the level of the minimum wage and suggested that those earning this minimum should be removed from the income tax net (DoT 2003:39).

The earlier agreements mentioned distribution issues only very briefly. P2000 is the first to mention the idea of sharing the benefits of growth and the need for policies to tackle poverty and to support social inclusion. As the name implies, the PPF gave a greater prominence to issues of inequality, stating, 'the core objective of the programme is to build a fair, inclusive society in Ireland' (DoT 2000:5). A range of initiatives on poverty reduction was introduced, and a substantial allocation of government expenditure promised.

On the topic of migration, the earlier social partnership agreements stressed the reduction in involuntary emigration as an objective. Immigration first appears in the PPF, some years after net migration had become positive, as shown in Figure 1.4 above. Consultation with the social partners to develop a comprehensive policy framework on migration, and the first mention of multiculturalism in the labour market, appear in Sustaining Progress, whereas the monitoring of changing trends in employment, including those of workers from overseas, features in Towards 2016 (DoT 2006:99).

Figure 1.8 Annual percentage change in gross domestic product (constant prices): Ireland and developed countries compared



Source: IMF (2009).

The issue of competitiveness is not directly addressed in the PNR, but there is specific mention of Ireland's full participation in the international economy and in the EEC. The PCW agreement states that the government wished 'to maintain and strengthen the consensus approach of recent years, to underpin our strong economic performance . . . and, critically, to deepen the competitiveness of the Irish economy', recognising that sustainable employment expansion is dependent on increased competitiveness (DoT 1991:5, 10). The development of the indigenous sector is emphasised, as it was considered an area where improved competitiveness would yield most in terms of value-added, employment and incomes in Ireland. For P2000, a key objective is stated as 'the continued development of a modern economy operating within the constraints of international competitiveness' (DoT 2000:3). In the PPF, the vital importance of maintaining competitiveness is likewise emphasised. By Sustaining Progress, concern about rising domestic costs and profit levels and a need to renew competitiveness are expressed. In the most recent agreement, the need to enhance productivity and competitiveness is to the fore (DoT 2006:15).

To review Ireland's economic performance in the time of social partnership, Figure 1.8 shows the growth rate of the country's gross domestic product (GDP) compared with the EU area and with Advanced Countries (as defined by the IMF). It may be seen that, in fact, over the entire span from 1989 to 2007, the rate of GDP growth in Ireland exceeded that in the other groups of countries. The unprecedented economic boom coincides at least with the experience of social partnership. We see, also, that the peak of the era of the Celtic Tiger may be put at 1997 to 2007. In 2008, Ireland's rate of economic growth turned negative.

Assessment of Social Partnership

There is a surprisingly strong degree of support from a variety of sources for social partnership in Ireland. Sweeney (1998:90), writing on Ireland's economic miracle, says that 'a crucial ingredient to the success has been the social consensus, which began in 1987 with the first of the new comprehensive national agreements'. Most political parties of any significance in Ireland have been in government in various coalitions since 1987, and the partnership process has survived this (O'Donnell 2008:88).

The start of this process is explained by Ray MacSharry, who was minister for finance from 1987 to 1988, and Padraig White, who was director of the Industrial Development Authority (IDA) until 1990:

> The NESC conclusions were . . . a highly significant achievement: the social partners had accepted the need for tough remedial measures as part of the integrated strategy, set in a medium-term context. Having looked into the economic abyss, it seemed that all those involved – employers, unions and farmers – had stepped back and had then acted in concert to check a national drift towards disaster. . . . They accepted a balanced package of measures which, in the medium term, might ensure economic redemption. . . . Yet what was most impressive was the unanimity of the social partners' support and their acceptance that tough measures were unavoidable. (MacSharry and White 2000:124–5)

Senior business representatives interviewed by Sweeney (2008:117) were also supportive of Ireland's social partnership and believed that it contributed to economic success. In addition, trade union leader David Begg said that 'the big advantage of the social partnership process was that it gave an incredible amount of stability to that whole environment . . . From a business perspective, you almost had the best of all worlds. This was the catalyst for the take-off' (Sweeney 2008:118). It seems that stability and industrial peace were and are the most valued aspect of the process, appreciated by all sides.

In addition, it is suggested that the engagement of unions, employers, and other civil society actors in wide-ranging policy deliberations requires a reflection on policy priorities. Not only do interest groups understand each others' perspectives more fully, they may also rethink their own interests and even identities

(Hardiman 2006:346). Working groups are set up in the process of social partnership, which involve regular meetings and interactions between key leaders, providing a 'powerful channel of communication between the social partnership arena and the administrative and legislative system' (Hardiman 2006:347).

A less enthusiastic endorsement is given in Clinch, Convery and Walsh (2002). Comparing partnership with the decentralised wage bargaining process common in other countries, they recognise that social partnership has benefits 'principally in terms of minimising the resources that have to be devoted to wage bargaining at the level of the firm' and that a decentralised process might imply a loss of industrial peace (Clinch *et al.* 2002:92).

In summary, a very important contribution of social partnership is that it has put in place processes that resolve major conflict, often long before the public is even aware it is looming. It is part of a more participative and inclusive society where social partners express their views, and, importantly, are heard (Sweeney 2008:125).

In recent years, criticism of the whole process of social partnership has emerged. For example, Allen (2000:104) suggests that ICTU's status has risen in inverse proportion to the share that workers gain from the national economy. He further suggests that union leaders negotiate and then impose the agreements on unions' rank and file membership. However, Roche (2007:411, emphasis in original) says that 'the view that union leaders can, or need, *impose* policies on members is untenable'. It is true that social partnership has not received uncritical support from union leaders, and that some have been forced to withdraw from the process either because of intra-union factionalism, or because of dissent among members.

A second line of criticism, attributed to former Taoiseach John Bruton, is that the process gives insufficient weighting to democratically elected representatives (Hastings *et al.* 2007:205). The agreements are negotiated by the social partners, but the legislature – the Oireachtas – has almost no influence on the actual negotiations and has typically been presented with the final agreement.

A third aspect of criticism concerns the introduction of wider social objectives in the negotiations. One statement from economists, criticising aspects of social partnership, is to the effect that this widening of objectives is a form of 'social engineering' and should not have a role in wage negotiations, although a linking of taxation policy with a pay deal is understandable, to preserve take-home pay (Clinch *et al.* 2002:94). Others suggest, by contrast, that the wider social justice agenda has been given inadequate attention. According to David Begg, 'Ireland's great *economic* success could have generated a great *social* success if we had done things differently' (Sweeney 2008:40, emphasis in original). He suggests that cuts in income and business taxes in the 1990s should have been more modest, and we could then have had a fairer society. It is also alleged that the community and voluntary groups have difficulty asserting their priorities, have felt government support waxing and waning, or have been sidelined (Hardiman 2006:367). There seems to be recognition that social partnership in Ireland has been neutral from a distributional aspect (Baccaro and Simoni 2007:450), and that it did not attempt to compress inter-sectoral wage differentials. The experience has been one of 'solidarity without equality' (Roche 2007:399). The value of social welfare payments was preserved, by union insistence, but the commitment to reducing inequalities was weak.

The final criticism of social partnership concerns its very core – the negotiation of a pay deal for both the public and the private sector. A percentage wage increase is a key feature of each of the agreements. It is voluntary, but compliance levels have been good, and drift has not been significant. The suggestion is that social partnership has resulted in creating and maintaining wage moderation in Ireland (Teague and Donaghey 2009:63). The earlier agreements of the recent phase of social partnership, the PNR especially, tied wage agreements to what was feasible in Irish indigenous industry. This meant that wages in the foreign-owned modern manufacturing sector were held back. As productivity increases were much greater in the modern sector, a considerable gain in competitiveness ensued.

For the more recent agreements, the agreed wage increase was more related to the demands of the public service trade unions, strongly represented in the ICTU. The result has been the loss of competitiveness, which, as explained by Peter Sutherland (chairman of BP and of Goldman Sachs International, former Attorney General of Ireland, EU Commissioner and Director General of the World Trade Organisation) is all the more serious since Ireland is part of a monetary union (quoted in Sweeney 2008:20).

CONCLUSION

The Irish labour market was transformed over the period of the Celtic Tiger, especially the 'eye of the Tiger' years from 1997 to 2007. On the supply side of the labour force, the population increased, the participation rate rose, the labour force grew, and the employment numbers increased considerably. On the demand side, the rate of economic growth contributed to the huge requirement for workers. This demand was initially met by Irish workers and, soon afterwards, by an influx of workers from other countries. The outcome of these changes was that compensation levels improved for the majority of workers. On inequality, changes at the extremes of the distribution do seem to be present, but, in general, the existing inequality levels in Ireland continued.

The principal lesson to be drawn from this experience is that changes in the labour and employment experience of the country, which would have been difficult to imagine two decades ago, did in fact occur, and in a relatively short space of time. Job creation on a scale that seemed unlikely in the past, in a country with very high unemployment rates, *is* possible.

There are two principal challenges facing the labour market in the near future. The first is the issue of labour costs as one element of competitiveness. It seems that a reduction in compensation to restore the competitiveness of Irish output and exports is required, and is already under way (Forfás and National Competitiveness Council 2009:17). The second major challenge is the continuance of the social partnership model, reflecting the difficulties of the economy in general. Future wage levels, conditions of employment and the social model we have had depend on a successful adaptation of social partnership. An adaptation of social partnership led into the economic boom from the unpromising situation of the 1980s. There is reason to hope it may do so again.

Notes

1 The International Standard Industrial Classification of all Economic Activities (ISIC-Rev.3) was used. Data from LABOSTA has been summarised for Figure 1.3 as follows: Categories A, B and C together as *Agriculture, Fishing and Mining*. Categories D and E together as *Manufacturing and Electricity, Gas and Water Supply*. Category F is *Construction*. Categories G (Wholesale and Retail Trade), H (Hotels and Restaurants), I (Transport, Storage and Communications), J (Financial Intermediation) and K (Real Estate) are combined as *Private Services*. Categories L (Public Administration and Defence), M (Education), N (Health and Social Work), and categories P, Q and X are all included in *Public Services*.

2 For Ireland, studies rely on the Economic and Social Research Institute's Household Survey in 1987, and the 1994 and 1997 Living in Ireland surveys. From 2003, the Central Statistics Office has compiled the Survey on Income and Living Conditions (SILC), in accordance with European Union requirements.

3 The Gini coefficient is calculated from the cumulative income distribution curve known as the Lorenz curve (the cumulative shares of the population, from the poorest to the richer, against the cumulative share of income they receive). The area between the Lorenz curve and the 45° line, as a ratio of the whole triangle, is the Gini coefficient. A smaller number indicates greater equality.

4 For the available data on Gini coefficients 2001 to 2006, see Kirby and Murphy (2008:13). For more recent years, see CSO (2009a: 20).

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