

*Ireland's National Wage Agreement's &
Macroeconomic Performance: 1988 – 2008*

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Programme for National Recovery (PNR)

Jan. 1988 - Dec.1988

Jan. 1989 - Dec.1989

Jan. 1990 - Dec.1990

Programme for Economic and Social Progress (PESP)

Jan.1991 - Dec.1991

Jan.1992 - Dec.1992

Jan.1993 - Dec.1993

Programme for Competitiveness and Work (PCW)

Jan. 1994 - May 1994

June 1994 - May 1995

June 1995 - May 1996

June 1996 - Sept. 1996

Oct. 1996 - Dec. 1996

Jan. 1997 - June 1997

Partnership 2000 (P 2000)

1997 July - 1998 March

April 1998 - June 1998

July 1998 - June 1999

July 1999 - March 2000

April 2000 - Sept. 2000

Each period represents a particular pay award.

Programme for Prosperity and Fairness (PPF)

Oct. 2000 - Sept. 2001

Oct. 2001 - Sept. 2002

Oct. 2002 - June 2003

Sustaining Progress Part 1 (SP 1)

July 2003 - Dec. 2003

Jan. 2004 - June 2004

July 2004 - Nov. 2004

Dec. 2004 - May 2005

Sustaining Progress Part 2 (SP 1)

June 2005 - Nov. 2005

Dec. 2005 - May 2006

June 2006 - June 2006

Towards 2016

July 2006 - November 2006

01-Dec-06

01-Jun-07

01-Mar-08

01-Sep-08

- The various pay awards are used to construct a new monthly nominal “pay award index”, for both the public and private sectors.
- Between 1988 Q1 and 2007 Q2, the index rose by 137% for the public sector and 112% for the private sector.
- Both of these indexes are significantly below the earnings data published by the CSO (**Table 1**).
- Calculated NWA indexes offer a new data series containing less “noise”.

Table 1

		Earnings (€)			
		(Average weekly wage)			
		1988	2007	% change	
				Jan. 1988-June	
		Q1	Q2	2007	
1	CSO	Building and Construction	€235.36	€800.05	239.9
2		Financial Institutions	€75.36	€86.34	136.1
3		Public sector (excl. Health)	€34.65	€26.64	176.9
4		All Industries	€82.79	€27.24	121.8
5	Pay awards	Private sector (NWA Index)	100	211.9	111.9
6		Public sector (NWA Index)	100	237.1	137.1

Deriving the *Real* Pay Award Index

- A fundamental difficulty is that the partners are negotiating for *nominal* and not *real* (inflation adjusted wages), for a period of approximately *three* years into the future.
- Assume that the trade union forecasts are not very different from those published by the Central Bank of Ireland (as given in the Quarterly Bulletin, Number 1).
- (Note: 1 Year forecast.)
- Between 1998 and 2002 and again 2006 – 08 the Central Bank underestimated inflation. The largest under-estimate was 2.9 percentage points in 2000 (**Table 2**).

Forecasting Inflation 1988 - 2008

Table

2

	CSO	Central Bank of Ireland	
	Inflation Actual	Inflation (CPI) Forecast	Forecast error*
	1	2	3
1988	2.1	2.5	0.4
1989	4.0	3.0	-1.0
1990	3.4	3.5	0.1
1991	3.2	3.5	0.3
1992	3.0	3.0	0.0
1993	1.5	1.8	0.3
1994	2.4	3.0	0.6
1995	2.5	2.5	0.0
1996	1.6	2.3	0.7
1997	1.5	2.3	0.8
1998	2.4	2.3	-0.2
1999	1.6	2.5	0.9
2000	5.6	2.8	-2.9
2001	4.9	4.5	-0.4
2002	4.6	3.3	-1.4
2003	3.5	4.0	0.5
2004	2.2	2.8	0.6
2005	2.5	2.5	0.0
2006	4.0	2.8	-1.3
2007	4.9	3.8	-1.2
2008	4.5	3.0	-1.5

Negative sign indicates an underestimate.

- Table 3 shows the nominal and real wage index for the public and private sectors at the end of each agreement.
- Example: In the Public sector, by the end of Partnership 2000 (P2000) in September 2000 a cumulative (base January 1988) nominal pay award of 49.7 % was reduced by inflation to a real increase of 5.2%.

Table 3

	End Date of Public Sector	Wage		CPI Index	Real Wage Index	
		Agreement	Nominal Wage Index Public		Private	Public
	Dec-87		100.0	100.0	100.0	100.0
Programme For National Recovery (PNR)	Dec-90		107.7	107.7	110.3	97.6
Programme for Economic and Social Progress (PESP)	Dec-93		123.2	123.2	118.7	103.8
Programme for Competitiveness and Work (PCW)	Jun-97		133.3	136.6	127.9	104.2
Partnership 2000 (P2000)	Sep-00		149.7	154.1	142.3	105.2
Programme for Prosperity and Fairness (PPF)	Jun-03		187.1	179.1	159.8	117.1
Sustaining Progress Part 1 (SP1)	May-05		209.1	191.9	166.4	125.7
Sustaining Progress Part 2 (SP2)	Jun-06		225.7	202.6	173.3	130.2
Towards 2016	Sep-08		249.1	217.2	191.7	129.9

Two phases of economic growth:

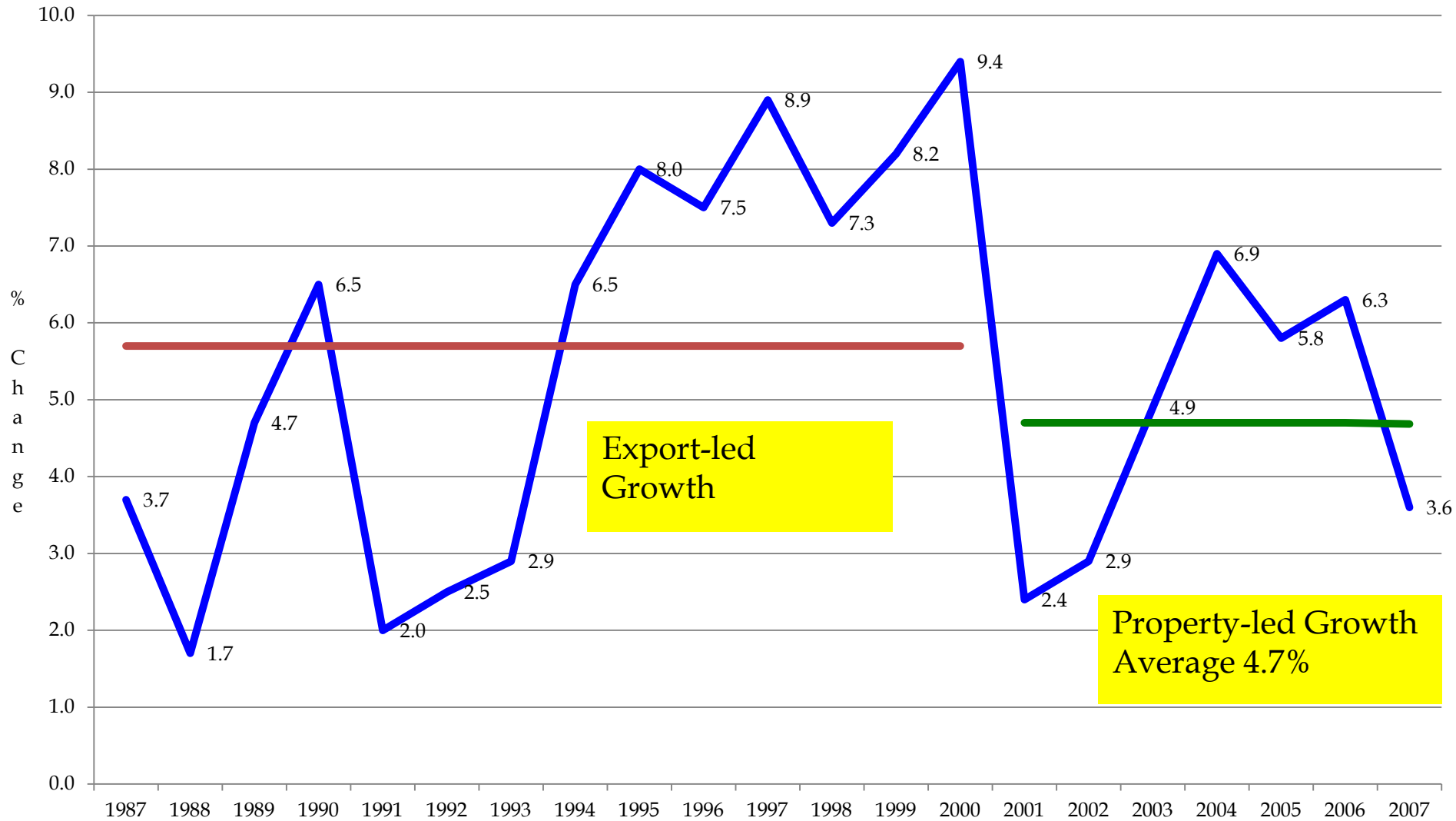
- **1988 – 2000**: Average growth rate 5.7%

Celtic Tiger period based, in part, on exports.

- **2001 – 2007**: Average growth rate 4.7%

Growth driven by investment in building and construction and the demand for non-traded services.

Real GNP Growth Rate: 1987 - 2007



For the Public Sector, annual % change in wages (**Table 4**)

- **Growth phase 1:**

Nominal = 3.9%

Real = 0.4%.

- **Growth phase 2:**

Nominal = 12.4%

Real = 3.1%.

- Relative to 1988, by 2000:
- The Irish economy was producing 120% more goods and services per annum,
- 648 thousands net new jobs were created,
- 127 thousand people had been taken out of unemployment,
- Surplus in the public finances and the balance of payments,
- National debt was less than 40% of GNP.
- Yet the trade unions had managed an annual real wage increase of 0.4% in the public sector and 0.5% in the private sector.
- Wages share of the national economy fell from 67.3% in 1987 to 53% in 2000.
- Against this, there was a significant fall in income tax rates which may have appeased the trade unions.

Table 4

	Growth Period	Months	Annual % Increase			
			Nominal		Real	
			Public	Private	Public	Private
1	December 1987 - September 2000	154	3.9	4.2	0.4	0.6
2	October 2000 - September 2008	96	12.4	7.9	3.1	0.6

- Macro instability arises because the up-surge in the pay awards occurs at a time when the economy moves to a growth phase determined by a credit-fueled boom in building and construction.
- A recent editorial is less diplomatic.

- “By the time the report (by Public Service Benchmarking Body) was published in 2002, recommending average pay increases of 8.9%, it had become embroiled in controversy. The entire venture was a political stroke engineered by the Taoiseach Bertie Ahern to secure the backing of the public sector for Fianna Fail. The deal institutionalised a carousel of pay increases that came to a halt only when the economy crashed into bankruptcy in 2010 ...”
- Editorial The Sunday Times, April 29, 2018.

- One possible effect of the pay awards is on the real effective exchange rate (REER) and price competitiveness.
- (Note: REER is primarily driven by the nominal exchange rate.)
- Movement A to B is consistent with the 1990's and A to C with the 2000's (Figure 4).
- Figure 5 and Table 5.

Figure 4 Pay Awards and the Real Exchange Rate In The 1990's and 2000's

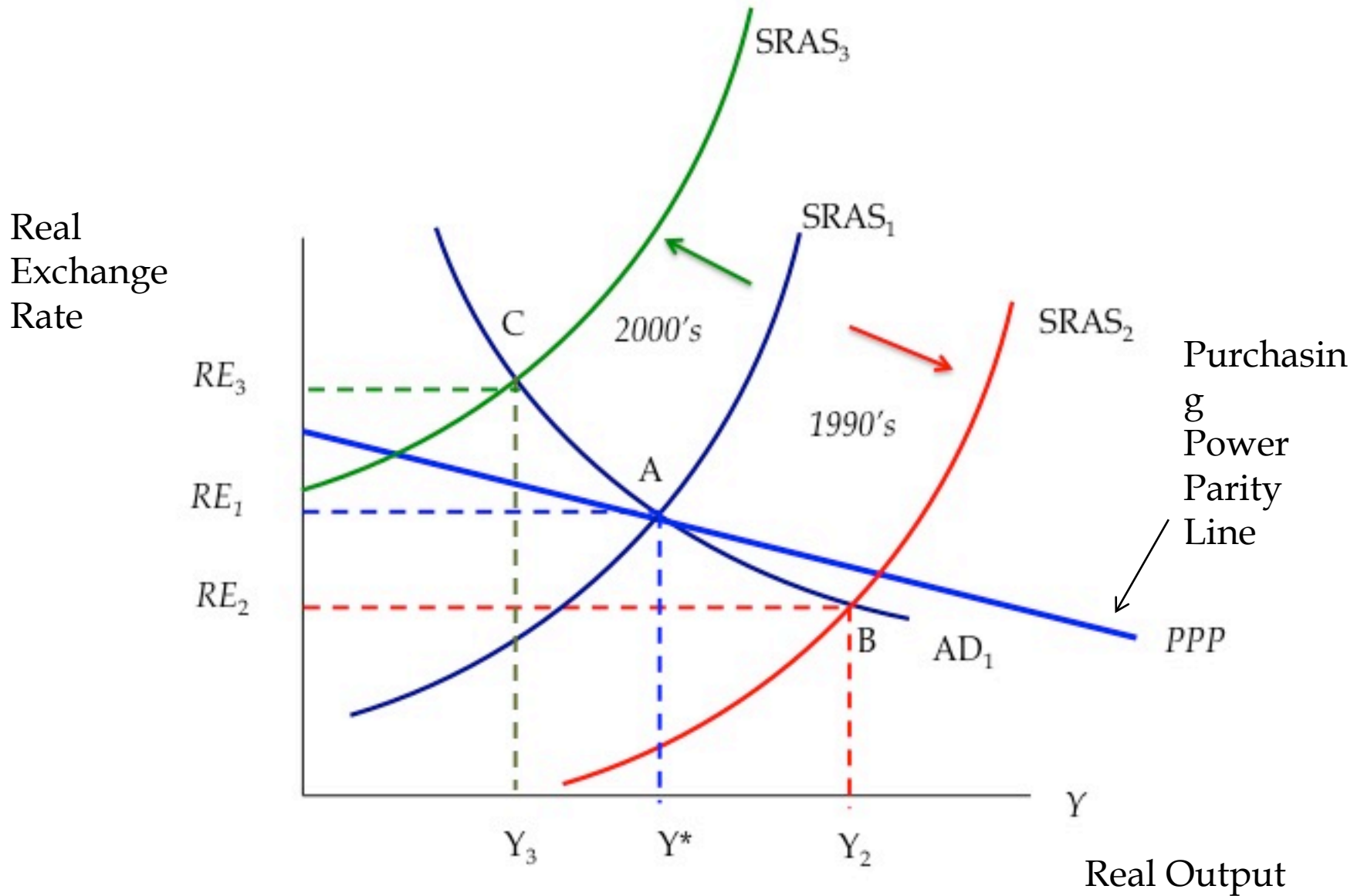


Figure 5 Real Effective Exchange Rates 1995-2008

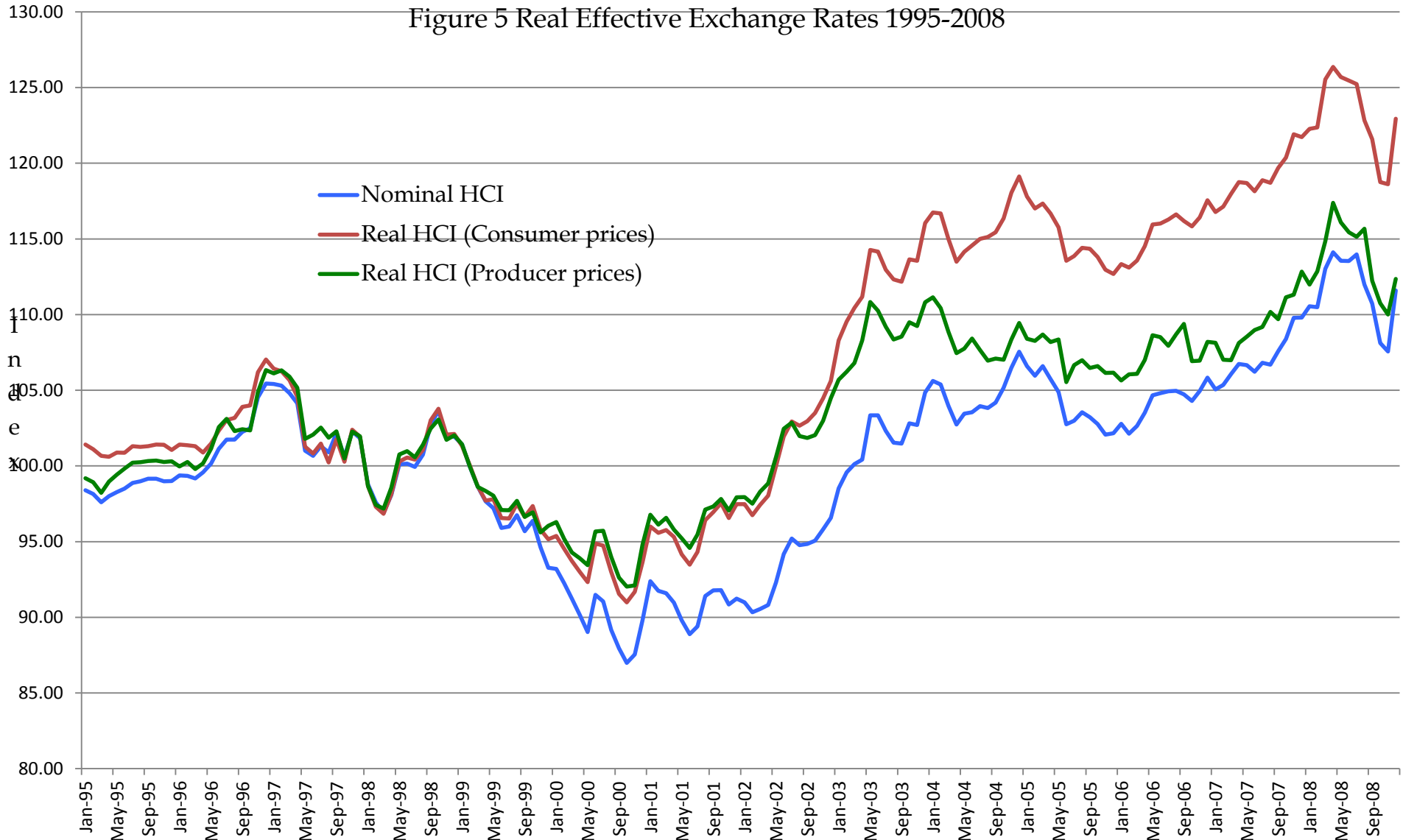
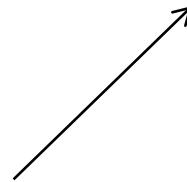


Table 5

	Real HCI (Consumer prices)	Real HCI (Producer prices)
January 1995 - September 2000	-9.7	-6.6
October 2000 - April 2008	38.9	27.6



- The real exchange rate appreciated by 55 per cent against the UK and 97 per cent against the US.

- The latest wage agreement, *Public Sector Stability Agreement, 2018 – 2020*, has not evolved in any significant way from the 1st agreement in 1988.
- No transparency as negotiations are conducted behind closed doors by a very small number of government, trade union and employer representatives who are not elected by a wide franchise.
- The three-year agreed wage increase is presented without any explanation and cannot be revised.
- The word “inflation” does not appear in the document.
- The wage increase applies to all public sector departments regardless of relative changes in productivity.

- Propose the following equation as a basis for future agreements.
- Main advantage is it introduces quantifiable targets and the incentive to achieve those goals.

Subscript, s , indicates the particular public service sector (local government, health, justice, prisons, defence etc.).

$$W_t = \alpha_{t-1} + W_{t-1} + \theta_P(P_t^A - P_{t-1}^e) + \theta_{\text{Prod}}(\text{Prod}_t^A - \text{Prod}_{t-1}^e)_s + \theta_O(O_t^A - O_{t-1}^e)_s$$

Agreed increase in nominal earnings in time $t-1$ based on expected prices, productivity and "other" factors.

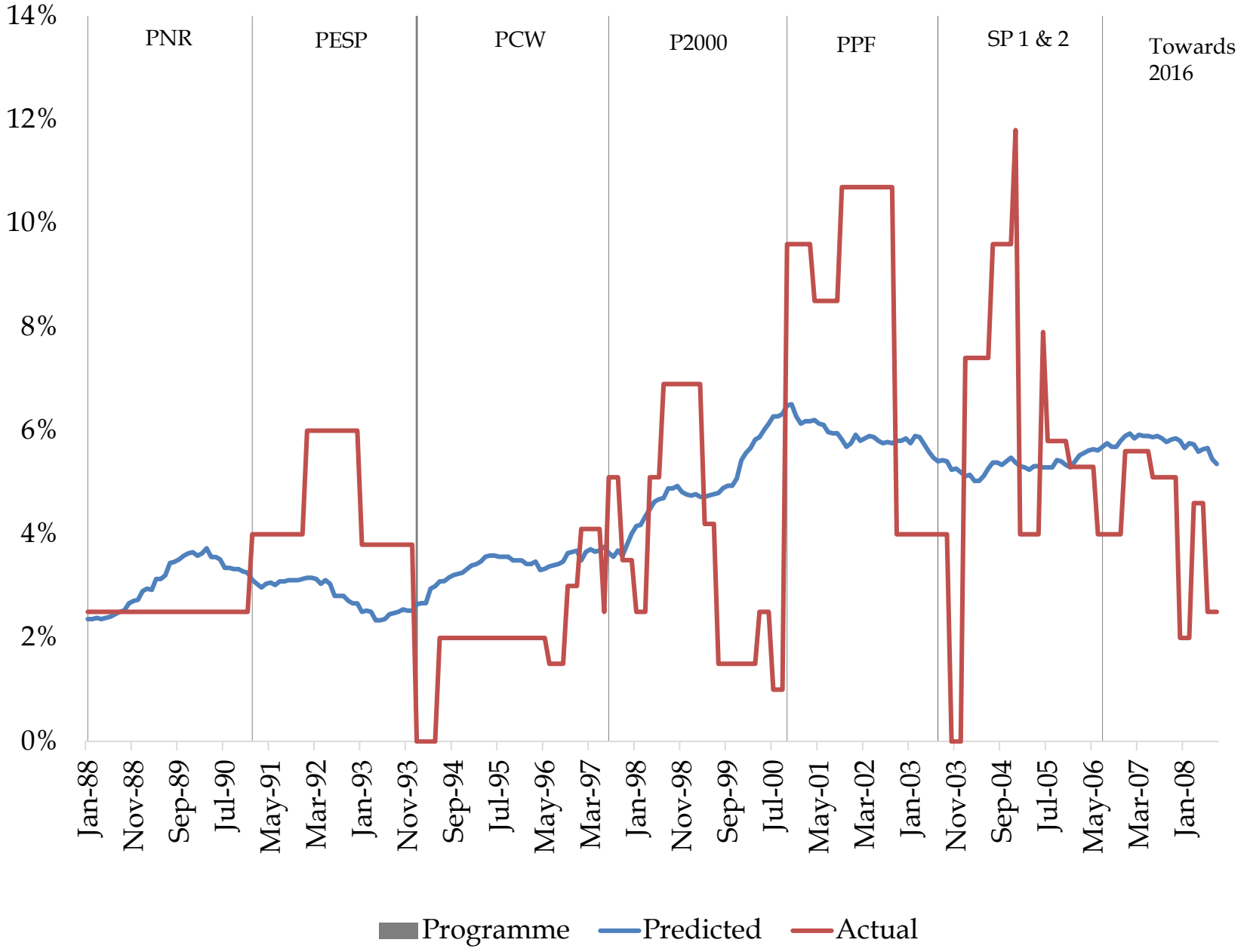
Difference between the actual and expected price level.

Difference between the actual and expected productivity.

Difference between the actual and expected "Other" factors.

"Other" factors could include changes to the tax code, public sector mobility, working hours and patterns etc..

Figure 6



Conclusion

- Identify two different phases of economic growth: 1988-2000 and 2001-2007.
- Role of the National Wage Agreements (NWA) in those two periods.
- How ultimately, the NWA became a source of macro instability.
- Proposed equation: Inflation, productivity and “other factors” become centre stage in transparent negotiations.