

23 November 2016

Mr. Kevin Duffy  
Chairman  
Public Service Pay Commission  
3<sup>rd</sup> Floor St Stephen's Green House  
Earlsfort Terrace  
Dublin 2

Dear Chairman, dear Mr. Duffy

I enclose brief summaries of two ESRI Research Series Papers which I prepared while at the Institute. While these were published some forty years ago I feel that they touch closely on some important issues now facing your Commission.

The first, entitled 'Wage Leadership and Wage Inflation' studied the wage increase trends established by building and maintenance craft unions in the decentralised (free-for-all) wage rounds 'sixties. While trends in the emerging new wage-round are now being set in the public services sector the implications for national economic policy appear to be very similar.

The second paper, entitled 'A Study of National Wage Agreements in Ireland' dealt with the change from the decentralised wage rounds of the 'sixties to the first sustained series of centralised wage rounds in the early 'seventies and the eventual emergence of Social Partnership Agreements.

Both papers are in the ESRI Library as is a further version which incorporates a fuller literature review which was subsequently accepted as Ph. D thesis by the University of London.

I hope that these papers may be of some use. I wish your Commission well in the very important work which it is now undertaking.

Yours sincerely

  
Jim O'Brien

# The Economic and Social Research Institute

## A STUDY OF NATIONAL WAGE AGREEMENTS IN IRELAND

JAMES F. O'BRIEN

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# A STUDY OF NATIONAL WAGE AGREEMENTS IN IRELAND

JAMES F. O'BRIEN

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Senior officials of the Departments of Finance, Labour, Public Service and the Taoiseach read and commented on the penultimate draft of the study as did Professor M.F. Fogarty, Professor W.J.L. Ryan and Mr D. Egan. Their advice was very much appreciated as was that offered by the anonymous external referee.

Finally, thanks are due to the Department of Labour for financial support for the study.

It is hoped that all who helped this research project with their time and wisdom will feel that the final text represents their views fairly and that it provides a basis for a more coherent discussion of the vital issues which are raised in the following pages. It must be emphasized that the author is solely responsible for any errors or omissions which may remain.

## General Summary

This is a study of the origins, content, operation, evolution and implications of National Wage Agreements (NWAs) in Ireland. The NWAs which covered the period 1976-1976 are analysed in detail. The isolated NWAs which occurred in the period 1946-1970 and the tripartite negotiated NWAs which covered the period 1977-1980 are also reviewed briefly. The study has fourteen chapters which, successively, sketch the historical background (1), outline the methodology (2), present the material (3-7), analyse the major issues arising (8-13) and set down the conclusions (14).

The first chapter defines the subject matter. It then sketches the historical evolution of Irish wage-rounds and goes on to summarise the incomes policy debate of the 'sixties' which preceded the NWAs of the 'seventies'. Next it reviews the terms of reference of the Employer Labour Conference and the organisation and constitution of its participants who negotiated the NWAs. It concludes with a list of major questions which the study endeavours to answer. These are as follows:

- 1 What power groups can be observed operating on the process of general wage adjustment? Can their bargaining behaviour be better understood in organisational and constitutional terms and what does it imply?
- 2 Can the concepts of the wage-round and/or the wage-round norm be eliminated? If not, what is the significance of the NWA norm in relation to relative wages and real wages, how and why have the characteristics of such norms altered and what variations might be advisable in different circumstances in the future?
- 3 Why have below-the-norm wage increases been permitted, how have they been monitored and managed and what changes might be required in this regard in the future?
- 4 Why have above-the-norm wage increases been permitted, how have they been monitored and managed and what changes might be required in this regard in the future?
- 5 How have the NWA conflict avoidance procedures worked, what strengths and weaknesses have appeared and what changes might be

required in the future?

- 6 Must government play an active role in regard to wage determination, can it usefully use voluntary or statutory norms, or price control or budgetary policies to hold down the wage-round norm and what are the implications of the answers to these questions for traditional government prerogatives *vis-à-vis* the wage/price/tax nexus?
- 7 Finally, and most crucially, what does the choice between decentralised and centralised wage-rounds entail and which alternative appears to offer the greatest actual and potential advantages in cost and conflict containment terms?

The second chapter first explains the importance of the process of wage determination to wage earners (and their unions), wage payers (and their federations) and national economic policy makers (governments). Nothing so decisively determines the material life-style of the average employee as his wage, while the largest single cost for most employers is undoubtedly their pay-roll. As for the national economic policy makers, Haberler<sup>1</sup> has suggested that (for them) 'incomes policy has become the hottest problem of macro-economic policy in almost all industrial countries'.

Turning to the question of methodology it is argued that the choice of methodology should be heavily influenced by the nature of the subject matter, the problem which it poses and the purpose of the research.

The subject matter of this study is the series of NWAs which have dominated the process of general wage adjustment, which process is a central feature of the Irish economy. The problem which that process poses is that the growth of money wages has tended to outstrip the growth of output in recent decades. The purpose of this research is to develop knowledge which will facilitate prescription for change in that process so as to alleviate the foregoing problem. In the light of these considerations leading economists are cited in support of an essentially inductive approach which proceeds from the systematic observation of bargaining behaviour to the identification and analysis of key issues and the inter-relationships between them. Next several more leading economists are cited to the effect that the three issues which seem to be of central importance are:

- (a) competing claims for relative income shares
- (b) the power needed to achieve a desired income share
- (c) the implications of the exercise of such power for the notion of autonomous national economic management by democratically elected Governments.

1. See reference [1] Chapter 2.

Finally, Chapter 2 outlines the case-study framework which is used for the detailed classification and assessment of relevant facts relating to each of the first five successive NWAs.

Chapters 3 to 7 cover the period 1971-1976 inclusive and the epilogue to Chapter 7 covers the period 1977-1980 inclusive more briefly. These chapters, following the enjoiners of Phelps Brown, Ehm, Leonard and Gordon, are concerned with the "patient accumulation" of "direct observations" of "the behaviour of economic agents" (involved in the NWAs 1970-1980). These chapters are intended to facilitate the identification and analysis of the key issues and in particular to facilitate a consideration of "the big questions about how and why the institutional structure is changing and where it is taking us". This material is of vital importance as our ultimate objective is prescription for change and that presupposes a detailed knowledge of the *status quo*, of past successes and failures and of the reasons for them.

Chapters 8 to 15 deal with the six key issues which emerge from the above-mentioned case studies. These are as follows: (a) the actual and potential roles of labour market organisations in the process of general wage adjustment (the system of wage-rounds), (b) the foundations, functions, limitations and wider significance of NWA wage increase norms (the standard wage-round increases), (c) the NWA rules governing exceptions below-the-norm (inability-to-pay the NWA norm), (d) the NWA rules governing exceptions above-the-norm (anomalies and productivity bargains), (e) the NWA rules on conflict avoidance and, (f) the role of the Government.

Having completed the analysis of each of these six key issues in successive chapters the study proceeds to a final chapter which synthesises the six sets of results, highlights the integrated relationships which exist between them and presents an integrated set of recommendations for the improvement of the centralised wage-bargaining system.

Finally, the study asks whether the repeatedly demonstrated union, employer and government preference for national level, as opposed to local level, wage-round bargaining in the seventies was well-advised. Two general conclusions emerge. First, there is even still in 1981, some balance of advantage in favour of the centralised system but, and this is the second general conclusion, the system's flaws are almost certain to prove cumulative and self-destructive unless determined and immediate remedial action is taken by the Employer Labour Conference and the Government. The writer concludes by expressing his personal conviction that the "law of the jungle" or a "jungle of law" may well be the only alternatives to this urgently needed endeavour.

## METHODS AND MATERIALS

### Part One

#### Preview

The first chapter defines the subject matter, outlines the historical background and states the objects of the study. Chapter 2 considers the deductive and inductive research methods and in the light of the above-mentioned definition, historical review and objects concludes that the latter is more appropriate than the former to the task in hand. Chapters 3-7 inclusive report at length, but yet in a greatly abbreviated form on an exhaustive examination of the documentary record (and extensive discussion of that record with its authors) of the origins, negotiation and content of each of the NWAs for the years 1970, 1972, 1974, 1975 and 1976. This material provides the only plausible basis for the identification and analysis of key issues arising and the framing of policy recommendations in regard to such issues in Part Two.

Part Two

*ISSUES AND IMPLICATIONS*

*Preview*

Chapter 8 opens with a reference to the organisational and constitutional aspects of the concept of power. The power of labour market organisations is then considered in some detail. As such power appears to be a major (and perhaps the major) determinant of relative income shares it is of vital importance to our study. Chapter 9 deals with the concept of the norm. The substantive norm has been the pivotal feature of the NWAs which have emerged from the exercise of Congress and Confederation power. This is not surprising given the norms and methods of trade unions and federations. Chapters 10 and 11 deal, respectively, with the procedural norms which have governed legitimate exceptions above and below the substantive norms. Chapter 12 deals with the NWA rules on conflict avoidance. These rules provide the counterbalance to the NWA rules which compel an employer to pay the substantive norm or plead inability to pay it. Chapter 13 considers the evolving role of the government as reflected in its efforts to influence the level of NWA norms as they have emerged and to ensure respect for such norms once they had emerged. Chapter 14 synthesises the discussion and makes a variety of recommendations for sectoral and public policy.

The  
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WAGE INFLATION  
AND WAGE LEADERSHIP

A Study of the Role of Key Wage Bargainers  
in the Irish System of Collective Bargaining

W. E. J. MCCARTHY, J. F. O'BRIEN, V. G. DOWD

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## Wage Inflation and Wage Leadership

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# *Wage Inflation and Wage Leadership*

*A Study of the Role of Key Wage Bargainers in the Irish System of Collective Bargaining*

W. E. J. MCCARTHY, J. F. O'BRIEN, V. G. DOWD

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Before concluding, we wish to acknowledge the financial support of the Central Bank and the Irish Productivity Centre. Without their generous assistance this project might not have been undertaken at all.

We conclude by expressing the hope that all of those who have helped us with this undertaking will feel that the finished product justifies their generosity with their time and wisdom. It must be emphasised that we, not they, are responsible for any remaining fallacies, errors or omissions.

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17.	Overall Ranking of 202 Groups in Terms of the Number of Times they were Rated as Very Important or Important Reference Groups by 106 Dublin Based Groups	Page
18.	Overall Ranking of 202 Bargaining Groups in Terms of Their Importance as Reference Groups for 106 Dublin Based Groups	68
19.	The Views of the Principal Spokesmen for 106 Dublin Based Groups, Concerning the Present and Future Stability of their Reference Group Patterns	69
20.	The Wage Rate Terms of the First Maintenance Agreement	70
21.	The Wage Rate Terms of the Electrical Contracting Agreement 1968	106
22.	Closing Position at Conciliation—19 February 1969	119
23.	The Wage Rate Terms of the Second Maintenance Agreement	131
24.	The Wage Rate Terms of the Building Industry's 12th Round Agreement	138
25.	Effect of Certain Macroeconomic Factors as a Constraint on the Principal Union Spokesmen for 106 Bargaining Groups	150
26.	Effect of Certain Microeconomic Factors as a Constraint on the Principal Union Spokesmen for 106 Bargaining Groups	160
27.	Ranking of Bargaining Arguments Used in the Period 1967-70 by the Principal Union Spokesmen for 106 Bargaining Groups	161
28.	The Relative Importance of Economic Arguments and Comparability Arguments in the Period 1967-70 as Seen by the Principal Union Spokesmen for 106 Bargaining Groups	165
29.	Degree of Introversion of Bargaining Sectors in the Period 1967-70	166
30.	Ranking of Types of Comparison, Used in the Period 1967-70, by the Principal Union Spokesmen for 105 Bargaining Groups	167
31.	The Relative Importance of Forms of Comparison, Used in the Period 1967-70, by the Principal Union Spokesmen for 105 Bargaining Groups	169
32.	The Relative Importance of Comparability Criteria, Used in the Period 1967-70, as Given by the Principal Union Spokesmen for 105 Bargaining Groups	169
		170

### General Summary

This study is concerned with the problem of wage inflation in so far as it is induced by wage leadership. It hinges on the notion that such wage inflation can make a substantial contribution to price inflation regardless of the extent to which other factors contribute to rising prices. Indeed, one of the most important conclusions to emerge is that wage leadership could give rise to rapidly rising prices even if all the other factors contributing to the latter process were totally neutralised. This is so because key wage claims, induced by disturbed relativities, can initiate a general upward movement in wages which has no justification whatever beyond the restoration of initial wage relativities. The vital point has never been explicitly brought out in the substantial body of statistical, economic and econometric work which has already been published concerning inflation in Ireland. The principal reason for this is that these disciplines cannot cope with the institutional dynamics which lie at the heart of the problem. The institutions in question are, of course, the organisations, the norms and the methods which go to make up the Irish system of industrial relations. Thus, for example, trade unions have certain norms in regard to real and relative wages which they seek to preserve by means of collective bargaining. And because over half of all Irish employees are trade union members, collective bargaining, with all its unquantifiable nuances, is the dominant feature of the process of wage determination. These considerations suggested that an eclectic approach would be most appropriate for our purposes.

Following an introductory chapter in which some of the foregoing points are developed, attention turns to a general analysis of the pattern of all known wage settlements negotiated by some two hundred bargaining groups in the period 1959-70. Four main conclusions emerge. First, there is clear evidence of a series of wage-rounds in which virtually every bargaining group participated. Because most rounds in the series took the form of flat rate cash increases the wage structure was steadily compressed during that period. Secondly, we observed a supplementary process which had a much more limited and varied impact. The groups which participated in this process enjoyed additional increases which had the effect of temporarily reversing the compression process so far as they were concerned. Thirdly, the absolute level of wage settlements has been rising while the average duration of wage-round agreements has been falling. Hence, the average annual rate of increase has

been forced up from two sides. Fourthly, entry patterns to the wage-round process are becoming more stable. This suggests that the round is becoming a more structured and self-conscious affair in which less important groups await the results of a limited number of more important negotiations before lodging their own claims.

The general analysis mentioned above enabled us to identify (in Chapter 3) a number of key wage bargains for detailed examination.<sup>1</sup> This chapter, which also sets down the case study methodology in some detail, ends with a brief chronological commentary which reveals a definite chain-like link between successive pairs of the key wage bargains selected for detailed study.

Chapter 4 contains the five case studies while Chapter 5 gives a thematic review of the case study material. After a brief introduction the second section of Chapter 5 considers the extent to which macroeconomic and microeconomic factors influence trade unions and their members when they are engaged in the formulation of wage policy. The general conclusions are, first, that price inflation does act as a spur to wage demands. Secondly, and on the other hand, the risk that the level of such demands might adversely affect such items as the level of prices, the volume of production or the unemployment rate, was usually a secondary consideration. This was so both as regards wage leaders and wage followers. One particular economic factor, namely, the inadequate supply of skilled labour in the groups which have been wage leaders in the sixties, is singled out for special consideration. The conclusion in this regard is that, while an active manpower policy has much to commend it, it is naive to suppose that such a policy can significantly diminish the bargaining power or motivation of these groups in the foreseeable future.

The third section is concerned with non-economic factors which influence the process of wage determination. Such factors can be classified as "structural", "organizational", "institutional", "social-psychological" and so on. As far as this study is concerned much the most striking factor of this kind to emerge was social-psychological in origin, namely, the influence of feelings of "relative deprivation" which manifest themselves in the widespread use of "comparability" arguments and criteria in collective bargaining. And as our survey of trade union officials clearly shows, this factor (in its various forms) in the late sixties at least, outweighed the economic factors referred to earlier.

Section 4 considers the underlying causes of increased trade union pressure. Here it becomes clear that unions are not disposed to break out of the orbits of relative deprivation which are imposed on them by their members' feelings of relative deprivation and which therefore dominate their wage policies. The reason for this is that inter-union (and to a lesser extent intra-union) rivalry is

1. These were the building industry agreements of 1964 and 1969, the maintenance agreements of 1966 and 1969 and the electrical contracting agreement of 1968.

endemic in Ireland. The unions generally fear that a moderate wage policy might result in serious loss of members and, of course, of members' subscriptions. And this quite simply is a risk which they feel they can ill-afford to take.

Section 5 considers the employer response to the rising level of trade union demands. This response has been articulated and managed by the various employers' federations. Its most essential feature was a series of attempts to counteract union demands by forming larger bargaining units. It was hoped that this would eliminate the process of leap-frogging by making the cost of confrontation too high for the unions. However, such endeavour either failed to take concrete form or broke down under the pressure of actual or threatened industrial conflict. In retrospect this is not surprising because as the employer front grew larger the degree of common interest, which is a prerequisite of firm commitment, diminished.

Section 6 deals with the concept of the standard wage rate and its importance to both trade unions and employers' federations. Here it is argued that the most important employer initiative of the decade was doomed to failure because it involved a frontal attack on the notion of "the standard rate for the craft" and proposed the elimination of craft differentials in a major part of craft job territory. The craft unions' obsession with the standard rate (for less than which no member will be allowed to work) is easily explained. However, it must be admitted that the circumstances which originally gave rise to it have changed considerably. These unions fear that any split in this rate would be the thin end of the wedge which would make it difficult (if not impossible) for them to prevent a downward spiral of craft wages if large numbers of craftsmen became unemployed. The unions feel that such a spiral would ultimately destroy them altogether. Given the strength of union feelings in this respect we conclude that it would be unprofitable to seek to split the standard rates for the various crafts against the wishes of the unions.

In the final section of this chapter third party intervention is considered in the light of the foregoing topics. Here it is noted that the impossible tasks given to the Labour Court under earlier legislation had to be modified to preserve the Court's credibility. But, this could only be done (in the circumstances of the late sixties) by allowing the Court to opt out of difficult situations, a development which added considerably to the burdens of the conciliation service without solving any of the basic problems.

Chapter 6 draws the most essential of the above-mentioned findings together and ends with a discussion of the policy implications. The first possibility considered is quite simply "doing nothing" as far as incomes are concerned. It is argued that the evidence of this study warns very strongly against this course. To set incomes policy aside altogether is to throw the full burden of control on to fiscal and monetary policy. But, our evidence, very strongly

suggests that wages could not be effectively controlled by macroeconomic management that fell short of inducing a severe, protracted and extremely divisive slump.

What is really needed is a major change in social and psychological norms. Factors now ignored or brushed aside will have to be forced into the consciousness of union members and union leaders and it appears that this can only be achieved in the context of a formal incomes policy.

This leads to a review of the arguments for and against such policies. The only prominent argument against is that such policies are bound to be counter-productive. However, there is little or no evidence to support this view. On the other hand, attempts to manage incomes by a policy which induces and encourages voluntary national pay agreements have made a useful contribution in the past. The discussion next turns to a consideration of ways in which the record of such national settlements to date might be improved upon. To begin with it is argued that the well-established wage-round process gives Irish policy-makers a considerable advantage *vis-à-vis* their counterparts in most other free enterprise economies. Various ways of reforming this process are reviewed and we suggest that the present series of national agreements offer a good foundation on which to build. We also suggest that claims for special treatment (which appear to be inevitable from time to time) might best be treated in isolation from the normal wage-round process. This brings us to an examination of incomes policy criteria. Here it is argued that to begin these must be an overall target. This would specify the total level of increase permissible under the policy during a specified period—say one year. Next there would need to be a general settlement level. The primary aim of this guide-line would be to provide an acceptable increase to those who have no grounds for claiming special treatment. For this reason its size and form would depend largely on what one decided to do about the third element in the policy, namely, the exceptions criteria. We argue that in the Irish context the only strong justification for exceptional treatment is a considerable and fairly rapid loss of relative position in the national pay structure.

To conclude, we explain at some length why we feel that the government may be forced to take a more active role in this field. We feel that the government should be prepared to continue (and if necessary extend) its support for voluntary national agreements. If the parties are unable to agree on terms for a renewal of the present national agreement the government may feel it has to freeze wages for long enough to enable negotiations to start up again. However, it is emphasised that just as the best case for a freeze is that it allows time to reach a voluntary agreement, so the strongest argument against it is that it may (if prolonged) generate the kind of rank and file opposition that makes a voluntary national agreement impossible. Even if such

an agreement is achieved, certain powerful groups may refuse to abide by its terms. In such an event we suggest that the kind of legislation already introduced to restrain bank officials may offer the most acceptable guideline for the future.

Our proposals can be summarised as follows:

1. The aims of the primary and supplementary wage processes as would best be served by a modified form of a central wage agreement that sought to provide for both changes in costs and living standards and disturbed relatives.
2. This would involve prior agreement on flexible general settlement levels which would safeguard the position of the lower-paid and contain exceptions criteria.
3. The main aim of the exceptions criteria would be to allow for payments of a limited nature to groups who could demonstrate that they had suffered the greatest loss of relative position over a given period of time.
4. Such payments would only be made on the basis of a recommendation from the Labour Court.

We consider that a formula of this kind offers the best chance of a way out of the frustration and industrial conflict inherent in any return to a 'free for all'. We also think it represents the best way to tackle the serious and mounting problem of wage inflation in the Irish Republic.