ADDING AN INSTRUMENT TO SOCIAL PARTNERSHIP: A PROPOSAL FOR DEFERRED COMPENSATION

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1. Introduction

Social partnership agreements have been built on the promise of tax cuts in exchange for wage restraint. Although there is disagreement on the extent to which the agreements have actually lowered real wages (see, for example, Fitz Gerald, this issue), they have almost certainly lowered Ireland's structural unemployment rate, reduced industrial unrest and facilitated a much needed lowering of the Irish tax burden. The formula worked well when there was considerable slack in the economy – tax cuts raised potential output growth and domestic demand. But the formula is less suited to an overheating economy – tax cuts can lead to the overheating problem, while withholding tax cuts undermines social partnership, and thus eventually the capacity to hold unemployment down.

In this paper it is argued that the problem can be seen as one of having too few instruments. The government has one instrument -fiscal policy; and two targets – maintaining social partnership and preventing overheating. In the next section I provide some brief background to the dilemma the government now finds itself in. In Section 3, I then outline a plan for Universal Personal Retirement Accounts (or UPRAs) as a concrete proposal for adding this second instrument to social partnership. This proposal is open to the objection that important long-term needs such as provision for retirement should not become entangled with short- and medium-term macroeconomic policy issues. I take this objection seriously, but think that this system of accounts provides a needed strengthening of the Irish pensions system in any case. The existing pension system is based on flat-rate pensions that provide limited replacement for many workers and supplementary occupational pensions that cover less than half of the workforce.[1] Since UPRAs provide a

[1] I provide a more in depth treatment in McHale (2001).

framework for making additional contributions to attractively priced investment funds, they should provide a valuable resource for those without occupational coverage. Moreover, since all working age individuals have an account, the system would be an important spur to financial education.[2]

With the publication of the Finance Bill for 2001, the government announced its intention to implement a five-year special savings incentive scheme, the centrepiece of which is a strikingly generous government subsidy. A major purpose of the scheme is to entice people to defer current consumption, and thus take some of the steam out of the overheating economy. It is also designed to boost Ireland's flagging household savings rate. Even though the scheme has some attractive (as well as some dubious design elements), I think that this scheme was a missed opportunity for substituting deferred compensation for tax cuts as a means for securing wage restraint. With this in mind, I give a brief outline of the scheme and some objections to it in Section 4. Section 5 has some concluding comments.

2. The Entwining of Incomes and Fiscal Policy

The months since the publication of the last *Commentary* have been eventful ones for Irish fiscal and incomes policy. With headline inflation reaching 7 per cent in November, the social partners renegotiated the national wage agreement, tentatively agreeing on December 4 to an additional 2 per cent pay rise from April 2001, and a further once-off 1 per cent bonus payment for the year running from April 2002. Even with this agreement in hand, key union leaders said they wanted to wait and see the contents of the 2001 Budget – announced on December 6 – before giving their final assent.

As it turned out, the initial political reaction to the budget was generally positive and the agreement was saved. The reason the budget was so popular is that it provided for generous tax cuts and spending rises, with the tax and social welfare package alone putting an estimated additional £2.1 billion into the economy in 2001 (McCoy, 2000). Indeed the giveaway nature of the budget offset elements that might otherwise have been politically explosive, such as the continuation with the move to "tax individualisation" at essentially the same speed as the year before, and the abolishment of the ceiling for employer contributions to PRSI.[3]

In the new year, the government suffered a setback when the European Commission suggested that the Council of Economic and Finance Ministers issue a formal "recommendation" that Ireland adopt a

[2] The government is currently considering introducing a voluntary system of Personal Retirement Savings Accounts (PRSAs) as an attractive vehicle for making provision for retirement for those without occupational coverage. My proposal could be subsumed into this broader framework. A key advantage of the universality in the UPRA plan is that everyone would have an account, thus overcoming the inertia that stops people getting started on retirement saving and the fixed cost of opening an account.

[3] Prior to the budget employer contributions to PRSI were graduated with a top rate of 12 per cent up to an earnings ceiling of £36,600. The budget removed the earnings ceiling. If we make the usual assumption that the incidence of labour taxes fall predominantly on workers, removing the ceiling implies an increase in the effective marginal tax rate for high-income workers of up to 12 percentage points. This increase swamps the 2 percentage point reduction in the top rate of income tax announced in the budget, and thus was a surprising move given the coalition government's – and especially its junior partner's – concern with tax-induced distortions.

less expansionary fiscal stance. The basis for this recommendation was that Ireland had ignored Broad Economic Policy Guidelines (BEPGs) agreed with its European partners. The key guideline to which it fell foul was "to gear the budget for 2001 to ensure economic stability given the extent of overheating in the economy" (European Commission, 2000).

The multiple guidelines issued to Ireland pull in different directions, however. For example, Ireland is urged to "ensure that the objectives of the national development plan are given high priority, given the necessity of meeting the infrastructural needs of a growing economy and to adopt a comprehensive strategy to increase the participation of women in the labour market, including the removal of tax/benefit disincentives". The government can reasonably argue that it was attempting to meet these guidelines with its tax and spending adjustments in the Budget. In the context of incomes policy, it is also noteworthy that the Commission urged the government to give high priority to "monitoring wage developments so as to ensure that they are consistent with the wage moderation needed for the maintenance of employment growth". Of course, Irish incomes policy are entwined with fiscal policy through the social partnership framework. The negotiations on revising the Programme for Prosperity and Fairness (PPF) in the days just prior to the 2001 Budget underlined just how entangled the two policies had become.

Under EMU, fiscal policy – and more narrowly tax policy – has to serve two often-conflicting functions. First, with monetary policy decided in Frankfurt, fiscal policy is the main tool for cyclical demand management. With an estimated output gap of about 4 per cent (OECD 2000), fiscal policy should now be tightened to slow the economy, or, at the very least, it should not be a source of further stimulus. Second, fiscal policy is the main device for securing wage moderation in the context of social partnership. Contrary to some assertions, this function might actually have become more important than in earlier years, given rising inflation expectations and rising anticipations of real wage gains relative to the underlying productivity growth rate.

Thus the government faces a dilemma. It can follow a restrictive fiscal policy to curb the underlying domestic demand pressures, thereby risking the collapse of the social partnership framework. Or it can offer compensatory tax cuts and spending rises, thereby preserving social partnership, but effectively ignoring the underlying overheating problem.

This is an example of the classic policy making problem of having more targets than instruments. At the risk of oversimplification, we can say that government has two targets – a wage moderation/low unemployment target and a no-overheating target; but just one instrument – fiscal policy. In the current circumstances of an already overheating economy, using fiscal policy to pursue one of the targets aggravates the deviation from the other.

The obvious solution is to acquire another instrument.[4] Without pretending it is a panacea, an obvious second instrument is to have a mechanism for making deferred compensation (as distinct from current compensation through tax cuts) in the social partnership framework. The key requirement for this to be successful is that workers value the deferred

[4] Or, more precisely, acquire a replacement instrument for the loss of monetary policy.

compensation, but that this form of compensation has a limited effect on current consumption.

The standard economic theory of a rational forward-looking consumer predicts that current and deferred compensation with an equal present value have an equal impact on current consumption. However, if consumers face borrowing constraints and can not use the deferred compensation as collateral, the marginal propensity to consume (MPC) out of current compensation will be greater than the MPC out of deferred compensation. Moreover, there is mounting evidence from the behavioural literature on consumption that the MPC out current compensation is much higher than the MPC out of expected future compensation or even out of increases in the value of current assets.[5] The bottom line is that if workers are willing to accept deferments, wage moderation can be achieved without an overly expansionary fiscal stance.

3. A Proposal for Universal Personal Retirement Accounts

In this section, I briefly outline a plan for Universal Personal Retirement Accounts (UPRAs) as a means for implementing deferred compensation in the context of social partnership agreements. The accounts are designed with multiple objectives in mind. The (sometimes-conflicting) objectives are improved labour market incentives; increased national saving; development of domestic capital markets and the savings habit; improved provision for retirement; and, most importantly in the present context, the addition of an instrument for macroeconomic management. The accounts are meant to augment the second (occupational) pillar of the retirement income system.[6] The first pillar of flat-rate social welfare pensions is assumed to continue as before. I also assume that the accumulation of a *National Pension Reserve Fund* (NPRF) to pre-fund future social welfare and public sector pension obligations continues as planned.[7]

UNIVERSAL PERSONAL RETIREMENT ACCOUNTS

Accounts are set up for each working age adult in the state.[8] The government contributes to accounts according to a linear formula: a basic amount plus a fraction of earnings (possibly up to an earnings ceiling). The parameters of the formula are negotiated periodically with the social partners as part of the social partnership agreements.[9] Contributions to the accounts of married individuals are split equally between each spouse's account. Individuals and employers are allowed to make additional tax-deductible contributions.[10] Individuals select funds from a list of well-

[5] See, for example, Thaler (1990) and Laibson (1997).

[6] See McHale (2001) for an overview of the two pillars of Ireland's pensions system.

[7] See McHale (2001) for an overview of the institutional machinery of NPRF, and for estimates of likely fund accumulation as a share of GNP.

[8] To help inculcate the savings habit, the system could also be extended to children. In principle, the system could also be extended to the current elderly, although increases in the flat rate pensions would probably be a more efficient way to target additional support on this group.

[9] The negotiations could be limited to the share of earnings parameter, with the base amount remaining constant over time.

[10] This is not essential to plan. Yet with the low level of occupational pension coverage it is desirable that there is universal access to a tax-favoured pensions plan. This element could be dropped if the government goes ahead with its plans for separate Personal Retirement Saving

diversified, passively managed index tracker funds, or they are allocated to a well-diversified default fund (possibly managed by the National Treasury Management Agency in conjunction with its management of the NPRF).[11] Fund costs and risk profiles are subject to regulation. No upper limit is placed on foreign content. Individuals can withdraw money from the fund from age 60.[12] Withdrawals are taxed at the individual's marginal tax rate. There is no requirement that funds be annuitised.[13] Fund balances cannot be used as collateral for loans. Account holders receive regular statements on their funds' absolute and relative performance.

An example helps to get a sense of the direct costs to the government of contributing according to the linear formula to a quite generous plan. The underlying assumptions are: GDP = £81 billion; working age population = 2.5 million; labour share of income = 2/3; base contribution = £500; fraction of earnings contributed = 2 per cent and no earnings ceiling applied:

Total Government Contribution
*= (Base Contribution * Working Age Population)*
*+ (Earnings Fraction * Total Earnings)*

= (£500 * 2,500,000) + (0.02 * £54,000,000,000)
= £1.25 billion + £1.08 billion
= £2.33 billion (≈ 2.9 % of GDP)

This example considers a quite generous plan with a base contribution of £500, with an additional contribution of 2 per cent of earnings, and no earnings ceiling. The hypothetical base contribution is based on pre-budget proposals for a £500 pension bond. The earnings fraction is loosely based on the 2 per cent reduction in both the standard and top tax rates announced in 2001 Budget. With these assumptions, the total cost is £2.33 billion, or just under 3 per cent of GDP.

One obvious concern is that government contributions to individual accounts would have a different distributional impact to a tax cutting package involving a mixture of changes in tax credits, standard band width and tax rates. Nonetheless, even this simple formula provides a great deal of distributional flexibility, so that it should be possible to approximate the distributional impact of any tax-cutting package.

The possibility of reducing labour supply distortions must also be kept in mind in trading off base contributions against a higher earnings

Accounts, though it might be better integrate the UPRA and PRSA plans to avoid a multiplicity of retirement saving vehicles. The government and social partners would need to stress that future government contributions are not guaranteed, so that individuals would have to make adequate provision for their retirement needs unconditional on the government's contributions.

[11] The existence of this default account raises issues of possible government interference in the fund's management. This potential politicisation problem could be minimised by a requirement that all investments are in non-Irish assets.

[12] Controls might need to be put in place to prevent people from drawing down their funds at an early date in order to qualify for asset-tested non-contributory pensions. One possible control is to include accumulated assets at age 60 in the assets test.

[13] I have not included an annuitisation requirement given that the first pillar of social welfare pensions continues to provide basic annuity. Such a requirement might be considered, however, to overcome the well-known adverse selection problem in the annuities market – the people most likely to buy annuities are those who expect to live the longest.

fraction. Higher base contributions could actually reduce labour supply via an income effect. A higher earnings fraction would raise labour supply via a substitution effect and lower it via an income effect. The substitution effect is what matters for economic efficiency. Given that the government have been reducing marginal tax rates to improve labour supply incentives, it is important that the deferred compensation scheme has a substantial earnings-related component if this compensation is substituting for marginal tax reductions.[14]

Issues of risk and cost have received a great deal of attention in the international literature on shifting to Chilean-style individual accounts as a means of funding retirement income. Although careful consideration would have to be given to each in the detailed plan design, I do not think that they pose insurmountable barriers to the type of plan outlined here.

On risk, the accounts are meant to supplement the existing social welfare system, which provide a defined-benefit base for retirement income. It is possible that allowing additional voluntary contributions would displace some of the current occupational coverage. To the extent that the displaced occupational coverage is in the form of defined benefit plans, this could lead to individuals facing more risk. There is, however, a worldwide trend towards replacing defined benefit plans with defined contribution plans in private pension coverage. Thus the existing structure of occupational pensions probably does not provide the appropriate benchmark. In any case, the limits on the range of plans and the emphasis on diversification should limit the risks involved.[15]

On cost, the plan envisions limiting investments to low-cost index tracker funds. It should be possible to provide the fund management services at annual costs of less than 50 basis points. Thus costly active management is eschewed.[16] Such constraints might be considered an excessive infringement on investor sovereignty for voluntary additional contributions. For the government contributions, however, such limits on fund choice are a sensible safeguard. The cost to the government of making its contributions should also be quite low. An account can be set up for everyone with a Personal Public Service Number, which can be matched to PRSI data to determine the earnings-related part of the contribution. The government's contribution could be sent directly to the individual's choice of account, or to the default account if no account is chosen.

[14] From a political point of view, making larger contributions for higher earners will be a hard sell. It is thus important that the government emphasise that the deferred compensation is substituting for tax cuts, and to the extent that those cuts would have included rate cuts, higher earners would have disproportionately received the benefits.

[15] If the remaining risk is considered unacceptable, the government could provide a lower-bound guarantee on fund returns. This involves the government adopting a potentially expensive contingent liability, however.

[16] Over a 30-year investment horizon a 50 basis point annual management cost on accumulated assets growing at a pre-cost rate of 4 per cent per annum is equivalent to a roughly 13 per cent front-end charge on money invested (with no charges thereafter). If the annual management charge is 100 basis points, the equivalent the front-end charge rises to roughly 25 per cent. If it is 200 basis points – not unusual for an actively managed fund – the equivalent front-end charge is 44 per cent. Thus what seem like small differences in management costs compound over time to dramatically lower the value of investments.

4. The Government's New Special Savings Scheme

Under fire from the European Commission and from EU finance ministers for its overly expansionary 2001 Budget, the government announced a special savings scheme along with the publication of the 2001 Finance Bill. It is hoped that the scheme will take some steam out of the overheating economy by boosting private saving. Looking to the longer term, the scheme is also meant as a partial redress to the problem of under saving for retirement and other foreseeable contingencies such as mortgage down payments, education-related bills, and periods of job loss.

Among other innovative elements, the scheme incorporates a substantial government subsidy. But the design also contains a number of flaws.

MAIN ELEMENTS OF THE NATIONAL SPECIAL SAVINGS SCHEME

The scheme will begin on May 1, 2000, and run for five years. Accounts must be opened before April 30, 2002. Every resident of the state aged 18 or older can participate. Only one account can be opened, and Personal Public Service Numbers must be given to the investment manager. Strict controls will be applied to prevent any fraudulent opening of multiple accounts. Individuals can contribute up to £200 per month to the scheme. Individual contributions receive a 25 per cent government match.[17]

For the first year, there is a £10 minimum on monthly contributions. No minimum applies in years two through five. The savings accumulate tax-free. There is, however, a 23 per cent tax on any nominal gains (total value of the fund at the end of year five less total contributions) to be paid at the end of the five year period. A broad range of financial institutions and fund managers can manage accumulated savings, and investments can be made in a wide range of financial instruments.

Government contributions are sent directly to the investment manager. Early withdrawals (for reasons other than death) are subject to the 23 per cent tax on the entire withdrawal (contributions and gains). The accumulated savings cannot be used as security for a loan.

The essence of the scheme is a government offer of large saving subsidies in return for giving up liquidity.[18] Obviously, the liquidity cost is highest for the earliest contributions, since the money is being tied up for the longest period. Thus the saver must trade off subsidy against liquidity.

WILL THE SCHEME DEFER CONSUMPTION?

Is the scheme well designed to defer consumption and thus reduce demand pressures in the economy? I think there are three reasons for doubt.

[17] This is equivalent to making the total contribution tax deductible at the 20 per cent standard rate of income tax. For example, if someone on the standard rate of income tax contributes £80 out of after-tax income, the total contribution (including the 25 per cent government match) is £100, which is equivalent to allowing the individual to contribute 100 pre-tax pounds.

[18] Making the full amount of any early withdrawals subject to the full 23 per cent tax imposes a large penalty for early liquidation.

Savings Incentives Back-loaded

The savings incentives are heavily back-loaded, with the largest effective subsidies coming at the end of the five-year period. To see that the size of the effective saving subsidy increases over the five-year period note that the equivalent (after-tax) rate of return, r^*, can be written as,

$$r^* = \sqrt[T]{(1-0.23)(1.25)\left[(1+r)^T - 1\right] + 1.25} - 1,$$

where T is the time to maturity and r is the (pre-tax, post-management cost) rate of return on the financial investment. Figure 1 shows how this equivalent rate of return varies with the number of months to maturity assuming a 4 per cent rate of return on investments. For ease of interpretation, I show this rate of return on an annualised rate basis, though the calculations are based on monthly compounding.

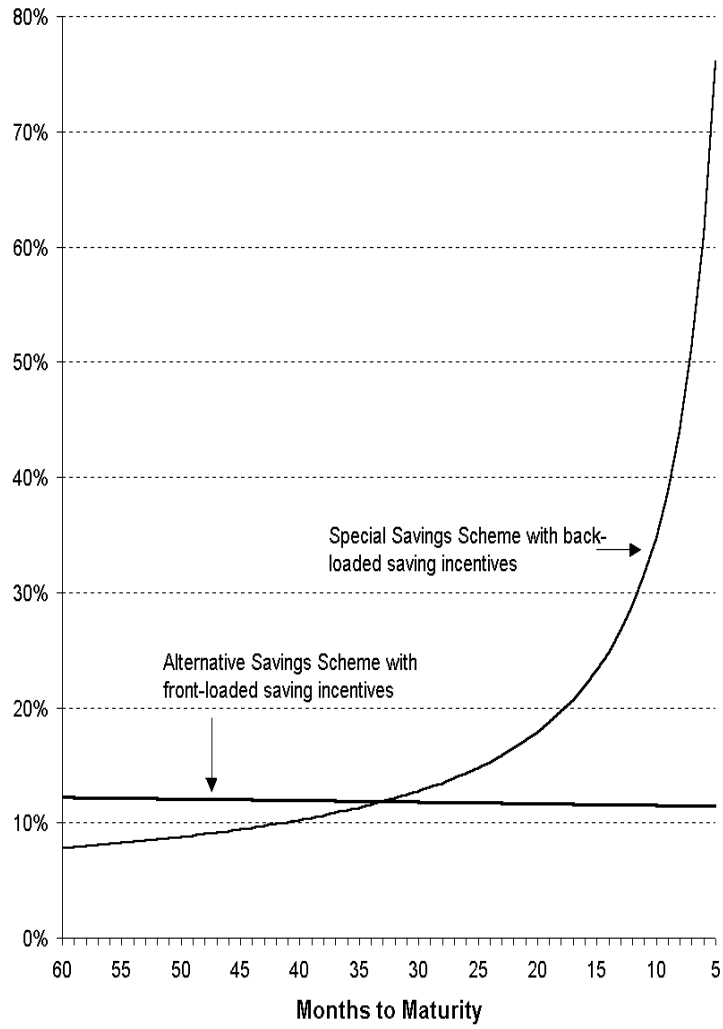
In the first month of the scheme the equivalent annualised rate of return is almost 8 per cent, roughly double even the pre-tax market rate of return. Thus even in the first period contributions receive a large effective subsidy. The equivalent rate of return, r^*, rises slowly at first, reaching almost 11 per cent by the end of the second year. It then rises rapidly towards the end of the five year period. In the final month (the final four months are not shown on the graph to preserve the scale) the annualised equivalent rate of return reaches almost 1,400 per cent. Since there is almost no liquidity cost to putting money into the scheme at this late stage, the incentives to participate are obviously quite high at this point. At the other extreme, the incentive to participate is weakest in the first period when the effective subsidy is the lowest and the liquidity cost is highest.[19]

How might the savings incentives have been front-loaded rather than back-loaded? Consider instead an alternative scheme in which the government adds a certain number of percentage points to the annualised return that an individual gets on their investment. For ease of comparability with the government's scheme, suppose that this alternative scheme also lasts for five years and all gains are taxed at 23 per cent. The equivalent (after-tax) rate of return is now,

$$r^{**} = \sqrt[T]{(1-0.23)\left[(1+r+s)^T - 1\right] + 1} - 1,$$

[19] An effect that could work in the opposite direction is present if there is a fixed cost of joining the scheme. Early (and sustained) participation allows the saver to spread the fixed cost over a longer period. In contrast, joining the scheme close to the end allows little time to spread out the fixed cost. Assuming, however, that the fixed cost is zero or has already been paid, the incentive to make a contribution rises strongly with closeness to the end of the scheme.

Figure 1. Equivalent Annualized After-Tax Rate of Return Based on Month of Contribution (Month 1 to Month 56)



where s is the subsidy measured in percentage points. To take an illustrative example, if s set at 11 percentage points, so that the post-subsidy rate of return is 15 per cent on an annualised basis, r^{**} is 12.2 per cent (annualised) on contributions made in the first month. This equivalent rate of return then falls slightly over the five year period, reaching just over 11.4 per cent (annualised) in the last month of the scheme (see Figure 1). The 11 percentage point subsidy is chosen that both funds accumulate to roughly the same post-tax size – just over £16,200 – for somebody making the maximum £200 monthly contribution to the scheme for the full five years. Thus it would have been relatively easy for the government to design an equally generous scheme that provides the greatest saving incentives right at the beginning, which presumably is a desirable given the objective of taking steam out of the overheating economy.

Impact on Saving is Theoretically Ambiguous

Though it is unlikely that the scheme will raise current consumption, standard economic theory of life cycle saving cautions us that this is not a foregone conclusion. To see this it is useful to consider three distinct groups: rational (in the sense of being forward looking life cycle consumption maximisers) large savers; rational small savers; and "irrational" savers either large or small.

Rational Large Savers:

These individuals already save more each month than the maximum monthly contribution to the saving scheme. Given the high equivalent rates of return, this group is likely to switch savings into the new savings scheme, making them better off in terms of the present value of total lifetime income. For these large savers, however, the return on marginal saving – i.e., the return on an additional pound of saving – is unlikely to increase. With an increase in income and no increase in the marginal return to saving, the standard life cycle model predicts that current consumption will increase for this group.

Rational Small Savers:

These individuals save less each month than the maximum monthly contribution to the savings scheme. The marginal return to saving has thus increased for this group. There is thus both an income (higher lifetime income allows higher consumption in every period) and a substitution effect (there is a greater reward for postponing current consumption). The income effect leads to more current consumption and the substitution effect to less, making the overall effect theoretically ambiguous.

"Irrational" Savers, Large and Small:

The saving implications that follow from focusing on rational savers are almost certainly too pessimistic. As noted before, there is ample evidence that people are not so forward looking and calculating when making their saving decisions. Actual savings behaviour appears to be affected by a number of psychological propensities such impatience and habitual behaviour. Realising these "weaknesses," people use various devices to overcome their tendency to under-save. One device is to invest in illiquid assets such as housing, often with a commitment to build equity via monthly mortgage payments. Another device is to make automatic withdrawals from bank accounts or directly from paycheques to make deposits to investment funds. For less than rational savers, the proposed savings scheme – with its forced illiquidity and inertia overcoming returns – provides a powerful inducement to save more, whatever is being saved already. Moreover, since many of the participants in the scheme will be new to regular saving, participation should help to inculcate the saving habit and increase financial sophistication.

On balance, then, I think it is reasonable to suppose that the scheme will increase saving and thus take some of the heat out of the economy. Nonetheless, predicting the saving response is less straightforward than early ministerial comment allowed.

A Missed Opportunity for Re-Negotiation of the PPF

The unconditional introduction of the scheme missed an opportunity to use it as a substitute for tax cuts in the re-negotiation of the PPF. The proposed scheme, insofar as it is completely additional to the tax cuts offered in the budget and the additional wage increases offered in the pre-budget re-negotiation of the PPF, missed an opportunity to substitute less inflationary deferred compensation for current compensation. In addition, by committing to the scheme for five years, the government limited its scope to use future subsidies in future negotiations.

In the context of the paper, I think that this latter aspect is the most unfortunate flaw. Even with the back loading of the saving incentives and the ambiguity over the overall saving impact, an opportunity for adding a valuable instrument to the social partnership framework was missed. While a system of UPRAs with negotiated government contributions provides the most flexible (and yet enduring) way to add the needed second instrument to social partnership, putting the saving scheme on the table in the negotiations with the social partners before the budget would have been a reasonable substitute.

The scheme – though probably under consideration for some time – had the look of a hurried face-saving response in the aftermath of an embarrassing recommendation from Ireland's European partners to take steps to cool the economy.

5. Concluding Comments

The near collapse of the PPF in late 2000 is a warning of how difficult macroeconomic management will be under EMU. I have argued that the problem can be seen as one of having too few instruments. And that adding negotiations over concrete deferred compensation provide a valuable additional instrument in the social partnership framework. This deferred compensation could take the form of government (and perhaps employer) contributions to retirement accounts. In this context, offering an expensive special savings scheme without a quid pro quo of higher taxes and wage restraint was a missed opportunity.

In this issue of the Commentary, Donal de Buitleir and Don Thornhill make a case for a "gain sharing" procedure as a means of introducing more flexibility and fairness into the agreements. I do not think our proposals are mutually exclusive. More flexibility and fairness could be introduced into the multi-year partnership agreements by making the overall compensation depend on the underlying performance of the economy along the lines they suggest. At the same time, the division between current and concrete deferred compensation could be negotiated based on demand management considerations. What is needed most of all is innovative thinking about how (and indeed if) social partnership can adapt to a changing environment.

A growing number of Irish and international commentators are arguing that social partnership has become a burden on what is now a full employment economy. They point out that wages should be increasing rapidly to slow the economy. I think that this view misses the real contribution of the social partnership – the lowering of the unemployment rate that is needed to keep real wages in line with what is affordable for firms to pay. Of course demographic changes, labour market reforms and productivity growth that has up to now outstripped anticipations of real

wage increases have also contributed to lower unemployment. The last factor is now changing as anticipations of improvements in living standards catch up to the economy's potential to deliver. The next few years could be quite difficult if real wage demands grow in an unrestrained way. It seems to me that patching up social partnership to work in an overheating economy operating under the constraints of EMU is a less risky course than abandoning altogether.

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