

# THE IMPACT OF SOCIAL PARTNERSHIP ON IRELAND'S COMPETITIVENESS

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Social partnership has been a central facet of Irish society since 1987. In order to support economic growth, a principal objective of the partnership process has been to achieve moderate increases in wages in exchange for reductions in income tax to boost take home pay. To achieve this outcome, one of the core elements of social partnership is a centralised wage agreement negotiated between the Irish Government, the main employer bodies and Trade Unions. These wage agreements, known as the National Wage Agreements (NWA), have been identified in a number of studies as having played a pivotal role in the remarkable revival that occurred in the Irish economy in the late 1980s, and the considerable growth that took place in the country over the 'Celtic Tiger' era. In particular, most of the research indicates that the wage restraint attained under the pay agreements enhanced the country's competitiveness, through lower labour costs, and this consequently led to both significant employment and economic growth. Real unit labour costs in Ireland have fallen in most years since the social partnership process began in 1987. Over the 1987-2002 period, unit labour costs fell by around 25 per cent in Ireland compared to, approximately, 10 per cent across the EU. Thus, this would seem to suggest that the wage increases under social partnership have been modest enough to boost Ireland's international competitiveness.

Nevertheless, most of the evidence presented is of a highly descriptive nature and, to date, the relationship between the NWA and competitiveness has never been explicitly tested. Our paper\*\* analyses data from 6,500 private sector firms, drawn from the CSO's 2003 National Employment Survey (NES), to analyse the impact of institutional wage bargaining arrangements on levels of average labour costs and within firm wage dispersion in private sector corporations in Ireland.

Over 5 out of 6 firms reported that the dominant mode of bargaining over wages in their firm was at either individual level, firm level, business-

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level or national wage agreement level. *Individual-level* contracts represent the situation where the worker negotiates directly with management. *Business-level* and *industry-level* agreements represent bargaining by trade-unions on behalf of all workers within the firm or industry respectively. The *national wage agreement* describes the pay determination that arises directly as a result of the social partnership process. Clearly, business, industry and national-level represent the various types of collective wage bargaining. Within the data, individual-level bargaining was found to be the dominant pay strategy within 43 per cent of firms in Ireland in 2003. The NWA was the next most common form of bargaining, adopted by 28 per cent of companies, while business-level and industry-level agreements were each implemented in 7 per cent of firms respectively<sup>1</sup>.

The analysis conducted revealed that relative to the NWA, average labour costs were higher in firms implementing individual and business-level bargaining. However, important differences emerged for indigenous firms and multinational companies (MNC's). In particular, the research indicated that MNCs implementing the NWA enjoy a labour cost advantage that exceeds that of other multinationals *and* indigenous firms holding other characteristics constant. This result suggests that there have been large gains, in terms of competitiveness, to MNCs that locate in Ireland. However, what are the mechanisms through which social partnership leads to a competitive advantage to MNCs? The most obvious possibility is that MNCs prefer to locate in countries with centralised bargaining, due to the gain in competitiveness associated with wage setting aimed at securing the interests of domestic firms. Specifically, within a social partnership system, trade unions will choose to limit wage demands in order to preserve employment levels in less competitive domestic firms. Consequently, MNCs adopting the NWA, which is designed to protect employment in indigenous companies with lower productivity levels, are able to set wages at levels well below what would normally be the case than if bargaining was undertaken by trade unions at the business-level or where individuals negotiated directly with their employer.

\*\* MCGUINNESS, S., E. KELLY and P.J. O'CONNELL (2010). "[The Impact of Wage Bargaining Regime on Firm-level Competitiveness and Wage Inequality: The Case of Ireland](#)", *Industrial Relations: A Journal of Economy and Society*, Vol. 49, No. 4, pp. 593-615.

<sup>1</sup> In approximately 15 per cent of firms no single type of agreement was dominant.