Centralized Wage Bargaining and the "Celtic Tiger" Phenomenon

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- abstract -

Drawing on a variety of sources and research methods, this article argues that centralized wage bargaining contributed to the "Celtic Tiger" phenomenon by linking wage increases in the dynamic MNC sector to wage and productivity increases in the much more sluggish domestic sector of the economy and, in so doing, considerably increasing the competitiveness of foreign multinational companies – a key driver of Irish growth. The article also argues that much received wisdom about the institutional and organizational preconditions for centralized wage regulation needs to be reconsidered in light of the Irish case. Public sector unions played a pivotal role in initiating and sustaining wage centralization, yet their leadership role did not undermine its effectiveness. Likewise, internal democratic procedures and the absence of wage compression policies, rather than centralized organizational structures, facilitated compliance with centralized wage policies.

Centralized Wage Bargaining and the "Celtic Tiger" Phenomenon

Ireland is undoubtedly one of the miracle economies of the 1990s and early 2000s. In the last 20 years, this country, which used to be one of the poorest in Europe, has turned itself into one of the richest. Ireland's economic record compares favorably not just with other, much touted cases of success in the last few years, like the Netherlands, the UK, and the US, but also with Asian "tigers," even before the latter's economic setbacks of the late 1990s. Understanding the sources of Ireland's economic success is therefore relevant for a much wider audience than just the people of the Emerald Isle.

The country's economic transformation began in 1987 and overlapped in time with the institutionalization of centralized wage bargaining.[1] Much of the economic literature discounts this overlap as sheer coincidence.[2] Other factors, particularly massive FDI inflows, but also clairvoyant educational policies that increased the supply of skilled labor at a time in which demand was also increasing, are held responsible for the country's remarkable performance. According to these views, what the Irish refer to as "social partnership" – i.e., the formal involvement of labor and employer representatives in economic policy-making and especially in centralized wage determination – is at best epiphenomenal to the country's performance, at worst counterproductive. However, if one consults other literatures (e.g. O'Donnell and O'Reardon, 1997; Mac Sharry and White, 2000; Auer, 2000), or talks with policy-makers, one hears a very different story: that social partnership played a fundamental role in Ireland's turn-around. This more positive assessment seems to echo a general feeling among the Irish population. In 1999, 78 percent of poll respondents agreed that social partnership was important for Ireland's economic success (Fitzgerald and Girvin, 2000: 283).

Drawing on a variety of research methods, e.g. analysis of wage and productivity data, traditional historical research methods, and field interviews, in this paper we address both the economics and the politics of centralized wage bargaining in Ireland. We seek to determine whether or not, and if so, how, centralized bargaining contributed to the "Celtic Tiger" phenomenon. Also, we seek to understand the political process through which it emerged and reproduced itself over time, and how it managed to escape a classic problem of centralized wage regulation, that of the lower levels' undoing of peak-level stipulations through wage drift.

We argue that centralized wage bargaining introduced important changes in the process of wage formation in Ireland. It linked wage increases in the dynamic multinational sector (characterized by high productivity growth) with wage and productivity increases in the much more sluggish domestic portion of the manufacturing sector. This was a major departure from previous trends in the 1980s, when, with decentralized collective bargaining in place, high wage increases negotiated within multinational firms (which could afford them) had spilled over to domestic companies as well (which could not afford them) and generated cost problems.

Our argument dovetails nicely with previous research on the importance of centralized wage institutions in explaining processes of rapid economic growth (see for example Eichengreen, 1996; Eichengreen and Iversen,1999; Przeworki and Wallerstein, 1982). Similar to other European countries, in Ireland, too, centralized wage bargaining produced wage moderation, which, in turn, stimulated investments and capital accumulation by boosting profit rates. A contributing element was Ireland's integration in the European and international economy, which ensured that capacity increases met with adequate (foreign) demand. However, the institutional conditions in which wage moderation was achieved in Ireland were considerably different from those emphasized by previous theory based on the experience of Northern European countries. Indeed, we argue in this article that much received wisdom about the institutional and organizational preconditions for successful wage centralization needs to be reconsidered in light of the Irish case, particularly as regards the pivotal role played by public sector unions – which were wage leaders in the Irish case and yet did not undermine national competitiveness (as theory would expect) – and the importance of corporatist institutions, such as centralized labor organizations with a capacity for peak-level control over enterprise-level structures, whose absence did not destabilize centralized bargaining.

The remainder of the article is organized as follows. Section 2 reviews a series of arguments about the economic effects of social partnership in Ireland. Section 3 analyzes wage and productivity trends in different industries. Section 4 examines the configuration of pro-partnership coalitions and the determinants of compliance with centralized provisions. Section 5 concludes by considering the socioeconomic outcomes of Irish social partnership.

Does Social Partnership Matter?

There have been six social partnership agreements so far in Ireland.[3] Despite changes in economic conditions and governmental coalitions, their structure has remained fundamentally the same over time: against the background of fiscal conservatism and monetary orthodoxy, the parties have exchanged wage restraint (provided by the unions) for tax cuts (provided by government). Simultaneously, the agreements have featured several provisions targeting the worst kinds of social inequalities and exclusion, first by keeping the real value of transfers constant, and then through more substantive measures.

In 1987, when the first social partnership agreement, the *Programme for National Recovery* (PNR) (1988-90), was negotiated, the country was in a very serious economic crisis: government debt and deficit were skyrocketing,[4] investments were stagnant, and, undeterred by emigration, unemployment was on the rise (Government of Ireland, 1987; see also the account in

Mjøset, 1992). While economic conditions progressively improved, the first pact was followed by five additional social partnership agreements: the *Programme for Economic and Social Progress* (PESP) (1991-93), the *Programme for Competitiveness and Work* (PCW) (1994-96), *Partnership 2000* (P-2000) (1997-99), the *Programme for Prosperity and Fairness* (PPF) (2000-2), and *Sustaining Progress* (2003-05).

Reversing a long-lasting negative trend, during the years of social partnership (and especially from the mid-1990s on) the performance of the Irish economy has been impressive. For example, between 1988 and 2000 real GDP grew by 132 percent, compared with 45 percent in the US and the Netherlands, 32 percent in the EU as a whole, and 29 percent in the UK; while unemployment fell from 16.2 percent to 4.2, practically the same figure as the US and well below the EU average of 8.2 percent. Practically all analysts underscore the importance of multinational investments as key determinants of the Irish economic success (see, for example, Barry, 1999; Barry, Bradley, and O'Malley, 1999; Murphy, 2000; OECD, 1999). Others focus on the clairvoyance of educational policies that increased the supply of skills at a time in which their demand was also increasing and, hence, contributed to keep the price of skilled labor low (Fitz Gerald, 2000). Quite surprisingly, however, the role played by social partnership is generally downplayed, at least by economists.

In fact, skeptical views have often been expressed in this regard. Early on, Bradley et al. (1991: 9-10) set the tone of the debate by arguing that wage disinflation was not the product of the PNR agreement of 1988-90, but of other factors. They argued, based on time-series data, that the same variables that explained wage formation in the 1960s and 1970s – namely: 1) output price variation; 2) the tax wedge (difference between gross product wage and net take-home consumption wage); 3) unemployment; and 4) labor productivity growth – also proved appropriate in the late 1980s and that there was no evidence of a break in wage behavior, which could be traced back to the partnership agreement. In the authors' opinion, the benefits of centralized bargaining were less in moderating wage increases than in bringing about industrial peace. This assessment was echoed by other, sometimes much harsher views expressed later in the decade.

Durkan, for example, (1992: 358) argued that the PNR agreement of 1988-90 had had a negative impact on the Irish economy: the wage rates negotiated centrally had been higher than they should have been, and would have been lower had the decentralized bargaining rounds of 1981-1987 been allowed to continue. According to the author in question, the PNR agreement had been negotiated solely for the purpose of reducing workplace conflict. Even for this purpose, however, centralized bargaining was unnecessary: high unemployment alone would have sufficed. Tansey (1992: 368) brought Durkan's views to their logical conclusion and proposed to discontinue the experience of centralized bargaining and return to decentralized bargaining at the expiration of the *Programme for Economic and Social Progress* (PESP) in 1993.

These skeptical assessments are not just reflective of a particular period in which the Irish economy was still in the doldrums and it was unclear what impact, if any, social partnership was having on it. At the end of the 1990s, in completely different economic circumstances, Fitz Gerald (1999: 160) argued, based on regression results from aggregate national data, that the effects of the partnership approach to wage determination were not as large as generally believed. Like Bradley et al. (1991), he acknowledged centralized bargaining's role in reducing industrial conflict but belittled its impact on wage moderation. Centralized wage bargaining, he argued, had just "validate[d] the results which market forces had made inevitable" (Fitz Gerald, 1999: 162). Among these market forces, this author emphasized Ireland's unusually elastic labor supply curve (particularly due to migration, as well as increasing female participation) in keeping wages under control. Walsh, too (1999: 223), provided an explanation of wage moderation that underscored the combination of various supply-side factors like slack labor markets, ease of migration, rising working-age population, and rising female participation (in turn, correlated with educational achievement and hence, with the supply of skills), but not the institutional element of social partnership.[5]

These analyses show that many analysts are not persuaded that there is a theoretical and empirical link between centralized wage bargaining and wage moderation in Ireland, and prefer an alternative interpretation centered on the peculiar characteristics of the Irish labor supply curve (especially its unusual elasticity), which makes increases in labor demand unlikely to have a big impact on wages. The logical corollary of this interpretation is that centralized wage bargaining is, at best, epiphenomenal to wage outcomes, and could therefore be safely disposed of.

The major problem with this explanation is the contrast with Ireland a few years before the beginning of social partnership. Between 1981 and 1987 (a period in which collective bargaining was at the enterprise level) labor market conditions in Ireland were in many respects similar to those prevailing at the least at the beginning of the social partnership period, and involved high and growing rates of unemployment. Yet there was no wage moderation in 1981-87, unlike the subsequent period (see *infra*). To explain such dramatic changes between the two periods without recurring to an institutional element like centralized collective bargaining, one would probably have to assume that labor supply became suddenly much more elastic in the period of social partnership than in the earlier period, or that labor demand suddenly shifted rightwards in the presence of an already elastic supply curve, or both. None of these sudden changes seems very plausible.

The next section explores the plausibility of an institutional explanation, namely that wage moderation was the result of the introduction of centralized wage bargaining, by looking not at national, aggregate data, but at industry-level data. Our focus is on the manufacturing sector because this sector has been the engine of growth for the Irish economy, according to virtually all commentators. We show that centralized wage increases have produced very different conditions of efficiency and profitability depending on sectors.

Multinationals, Social Partnership, and the "Irish Disease"

One element that virtually all commentators consider as crucial for Ireland's economic success is the role of multinational companies (MNCs), particularly American. According to a widely-shared view (well exemplified by Murphy, 2000), US MNCs were on the lookout for a European base in preparation for completion of the European single market in 1992. Ireland was their country of choice for various reasons, including not only very low corporate tax rates and a staunch commitment to European integration (unlike in the UK), but also the availability of an English-speaking, well educated labor force. Based on these considerations, Murphy (2000: 14) argues that: "a considerable part of the economic growth witnessed in Ireland is US growth that was waiting to happen somewhere in Europe."

a) The Role of Multinationals

There is no doubt that multinational companies are of fundamental importance for the Irish economy. Already in 1985, the first year for which data are available,[6] foreign firms accounted for 50 percent of gross manufacturing output (32 percent in the case of US-owned firms) and 41 percent of manufacturing employment (20 percent for US firms), even though they represented only 16 percent of the total number of Irish manufacturing establishments (6 percent for US firms). These figures indicate that the scale of foreign establishments was (and still is) much greater than that of domestic ones.

In 1998, the weight of MNCs had further increased. They accounted for 72 percent of gross manufacturing output (54 percent for US-owned firms), 47 percent of manufacturing employment (27 percent for US firms), and 15 percent of the number of establishments (6 percent for US firms).[7] Between 1985 and 1998, MNCs performed much better than their domestic counterparts. The domestic establishments increased employment by 15 percent and gross output by 87 percent. The foreign sector increased employment by 51 percent (80 percent for US firms) and gross output by 383 percent (469 percent for US firms). Just by looking at these numbers, there is no doubt that MNCs have been the propulsive force behind Ireland's recent economic success.

The major problem with an explanation solely based on the role of the MNCs is timing: MNCs are not new to the Irish scene. In 1985, the number of foreign manufacturing establishments was higher than in 1998. Also, there were almost as many US establishments as in 1998. Beginning with the abolition of the Control of Manufactures Act in the late 1950s – an Act which prohibited foreign ownership of Irish assets – foreign investment has been systematically pursued by the Irish policy-making authorities (particularly in high-tech sectors) through location grants and a zero corporate tax regime, later substituted with a 10 percent tax on all manufacturing (Barry, Bradley, and O'Malley, 1999: 45). It needs to be explained why the performance of MNCs and, associated with it, its beneficial effects for the Irish economy as a whole increased dramatically between the late 1980s and the 1990s, the years of social partnership.

b) The Moral Economy of Wages and the "Irish Disease"

Until few years ago, MNCs were held responsible for a peculiarly "Irish" disease. Because they had greater ability to pay than domestic companies, MNCs set wage increases at higher levels than their domestic counterparts could afford. Due to comparability claims, however, high wage settlements in the high productivity MNC sector had a tendency to spread to the other, less dynamic sectors as well, and cause cost problems in the domestic sector (Barry 1996; Barry and Hannan; 1995).

This is what transpired from an inter-industry analysis of wage and productivity trends performed by the Economic and Social Research Institute in Dublin (ESRI) (Baker, 1988; see also Baker, 1985). This analysis divided the Irish manufacturing sector into ‘modern’ and ‘traditional’ portions and then analyzed wage and productivity trends for both. The modern sector included some of the most dynamic and technology-intensive industries, mostly foreign-owned, i.e., pharmaceuticals, office and data-processing (ODP) machinery, electrical engineering, and the more capital-intensive portion of the food industry, particularly the production of cola concentrates. The traditional sector included all other industries, where domestic capital was predominant.

The results of this analysis, summarized in Figure 1, showed that between 1980 and 1987, a period of decentralized collective bargaining, average weekly earnings increased at more or less the same pace in the modern and traditional sectors. Productivity, however, grew much faster in the former than in the latter. Wage settlements in the modern sectors of the economy (which could afford them) displayed a tendency to trickle down to the more traditional sectors as well, even though there were marked differences in productivity trends. The consequence was that while the modern sector reduced unit wage costs and gained competitiveness (even when unit wage costs were adjusted for changes in exchange rates), the traditional sector experienced cost problems and shrank (Baker, 1988). The employment performance of the two sectors varied accordingly. While employment increased by 21.9 percent in the modern sector, it declined by 26.9 percent in the traditional sector. Employment creation in the more dynamic industries was unable to compensate for labor shedding in the other, domestically-owned industries. Indeed, between 1980 and 1987, the Irish manufacturing sector as a whole lost 19.6 percent of its employees (Baker, 1988: Table A2, p. 35).

Figure 1 about here

The findings of the ESRI study dovetail with more qualitative accounts of industrial relations practices in Ireland, which emphasize the importance of wage norms and in general, of the “moral economy” (Swenson, 1989) in explaining wage determination. Between the 1970s and the 1990s, the Irish industrial relations system oscillated between centralized and decentralized bargaining. Even when wage bargaining was decentralized, wage increases seemed to be more responsive to particular wage norms, like the notion of a “going” wage increase, than to differences in productivity gains and labor market conditions. These institutional influences were linked to a long-standing feature of Irish wage negotiations, the notion of “pay” or “wage” rounds (Roche, 1997).

From 1946 until 1970, Irish industrial relations were dominated by pay rounds, namely by decentralized negotiations taking place more or less synchronically (Roche, 1997). Comparisons among bargaining groups played a key role in determining wage outcomes in these rounds. McCarthy et al. (1975), the authors of an in-depth analysis of the six pay rounds between 1959 and 1970, found that “wage rounds tend[ed] to set a rate of increase below which it [wa]s difficult for employers to settle for any length of time, regardless of the state of their firm or industry” (McCarthy et al, 1975: 40). They also identified a number of key wage bargains involving skilled workers (e.g., electrical and maintenance craftsmen as well as construction workers), which acted as wage leaders, namely “appear[ed] to induce other groups, which [we]re not directly involved, to seek similar increases” (p. 55).

In the 1970s, concerns with the inflationary consequences of decentralized negotiations led to bargaining centralization in Ireland, just like in other advanced countries (Roche, 1997: 177; Gunnigle et al., 1999: 193). Centralized wage agreements set basic wage increases for all sectors as a whole but also included provisions for so-called “above-the-norm” (or, less frequently, “below-the norm”) increases to be negotiated at the local level. Just as in the previous period, issues of comparability played an important role. National pay bargaining provided Irish trade unions with an opportunity to compress wage differentials through a variety of mechanisms including lump-sum increases, minimum and maximum cash increases, and tapered percentage increases (higher percentage increases for the low paid than for other workers) (Roche, 1997: 180; Gunnigle et al., 1999: 196). Decentralized negotiations compensated for the leveling effects of centralized bargaining, however, and re-established (or even widened) existing wage relativities.

Peter J. Money (1978: Table 4, p. 246) provided estimates of the distributional consequences of so-called “national agreements” in the 1970s. Between 1970 and 1977 (a period covered by six national agreements), if only the wage provisions of national agreements had been taken into account, average hourly earnings would have increased by 163 percent (men) and 263 percent (women) in low-paying industries; 152 percent (men) and 249 percent (women) in middle-paying industries; and 142 percent (men) and 222 percent (women) in high paying industries. In other words, wage increases distributed at the national tended to improve the relative position of workers in lower-paid industries. However, the leveling effects of centralized bargaining disappeared when the effects of decentralized bargaining were factored in. Total wage increases were 212 percent (men) and 268 percent (women) in low-paying industries; 210 percent (men) and 258 percent (women) in middle-paying industries; and 216 percent (men) and 252 percent (women) for high-paying industries. Clearly, high-wage workers were able to restore wage differentials vis-à-vis low-wage workers through company level bargaining (Mooney, 1978: 248).

It looks as though, just as in other countries like Sweden and the UK (see Martin, 1984; Flanagan et al, 1983: 418-36; Iversen, 1999), wage compression through national wage agreements spurred compensatory wage demands at the company level and, in so doing, compromised one of centralized bargaining's key functions, that of ensuring wage restraint (Roche, 1997: 186). As a result, the employers became increasingly disenchanted with centralized negotiations. Indeed, as in Sweden (see Pontusson and Swenson, 1996; Swenson and Pontusson, 2001), they very actively promoted the return to a decentralized bargaining structure in the early 1980s (Gunnigle et al., 1999: 200).

The years between 1981 and 1987 were characterized by "free-for-all" collective bargaining. According to some commentators, this was a period in which the notion of "wage round" lost some of its previous relevance in the sense that agreements became less concentrated in time and wage increases more reflective of market conditions than had previously been the case (Roche, 1997: 195; Gunnigle et al., 1999: 202). However, as the wage data presented above clearly show, wage norms seemed to continue to shape the process of wage formation. MNCs acted as wage leaders in this phase. The wage deals concluded by foreign MNCs, particularly those struck early on in the rounds, became a reference point for other bargaining groups (Roche and Geary, 1997: 288; Geary and Roche, 2001: 111).[8] As a result, unit wage costs grew in the Irish manufacturing sector as a whole, even though there were some competitiveness gains in the most dynamic, foreign sectors (Baker, 1988: 39).

The evidence provided so far provides support for the argument made by institutional economists that wage norms (rather than strictly demand and supply factors) may play a significant role in shaping Irish labor market outcomes (see, for example, O'Donnell and

O'Reardon, 1997: 90). It is in this respect, in our opinion, that the contribution of social partnership agreements has to be regarded as key. Beginning with the PNR of late 1987, these agreements seem to have introduced something akin to a new wage norm in the Irish economy: the linkage of wage increases (negotiated nationally) with the ability to pay of the least dynamic portions of the Irish manufacturing section. In so doing, social partnership agreements dramatically boosted the cost competitiveness of the most dynamic sectors and firms. The "Irish disease" turned into "Irish blessing."

c) The Effects of Social Partnership

To substantiate the above claims, we replicated Baker (1988)'s analysis for the period between 1985 and 1998.[9] We divided the Irish manufacturing sector into modern and traditional components, each one corresponding to Baker's original grouping. The results of the analysis are summarized in Fig. 2. We found tremendous differences in productivity growth across the two sub-sectors: 203 vs. 40 percent. However, the behavior of wages had completely changed vis-à-vis the former period of decentralized bargaining. Indeed, the (real) hourly wage index increased by 41 percent in the modern sector and by 45 percent in the traditional sector. It was no longer the case that wages chased the high productivity growth of the modern sector. Instead, productivity increases in the traditional sector seemed to provide a reference point for wage increases in the economy as a whole. Differences in employment trends were striking. While the five industries composing the modern sector jointly more than doubled (116 percent) their employment, the rest of manufacturing, constituting the traditional sector, only increased employment by 8 percent over the 1985-1998 period (overall employment growth in the manufacturing sector was 33 percent).

Figure 2 about here

These results also hold if different bases of classification are adopted. Baker (1988) assigned industries to the "modern" and "traditional" groupings based on a mix of two criteria, ownership of assets and/or productivity growth. Industries that were dominated by foreign MNCs and/or that grew fast were classified as modern; the others were placed in a residual category. We created an alternative grouping, "foreign" and "domestic," based on the following rule: if more than 75 (less than 25) percent of employment in 1985 (or the first year for which data were available) was in foreign-owned units, the industry in question was classified as "foreign" ("domestic").[10] This classification turned out to be similar to the one adopted by Baker (1988). Indeed, the "foreign" sector was composed of pharmaceuticals, the remainder of chemicals (excluding basic industrial chemicals), ODP machinery, electrical engineering, and instrument engineering (but not other foods as in Baker, 1988). Again, wage increases in the foreign sector closely matched those in the domestic sector, which in turn proceeded in parallel with productivity increases in the domestic sector.[11] As a result of these developments, the foreign portion of the Irish manufacturing sector benefited from a tremendous increase in competitiveness in this period. Unit wage costs declined by 54 percent in the foreign sector while they remained flat (and even slightly increased between 1997 and 1998) in the domestic sector.[12] Also, it seems that between 1985 and 1987 wages in both the foreign and domestic sub-sectors continued to grow faster than productivity increases in the domestic sector, even though the growth rate of wages slowed down between 1986 and 1987. After 1987, that is, after social partnership started, wages closely aligned themselves to the productivity increases of the domestic sector.

In light of these findings, the views about social partnership that were summarized above, namely that it generated higher wage increases than would have emerged under decentralized bargaining or that it had no independent effect on wages and simply validated a set of results that would have been brought about by market forces anyway, do not appear especially plausible. Between 1981 and 1987 decentralized bargaining (in a period of high and growing unemployment) led to growing unit wage costs in all but the most advanced and dynamic industries. Also, it is hard to imagine what kind of market processes could have produced the kind of inter-sectoral patterns described above.

Our interpretation of the data is social partnership introduced something akin to a new wage norm in the Irish labor market, one that set wage increases in all sectors slightly above the provisions of centralized agreements, that is, more or less equal to the productivity growth (and hence ability to pay) of Irish firms. In so doing, social partnership allowed foreign MNCs, particularly American, to pay the same wage increases as domestic companies despite astronomical differences in productivity gains and, therefore, considerably boosted their cost competitiveness.

It is unclear whether or not central wage negotiators explicitly and intentionally targeted the ability to pay of the domestic sector when setting wage increases for the economy as a whole, or whether the linkage was unintended. Two elements point in the direction of intentionality: first, every three-year centralized collective agreement was preceded by extensive discussions of the country’s economic situation in the National Economic and Social Council (NESC). The NESC was (and is) a statutory institution in which employer and labor representatives sat together with government representatives and reached consensus on economic analysis and, especially, on how to maintain Irish competitiveness in international markets. The NESC reports were generally released immediately before the beginning of each bargaining round. Second, no actor really had an interest in setting national wage increases that substantially exceeded the ability to pay of the domestic sector, not even the unions, which, by doing so, risked undermining the viability of their main organizational base, namely the domestic companies.

As is typically the case with Anglo-Saxon economies, the Irish labor market is divided into union- and non-union sectors. Union contracts are not binding for non-union companies. Because data on unionization rates by sector or nationality of ownership are not available,[13] we cannot assert for sure that the firms in the dynamic sectors were predominantly non-union. We do know, however, that 85 percent of US MNCs established in Ireland since the mid-1980s do not recognize unions (Roche, 2001: 44; see also Gunnigle et al., 1999: 133-4). This is the result of the Irish Industrial Development Agency (IDA)'s decision to stop requesting union recognition as a precondition for its attractive location packages (Gunnigle, Morley, and Turner, 1997; Roche and Geary, 1997: 283). Indeed, an industrial relations regime that allows for non-recognition seems to be an important factor in the location decisions of US high-tech MNCs in Ireland (Gunnigle and McGuire, 2001: 59).

It is possible that, thanks to social partnership, MNC companies were morally legitimated to pay the going rate of wage increases (negotiated centrally) without serious repercussions for employee morale and motivation. Alternatively, the de-linking of wage and productivity increases in the foreign sector may be due to the diffusion of human resource policies and union avoidance strategies in multinational companies, especially US-based.[14] Concerning this latter interpretation, however, the cross-country evidence on the relationship between diffusion of HRM practices and wage restraint is mixed. In the UK, a country often used as a point of comparison for Irish developments and in which there is little doubt that de-collectivization of employment relations has proceeded further than in Ireland, wages grew faster than productivity in the 1990, with a further acceleration from the mid-1990s on.[15] In Australia, instead, there is evidence that the individualization of employment relationships in the second half of the 1990s led to real wage growth which was systematically below the growth in labor productivity (Mitchell et al. 2001).

Whatever the precise interpretation of the shift in the wage behavior of MNCs before and after the beginning of social partnership, it seems likely that the firms where productivity growth skyrocketed between the late 1980s and the 1990s were predominantly non-union. If this were true, the Irish social partnership would stand out as an interesting and almost paradoxical example of reversed incomes policy – one in which institutionalized wage restraint is beneficial not because of its direct effects on the unionized sector, but rather for its indirect influence on wage setting in non-union companies.[16]

The Politics of Wage Restraint in Ireland

Having argued that social partnership agreements did affect wages (despite claims to the contrary), it needs to be understood how social partnership came about, that is, what kind of coalitions supported and reproduced it over time, and why it "stuck," that is, why centrally negotiated wage increases were not undone by wage drift (i.e., additional wage increases negotiated at the company level) as it has frequently been the case in other countries, as well as in Ireland in the past. On both counts, Ireland stands out as an exception to prevailing views.

a) Pro-Partnership Coalitions

Social partnership did stick. Average wage drift was slightly above 1 percent per year in manufacturing as a whole. This is very moderate in comparative perspective. Indeed, wage drift in the order of 3.5 – 4.5 percent per year was more or less expected in the heydays of centralized wage bargaining in Sweden (Edgren et al., 1973: 25). Figure 3 displays wage trends in various sectors in the period covered by four social partnership agreements (1987-1999). It clearly shows that wage drift was considerably higher in the civil service as a whole than in the manufacturing sector as a whole, despite much lower productivity growth in the service sector as a whole (Duffy et al., 1999: 9). In addition to wage increases distributed centrally, the public sector could also count on “special pay awards,” intended to restore comparability with other categories. Figure 3 also shows that the gap between centrally negotiated and total wage increases appears to be growing over time.

Figure 3 about here

The public sector’s wage leadership is consistent with its key role in initiating and sustaining the Irish social partnership.[17] This emerged initially as a deal between the state, on one side, and general and public sector unions, on the other. The government, which did not have a clear parliamentary majority after the 1987 elections, pushed very hard for centralized bargaining to be established (Hamann and Kelly, 2005). However, most unions affiliated to the union confederation ICTU, especially the craft ones, opposed this choice and voted against the 1987 *Programme for National Recovery* when a special union convention was summoned to ratify it. The PNR was eventually approved, but only because the two major general unions at the time, as well as the major public sector unions, voted in favor of the deal (see Baccaro, 2003).[18]

Later agreements were less controversial than the first. However, unions whose primary constituencies were in the private sector, like the craft unions, continued to vote against the agreements for a long time. Given the huge boost in profitability in this sector, these unions could legitimately believe that they had more to gain from decentralized than centralized negotiations (see Teague, 1995: 262). The major general union SIPTU (the result of a 1990 merger) was instead unflinchingly in support of social partnership. Because this is an *encompassing* union in the sense of Olson (1982), namely, a union that organizes across all sectors simultaneously, it probably internalizes the systemic consequences of wage policy for the economy as a whole. This may explain its support for social partnership.[19] Also, public sector unions consistently supported centralized wage regulation. In light of the wage trends presented above, which show that wage increases were higher in the public than in the private sector, and, as far as comparative data allow one to tell, higher than in other countries as well (OECD, 2001), this support is not surprising.

Theory suggests that wage centralization should not be advisable in a country where unions in sectors not exposed to international competition (e.g. public sector unions) have a lot of influence on wage policy (see Crouch, 1988; Garrett and Way, 1999; Franzese, 2001). The argument goes as follows: non-exposed unions are much less likely to be responsive to the threat of unemployment resulting from wage militancy than exposed ones, and therefore less likely to agree to wage moderation. According to this line of thinking, bargaining centralization is most effective when exposed unions dominate centralized bargaining and non-exposed (e.g. public sector) unions follow their lead. A process of centralized bargaining in which public sector unions are key actors in wage formation is therefore undesirable and may even be counterproductive, as excessive wage settlements may be unduly generalized to the rest of the economy.

In Ireland public sector unions did have greater influence than their private sector counterparts in shaping wage policy. In 1988, Colin Crouch (1988: 72) produced an indicator of exposed sector dominance, based on percentage of union membership in exposed sector unions. Ireland came at the bottom of a list of 14 European countries. This situation does not seem to have changed much in later years. Yet, the Irish social partnership had vastly beneficial effects. The reason, we argue, lies in the particular structure of the Irish economy. The argument summarized above relies on the traditional two-sector model of a small open economy (see Aukrust, 1977; Edgren et al., 1973). According to this model, the economy is divided in two sectors, exposed and sheltered. The former is price-taker, because its prices are determined in international markets. The latter sets prices as mark-up on costs and can therefore pass cost increases onto consumers. For technological reasons, productivity growth is much higher in the exposed than in the sheltered sector. It is assumed that whatever wage level prevails in either of the two sectors, it eventually trickles down to the other, through competition for scarce labor (in a full employment scenario) or comparability mechanisms (or both).

These conditions identify a "main course" of wages. Wage increases should stay in the corridor identified by changes in world prices (adjusted for exchange rate changes) plus productivity increases in the exposed sector. If wage increases exceed the main course – as it may happen when the non-exposed sector acts as wage leader – companies in exposed sectors either lose competitiveness (and market share) or are forced to reduce their profits. Both things end up harming the national economy.

However, the Irish economy is probably more appropriately conceptualized as a three-sector, rather than two-sector, economy. There is a clear difference within the manufacturing sector between a modern camp, characterized by high productivity growth, and a traditional one, where efficiency gains are much lower. Hence, there are de facto two "main courses" for wages in Ireland: one appropriate for the modern sub-sector and the other for the traditional sub-sector. Wage militancy in the public sector may exceed the limits of admissible cost increases for the traditional sub-sector (and thus cause unit labor cost growth therein) but, provided it stays within the second, much larger, wage corridor, still allow sizeable competitiveness gains in the modern sector.

In brief, a three-sector economy like the Irish (or, alternatively, a two-sector economy with a "main course" which is much wider than usual) appears to be able to tolerate a certain amount of wage militancy in the non-exposed sector. *Ceteris paribus*, some amount of wage militancy in the non-traded sector should produce a transfer of resources from traditional to expanding modern industries. At a time of full employment, this may even contribute to ease labor market tensions. Much more worrisome for such an economy is the situation referred above as “Irish disease,” which seems to have characterized the years between 1980 and 1987, namely high wage increases in the modern sector, which spread to the other sectors of the economy as well.

b) The Problem of Compliance

A key feature of the Irish social partnership agreements was the exchange between wage moderation and cuts in income taxes. As a result of tax reductions included in the social partnership agreements, the average tax rate on a single person earning the average industrial wage fell from 40 percent in 1987 to 24.2 percent in 1999 (from 28.2 to 15 percent for a one-earner couple) (NESC, 1999: 223-4). The combination of small nominal wage increases, low inflation, and tax reductions led to growing real take-home pay every year between 1988 and 1999. In the previous period of free-for-all collective bargaining between 1980 and 1987, real take-home pay had, instead, declined overall (NESC, 1993: 46).

This particular exchange between wage restraint and lower taxes helps understand, to a certain extent, why there was overall union agreement to centralized wage regulation. Yet, tax cuts were not sufficient to make wage moderation acceptable for every union involved. As argued above, especially at the beginning of the process, several unions, those craft-based in particular, preferred decentralized to centralized bargaining and revealed their preferences by voting against the agreements in various union conventions (Baccaro, 2003). The question that needs to be asked then is why dissident unions went along with centralized wage policies even when they disagreed with them, and why the peripheral structures of unions abided by the terms negotiated at the center. In other words, how do we understand *compliance* with centralized wage stipulations?

Corporatist theory provides distinct answers to these questions. In a nutshell, this theory argues that particular organizational features ensure inter-union (horizontal) coordination as well as intra-union (vertical) coordination (for more on the theory, see Baccaro, 2003). These features are *concentration* (Golden, 1993; Iversen, 1999) and *hierarchical control* (or *centralization*) (Schmitter, 1979; Streeck, 1982; Traxler et al., 2001). Concentration refers to the number of actors involved in bargaining on each side. The higher this number (the lower the concentration), the higher the likelihood that disagreement may emerge among the various unions and with that, *leapfrogging* or wage spirals. Hierarchical control refers to institutional/organizational mechanisms for peak-level control over peripheral structures. If, for example, strike funds are controlled by the center (or, *a fortiori*, if unauthorized strikes are illegal); if plant leaders are appointed from above and are, therefore, accountable to the upper echelons rather than their workplace constituencies; if approval from higher structures is required for collective agreements to be valid, decentralized structures will find it more difficult to pursue autonomous wage policies and compliance with centralized provisions will tend to be greater.

The problem with corporatist theory is that it does not reflect the recent Irish experience (or the experience of other European countries, e.g. Italy; see Baccaro, 2003). Ireland does not have an interest representation structure of the corporatist kind and it did not develop it between the 1980s and the 1990s. It is true that the degree of internal concentration increased over time, thanks to union mergers (Roche and Ashmore, 2001), but with 52 unions affiliated to the confederation ICTU in 1995, and an even larger number in 1987 (when social partnership began), the Irish labor movement was and is still more fragmented than many others. Workers can choose among multiple unions, if they want to. Workplace representation structures, based on elected representatives accountable to their members, are rather strong. The confederation's authoritative control is limited by the decentralized structure of collective bargaining: wage guidelines negotiated at the national level have to be incorporated into collective agreements at lower levels (at the company level in the manufacturing sector) to become effective (Gunnigle et al., 1999: 188). The ICTU has no coercive power to ensure that these contracts comply with national provisions, except threat of expulsion.[20]

We have argued in previous work (Baccaro, 2003) that the Irish labor movement relied heavily on democratic mechanisms of decision-making to generate coordination within its own ranks and legitimize its centralized policies. Every agreement was discussed and, frequently, voted upon within individual unions. These preferences were then aggregated at the confederal level through union conventions. Unions which disagreed with the policies of the central confederation went along with them because they corresponded to the will of the majority.[21] Also, the leaders of member unions refrained from defecting from confederal decisions because they realized that if they did so their own internal opposition would no longer feel committed to majority rule and their own organizations would become ungovernable.[22]

Here we add another element to the explanation for why wage centralization held. Different from the centralized agreements of the 1970s – which, through a variety of mechanisms, like tapered percentage wage increases (higher percentage increases for the low paid than for other workers) and minimum cash increases, had a tendency to bring about wage compression – the social partnership agreements of the 1980s and 1990s were distributionally-neutral, that is, did not see not seek to compress wage differentials.

Table 1 shows the result of a simulation applying the pay terms of the various social partnership agreements to the inter-industry distribution of average weekly earnings prevailing in December 1987. The table shows that the pay terms of the social partnership agreements leave inter-industry dispersion (measured by D1/D5 and D9/D5 ratios) unaltered. Only the PNR of 1988-90 displays a modest tendency for wage compression, mostly due to provisions for tapered percentage increases.[23] Provisions for minimum cash increase, which were included in various agreements, impact average wages in only two sectors, knitting and clothing. It seems clear that the Irish centralized bargaining is not of the egalitarian variety.

This lack of explicit redistributive intent may have made compliance with centralized agreements easier. If one compares the national agreements and national understandings of the 1970s, which eventually collapsed because they proved unable to ensure wage restraint, and the social partnership agreements of the late 1980s and 1990s, which managed to keep wage drift in check, one is led to conclude that organizational structures (which remained more or less the same) probably matter less for compliance (or lack thereof) than wage policies. In the first phase of centralized bargaining, the Irish union movement was (like other European trade union movements) committed to bringing about wage compression through national agreements; in the second, it was not.

We know from the experience of other countries that egalitarian wage policies, i.e. policies aimed at bringing about inter-sectoral and inter-skill compression, are deeply divisive. It looks as though attempts at reducing wage differentials <u>from above</u> unleash opposite reactions <u>from below</u> (Baccaro and Locke, 1998). Workers mobilize to restore pay comparability with other categories and in the process, lodge additional wage claims. More often than not, these dynamics wind up undermining centralized institutions. It is perhaps not a coincidence that Austria is the only traditionally corporatist country in which centralized wage negotiations did not experience major disruptions in the 1980s and 1990s and that in Austria, unlike other countries, compression of wage differentials was never an explicit goal of centralized wage regulation (Wallerstein et al. 1997; Iversen, 1996; 1999).

In brief, distributionally-neutral wage policies seem to have eliminated a major source of intra-organizational conflict in Ireland. In these conditions, “soft” resources – e.g. decision making procedures that could be perceived as procedurally fair – probably sufficed to settle competing wage claims within the ICTU and produce internal coordination. Thus, in spite of signs of fragmentation which emerged at the end of the 1990s,[24] the Irish labor movement was able to hold to its side of the bargain. This is remarkable, especially considering that the country has experienced very high growth rates and that the labor market situation has been close to full employment in the last few years.

Concluding Remarks

This article has argued that social partnership, i.e., the formal involvement of labor and employer representatives in economic policy-making and especially in centralized wage determination, has been an important component of the Irish economic miracle. It has altered the process of wage formation in the country, in particular by linking wage increases in the economy as a whole to the productivity gains (and ability to pay) of the most traditional, labor intensive, and presumably more highly unionized domestic portions of the manufacturing sector. In so doing, it has injected robust doses of cost competitiveness in the industries dominated by foreign MNCs, where productivity has skyrocketed while wage increases have grown (barely) in line with the rest of the economy. These trends are a significant departure from the recent past. Indeed, in the period of decentralized collective bargaining, high wage settlements in the MNC sector had shown a tendency to spill over to the other sectors, where they had generated cost problems.

While institutions providing for generalized wage restraint are not new to Europe's post-war economic growth (see Eichengreen, 1996; Eichengreen and Iversen, 1999), there are important differences in the way wage moderation was achieved in Ireland compared with other nations. It is often argued that centralized wage regulation is advisable in countries where the interests of workers and firms exposed to the discipline of international competition prevail over those in non-exposed sectors and shape the agenda of encompassing interest groups like union confederations. Yet public sector unions, a quintessentially non-exposed group, played a key role (in partnership with the major general union SIPTU and the state) in initiating first, and sustaining later, the various social partnership agreements in Ireland. Yet, the competitiveness of the exposed sector was not severely affected.

We have argued that this is due to the particular structure of Irish manufacturing, which appears much less vulnerable to public sector wage militancy than other economies, at least as long as productivity continues to grow much faster in the modern sector than in the traditional one, and as long as public sector wage settlements stay well within this productivity gap. By promoting the transfer of labor from declining to expanding sectors, wage increases set slightly above the average ability to pay of the domestic sector may even contribute to assuage some of the tensions that have emerged in the Irish labor market in the last few years. Much more serious for the Irish economy seems to be the state of affairs referred to above as "Irish disease," namely a situation in which the high-productivity sector acts as wage leader and dictates the terms of wage settlements for the economy as a whole.

In contrast to much received wisdom, the Irish wage centralization survived and even prospered in the absence of monopolistic and highly centralized interest groups with a capacity for authoritative control over plant-level structures. In this regard, the Irish case suggests that these institutional preconditions matter less than it was previously thought. Indeed, the organizational features of the Irish interest representation system did not change much between the phase of centralized bargaining in the 1970s and the social partnership agreements of the 1980s-1990s. Yet the outcomes of the two phases were considerably different. By the same token, the Irish experience with centralized wage bargaining suggests that the distributional profile of wage policies is an important determinant of compliance with centralized provisions (or lack thereof). Wage policies aimed at compressing inter-sectoral (and, presumably, inter-skill) wage differentials appear to have an in-built tendency to generate wage rivalries and, in so doing, destabilize centralized wage institutions. The fact that centralized wage policies were distributionally-neutral during the phase of social partnership, unlike the previous phase of national agreements, contributed to eliminate a source of potential instability.

This last element leads us to consider the issue of social outcomes. The Irish social partnership does not exhibit the trademark redistributive features of Northern European social corporatist models (Teague, 1995). Research has uncovered a marked increase in earning dispersion, particularly between 1987 and 1994, and especially at the top of the distribution (Barrett, Fitz Gerald, and Nolan, 2000; Barrett, Callan, and Nolan, 1999).[25] Yet, notwithstanding a considerable widening of earning inequality, family incomes' dispersion did not change much. This was due both to the redistributive effects of the tax and social welfare system (especially in the 1987-1994 period) and to favorable developments in labor market participation: of the many women that took up jobs in this period, the majority had spouses in the lower, rather than upper half of the income distribution (Nolan and Maître, 2000). Poverty decreased in real terms thanks to marked increases in real incomes. However, poverty defined as percentage of mean household income increased (Layte, Nolan, and Whelan 2000). It seems that the Irish social partnership has proven unable to counter growing inequality even though it has managed to avoid that the bottom of the distribution fell too much below the median.

One of the key features of the classic model of small open economy is that powerful socioeconomic forces ensure the invariance of the profit and wage shares (see Aukrust, 1977: 113). Yet this statistical regularity is bluntly violated in the Irish case. At an aggregate level, the wage share declined from 71 to 56.9 percent of GDP between 1987 and 2000 (European

Commission, 2000: Table 32). As argued above, the Irish model is one in which wages grow systematically less than productivity while workers are compensated for their wage restraint through reductions in income taxes (which are generally regressive).

Is this exchange between wage moderation and tax cuts sustainable? There are some reasons to doubt it. Enforcing wage restraint in a labor market characterized by full employment is not easy. For example, the 2003 social partnership agreement, *Sustaining Progress*, was much more controversial than the previous ones. Also, success of the model depends on other countries, especially the larger ones, not following the same route. If this were to happen, the aggregate economic effects would be recessive and a giant (as well as socially disruptive) race to the bottom could ensue. Finally, tax cuts translate sooner or later into cuts in the quantity or quality of public services (including market-correcting redistribution), unless the economy grows at the stellar rates of the late 1990s – which seems unlikely.

The good news is that the Irish actors are perfectly aware of the insufficiency of wage moderation and tax cuts alone, and have been so for several years. In this paper, we have focused on only one element: the centralized wage bargaining component of social partnership. Yet social partnership is much broader than this and covers in addition an array of policies aimed at increasing the competitiveness of small and medium domestic enterprises through technological innovation, increased linkages with multinational firms, skill development, business services, and other measures, as well as making foreign direct investment less dependent on financial incentives and cost advantages. To what extent have these other policies contributed to the Irish economic miracle is a question this article can not address (see however NESC, 2003). There seems to be little doubt, though, that by promoting wage restraint and, through this channel, stimulating profit growth and capital accumulation, centralized wage bargaining laid the foundation for a long period of economic development whose beneficial effects last to date.

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Table 1. Distributional Consequences of the Social Partnership's Pay Terms (Manufacturing Sector)

Agreement	Year	Industries whose average wage was affected by the minimum cash increase provisions	10th/50th Percentile	90th/10th Percentile
PNR	1988	Knitting, Clothing	0.747	1.735
	1989	Knitting, Clothing	0.748	1.730
	1990	Knitting, Clothing	0.750	1.724
PESP	1991		0.750	1.724
	1992	Knitting, Clothing	0.750	1.724
	1993	Knitting, Clothing	0.750	1.724
PCW	1994		0.750	1.724
	1995		0.750	1.724
	1996		0.750	1.724
P-2000	1997		0.750	1.724
	1998		0.750	1.724
	1999		0.750	1.724
PPF	2000	Knitting, Leather and Footwear, Clothing	0.750	1.724
	2001	Knitting, Clothing	0.750	1.724
	2002	Knitting, Clothing	0.750	1.724

The pay rules of the various social partnership agreements are applied to the distribution of average weekly wages across 29 manufacturing sectors in December 1987 (based on CSO, Statistical Bulletin, Table 4: "Average weekly earnings of industrial workers," December 1988). The following simplifying assumptions are introduced in calculating wage increases: that the 3% local wage increased made available by the PESP was paid in the course of 1991; that the local increase contained in the P-2000 agreement was paid in the course of 1997; that the duration of the 4th phase of P-2000 was of six months rather than nine (in other words, that P-2000 lasted three years rather than 3 years and 3 months); and that the duration of the 3rd phase of the PPF was of 12 months rather than nine (in other words, that the PPF lasted 3 years rather than 2 years and 9 months).

Figure 1: Productivity and Wage Trends in “Modern” and “Traditional” Manufacturing Industries (1980-1987). Source: Baker (1988).

Modern Industries

Nace 70 Code	
257	Pharmaceuticals
33	Office and data processing
34	Electrical engineering
37	Instrument engineering
411,414,415,418, 423	‘Other foods’

Traditional Industries

Nace 70 Code	
24	Non-metallic mineral products
251,255, 256, 258-260	Basic industrial chemicals (251) and other chemicals
22,31,32,35,36	Rest of metals and engineering
412,413,416,419,420-422	Rest of food
424-429	Drink and tobacco
43	Textiles
44,45	Clothing, footwear, leather
46	Timber, wood, furniture
47	Paper and printing
14,48-49	Miscellaneous industries

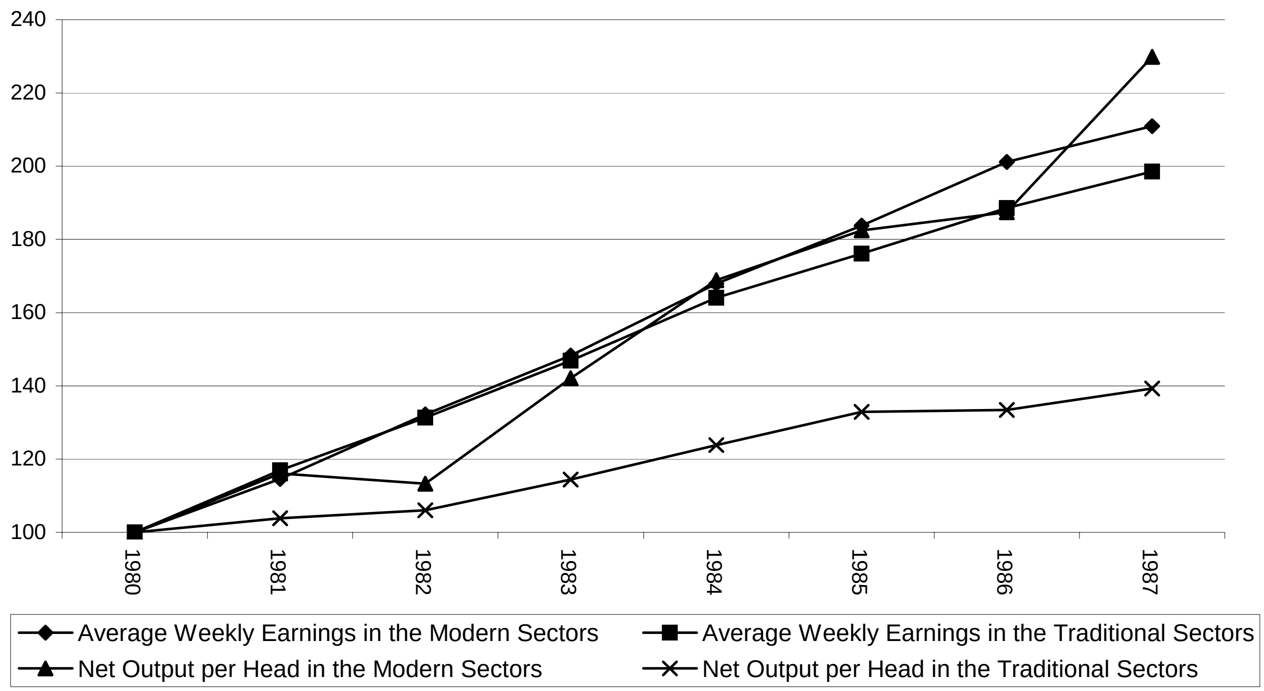
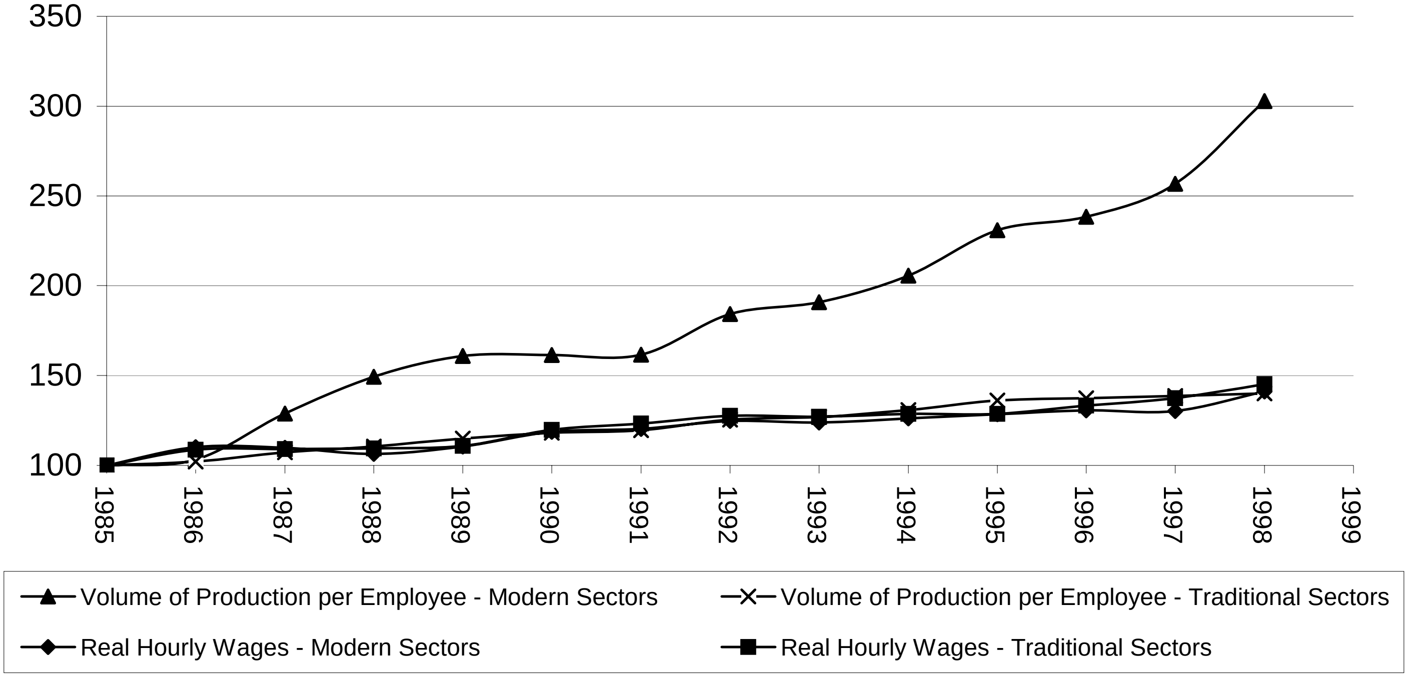
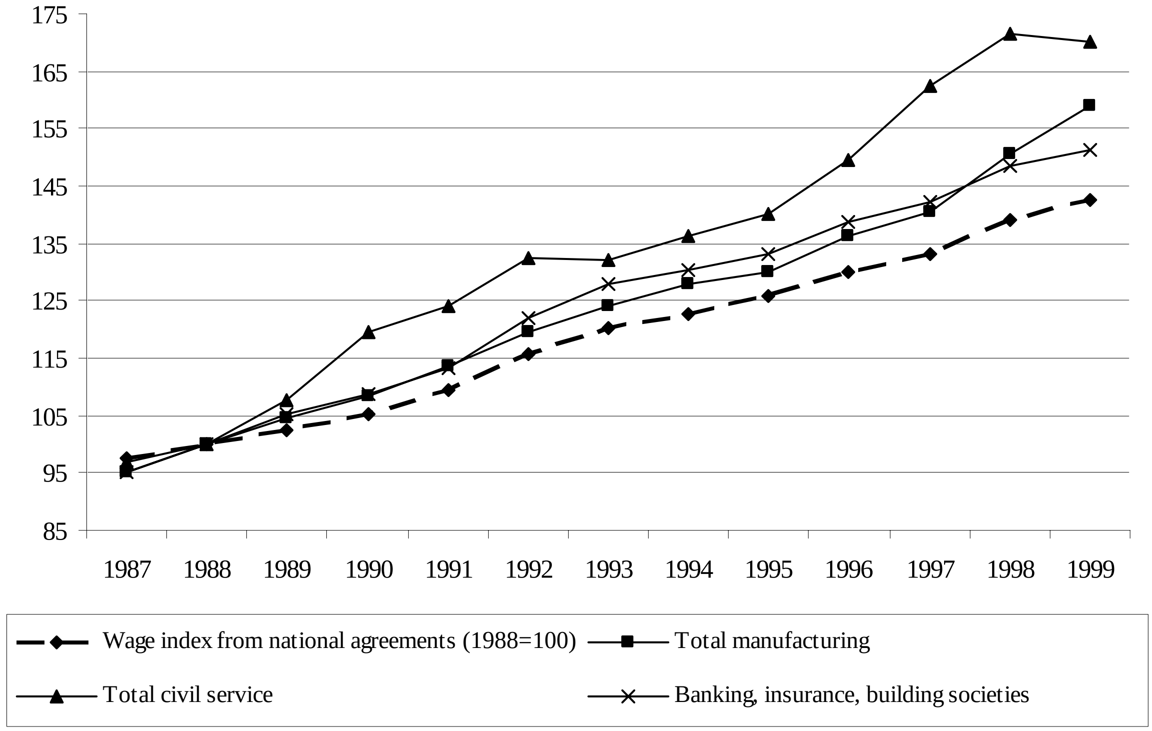


Figure 2. Productivity and Wage Trends in "Modern" and "Traditional" Manufacturing Industries[a] (1985-1998). Source: see endnote no 9.



[a] "Modern" and "Traditional" sectors are the same as in Figure 1.

Figure 3: Wage Trends in Ireland (1988=100)
Source: own calculations on CSO data.



ENDNOTES

[1] In this paper, we focus on one (arguably key) component of what the Irish refer to as "social partnership," centralized wage determination, and use the two expressions interchangeably. It should be noted, however, that the Irish social partnership covers practically the whole gamut of public policies, from tax policies, to skill development, to labor market policies, etc., not just incomes policies. Also, it involves a close connection among different levels (company, territorial, and national) and from 1996 on the inclusion of civil society actors in the partnership framework, together with more established "social partners" (i.e., labor and capital) (see NESF, 1997).

[2] These skeptical views are not just limited to Ireland. For similar considerations concerning other countries, see Locarno and Rossi, 1995; Dornbusch, 1991.

[3] At the time of writing, negotiations for a seventh agreement were underway.

[4] According to NESC (1993: 155), debt servicing consumed one third of tax revenues per year.

[5] Incidentally, the importance attributed by this author to slack labor markets is in conflict with the author's other assertion that "the role of the unemployment rate in the Irish wage formation process is weak" (Walsh, 1999: 205).

[6] These data are based on the yearly Census of Industrial Production.

[7] Gross output figures are generally inflated by the transfer pricing practices of MNCs. Given the favorable tax regime, these have an interest in attributing to their Irish subsidiaries as great a proportion of global profits as possible. Changes in gross output figures should be less biased by these transfer-pricing practices, albeit not entirely exempt from bias. To have an idea of how transfer-pricing practices may affect change data as well, it is helpful to confront GDP data

(which include MNCs' repatriated profits) with GNP data (which exclude them). If in 1987 Irish GNP was 10 percent lower than GDP, in 1998 the gap had risen to 12.17 percent.

[8] Geary and Roche (2001: 111) argue that in this period "foreign-owned companies were found to be more likely to agree to higher wage settlements across a variety of occupational categories."

[9] The data we use are published in Central Statistical Office, Statistical Bulletin, various issues. The series are: "Monthly and Quarterly Volume of Production Indices for Industrial Sectors – Unadjusted"; "Total Number of Persons Engaged Classified by Industrial Sector"; "Gross Earnings and Hours Worked for All Industrial Workers (Adult and Non-Adult Rates of Pay) by Sector" (the latter deflated with the GDP deflator). Due do problems of data comparability, we were unable to construct a single series covering the whole period between 1980 and 1998. Similarly, because of sectoral classification changes after 1998, we were unable to extend the analysis beyond 1998.

[10] Data on employment by nationality of ownership are from CSO's Annual Census of Industrial Production.

[11] We also created two groups, "dynamic" and "lagging," purely based on productivity growth in the period 1985-1998. If this was greater than (lower than) the mean plus (minus) ½ s.d., the industry in question was classified as "dynamic" ("lagging"). Just as in the previous case, this classification, too, turned out to be quite similar to that of Baker (1998). Productivity increases were 231 percent in the dynamic sector and 13 percent in the lagging one. Yet wage increases were higher in the lagging sector than in the dynamic sector: 43.6 percent vs. 40.9 percent.

[12] Adjusted for variations in the exchange rate, unit wage costs showed similar trends. They declined dramatically in the foreign sector – between 63 (D-mark) and 39 percent (US $). In the domestic sector, however, there were reductions in unit wage costs only vis-à-vis the D-Mark (-

17 percent), not other currencies. In the domestic sector, unit wage costs increased by 38 percent when expressed in US$.

[13] This is based on an e-mail exchange with Bill Roche (May 13, 2002).

[14] We thank an anonymous reviewer for directing our attention to this possibility.

[15] This statement is based on the AMECO database of the European Commission and, specifically, on a comparison between the "Real compensation per employee, deflator GDP: total economy" series with the "Labor share in total factor productivity: total economy" series (http://ec.europa.eu/economy_finance/indicators/annual_macro_economic_database/ameco_en.htm). Also, Brown et al. (1998: ii) argue that the transition from collective to individualized employment contracts did not produce wage moderation in Britain.

[16] It needs to be emphasized that large non-unionized MNCs are bound by the centralized agreements by virtue of their membership in IBEC, the employer association (interview with Brendan Butler, Director of Enterprise, IBEC (Dublin: Sept. 3, 2001).

[17] The Irish trade union movement is, like the British, divided in general unions (representing semi-skilled workers across all sectors simultaneously), craft and other grade-specific (e.g. white collar workers) unions, and public sector unions. Based on trade union reports, Roche and Ashmore (2001: 18) estimate that 55 percent of members of the Irish Congress of Trade Unions (ICTU), the Irish trade union confederation, are employed in the public sector. Unionization rates are also much higher in the public than in other sectors. In 1992 (1998), unionization was 73.4 (74.1) percent in the public administration and defense sectors and 54.3 (46.9) percent in production industries.

[18] Organized employers did not play a very important role in the formative stages. They believed that decentralized bargaining would bring about wage moderation more effectively than

centralized bargaining. Government had to work hard to persuade them to stay at the bargaining table and as a result, some of the union's demands, like the proposed reduction in working time and the minimum cash increase, were, in the private sector only, subordinated to the results of plant-level negotiations (see Gunnigle et al, 1999: 206; Roche, 1997: 200). It was only after social partnership became a clear success that the employers became firm supporters. In the opinion of organized employers, over time centralized negotiations proved to be less costly than decentralized bargaining (interview with Brendan Butler, IBEC, cit.).

[19] In this regard, the position of the ATGWU, the other (much smaller) general union, is interesting. This union has been among the staunchest opponents of social partnership over the years. Traditionally, the ATGWU's position is explained by reference to its ideological/cultural background. Because this is a British-based union, so the argument goes, its attitude towards bargaining is typically adversarial (see Roche, 1997: 179; Hardiman, 1992: 342-3). However, most of this union's membership is in the private sector (Roche, 2000: 355). Therefore, the ATGWU's response to social partnership appears overdetermined by both its ideology and sectoral interests.

[20] The lack of corporatist structure, and especially the absence of a strong and cohesive labor movement with a high degree of "authoritative centralization," was considered responsible for the failure of centralized bargaining in the late 1970s (Hardiman, 1988: 3).

[21] See, for example, Ben Kearney, Republic of Ireland Secretary of the ATGWU (a union that voted against all of the Irish social partnership agreements): "We're very loyal Congress members, I'm afraid. We believe in the whole concept of Congress. We feel that whatever has to be done has to be done from within." (Bundoran: July 3, 2001).

[22] Interview with Patricia O'Donovan, former Deputy Secretary General of the ICTU. Geneva: April 9, 2001.

[23] With the PNR, the bargaining parties agreed to limit wage increases to 3 percent for the first £120 of weekly pay and 2 percent for the part exceeding the threshold. There was also a minimum increase of £4 per week.

[24] Prior to the PPF negotiations in 1999, ASTI, one of the three teacher unions, seceded from the ICTU because it was unwilling to be bound by the confederation's wage policy. After secession, this union lodged a 30 percent pay increase demand. Interestingly enough, it was one of the public sector, not private sector unions, the first to break the rule of majority decision within Congress. There is also evidence, however, that wage increases in the educational sector had been lower than in the rest of the public sector. This episode did not have major consequences, however, as ASTI subsequently accepted and underwrote (albeit autonomously) the 2003 social partnership agreement.

[25] Our data show that the dispersion of average industry wages did not change much in the manufacturing sector as a result of the pay terms of the social partnership agreements. It seems that the increase in wage dispersion (again, when only the pay terms of the social partnership agreements are concerned) was due to changes in the inter-industry composition of employment. In other words, employment grew faster in high-paying than low-paying manufacturing industries. It is possible, however, that there was an increase in the within-industry wage dispersion or in the between-industry dispersion of take-home pay.