



written by Charlie Haughey

Social Partnership: Its origins and achievements

The contribution of Social Partnership to initiating and sustaining the transformation of our economy from a near-disaster type situation in 1986 to a prosperous and progressive economy, the envy of many, is well recognised. There were, of course, other factors which assisted that transformation but Social Partnership from its inception and for twenty years has provided the essential bedrock on which sound public finances and progressive fiscal, social and economic policies could be firmly based. Should any proof of its basic soundness be required, it must surely be the number of individuals and bodies who have laid claim to its parenthood.

The stimulus and need for Social Partnership arose directly from the near-disastrous state of the public finances caused both by adverse economic trends - the oil crisis of the 1970s for instance - and the application of unsuccessful policies during the 1970s and 1980s.

The result was a spiral of high inflation and interest rates, contracting output and

unprecedented levels of unemployment. During the 1970s and 1980s nearly all European Governments had to contend with the effect of these factors and their implications for their exchequers. High inflation, which in Ireland exceeded 20% in 1975 and 1981, caused massive increases in public sector pay and greatly increased the servicing of the growing National Debt. Social welfare payments had to be similarly increased because of inflation and also because of growing unemployment which rose from 90,000 in 1980 to 227,000 in 1986. The transfer of the bill for domestic rates to the Exchequer was a further burden on the public finances in that period: in 1980 the cost to the Exchequer was €135 million.

In 1980, my first year in office as Taoiseach, I achieved a current budget deficit of 6.1% of GNP which was lower than the deficit of 6.8% of GNP in 1979 and was, in fact, the lowest current budget deficit until 1988. I did increase capital expenditure



in 1980 and 1981 to offset the growing unemployment and to correct infrastructural deficits (still with us); in my view, it was better to fund employment through necessary investment than pay for unemployment through current Exchequer expenditure. It is relevant, in that context, that the reductions in capital expenditure in the years 1983 - 1986 coincided with an acceleration in unemployment, from 147,000 in 1982 to 227,000 in 1986, which had to be paid for in much increased social welfare expenditure on the current budget side.

Some of the decisions that had to be made in those years to reduce Exchequer expenditure - particularly current expenditure - were very difficult. I took the unprecedented and unparalleled action for a Government in 1982 of breaking the public sector pay agreement and postponing already agreed pay increases including some €200m to €300m of special relativity pay increases.

The coalition government that succeeded mine up to 1987 was faced with the same unfavourable economic and fiscal conditions. We know, from their publicly-aired and published internal disagreements, the difficulties they had in agreeing measures to stem the deterioration in the public finances. The underlying trends were such that the current budget deficit in 1986 was 7.8% GNP, almost the highest on record; the National Debt had doubled in four years; Exchequer tax revenue had grown from €5 billion in 1982 to nearly €8 billion in 1986; and unemployment was 18% of the labour force.

Against this background, the 1985 - 1987 economic plan, *Building on Reality*, envisaged retention of a current budget deficit of 5% of GNP in 1987 with no commitment to further reductions.

The difficulties faced during that period were starkly illustrated by the fact that the Labour Party left Government in January 1987 because they could not accept the expenditure reductions being proposed for 1987 by their Fine Gael partners in the face of the crisis in the public finances.

I formed the view in 1982 that the corrective action needed in the public finances was possible only in the context of a comprehensive and balanced economic and fiscal plan with the support of the main social partners. Such a plan would have to contain positive proposals as well as the negative measures to contain public expenditure.

I vividly recall the occasion that, in all probability, was the first time I began to think along the lines of this concept of Social Partnership. A European Summit in Brussels on 28th./29th. June 1982 had just concluded and Chancellor Schmidt of Germany and I were chatting together when I asked him what he would spend the forthcoming week-end on. He said: "This week-end is the most important one in my annual calendar - I meet with the employers and the Trade Unions to hammer out an agreement on the rates of pay and salaries appropriate for the coming year in the light of the economic situation anticipated". I was immediately struck with this

commonsense approach and began, in my mind, as I listened to Chancellor Schmidt, to develop and expand the concept.

Earlier that year I had arranged for a Cabinet Committee of economic Ministers, chaired by myself, to prepare a National Economic Plan. The Committee was assisted by a Steering Committee composed of civil servants from the economic departments and agencies with some outside expert assistance. It was specified from the outside that the social partners should be consulted in the preparation of this Plan. I now envisaged that we should endeavour to obtain the agreement of the social partners to this plan to reflect the new concept of Social Partnership.

The report of the Steering Committee was drafted by Pádraig Ó hUiginn, Chairman of the Steering Committee and Secretary-General of my Department. The final report was approved by the Cabinet Committee and the full Cabinet. In the course of its preparation discussions were held with the Trade Unions and employers to see if their agreement with the Plan could be obtained. While there were exchanges of views it did not prove possible to obtain such an agreement. The plan was published as *The Way Forward*. Its objectives were as follows:

"The Plan proposes stringent measures to restore balance in the public finances, including elimination of the current budget deficit by 1986, to halt and reverse the trends of the last decade in public expenditure, to moderate the growth in taxation and make it more equitable, to create the competitive conditions essential for growth in employment, to accelerate the productive and economic infrastructure investment programme essential for development and to bring new criteria of efficiency to bear throughout the public sector".

The formation of the Fianna Fáil Government in 1987 renewed the opportunity to return to the principle of a comprehensive and balanced series of measures as outlined in the 1982 plan, *The Way Forward*, including putting the public finances on a sound basis. I had included a commitment for such a National Economic Plan in our election manifesto. The need for such a plan was more urgent than ever since the public finances were in unsustainable deficit, with the current budget deficit at 7.8% of GNP, tax on income over 60% and the National Debt 122% of GNP, probably the highest in the EEC. Further borrowing on the current level could not continue.

All in all, the general state of the Irish public finances could hardly have been worse than that which faced the Government which came into office in March 1987. In October 1986, the NESC under the chairmanship of Pádraig O hUiginn published *A Strategy for Development* that envisaged necessary reductions in public expenditure accompanied by measures to increase employment and improve taxation and social equity. That report had the support of all social partners represented on the Council i.e. Trade Unions, employers and farmers. In a broad sense, this strategy reflected the approach advocated in the 1982 Plan.

In discussions I had with Mr. O hUiginn before taking up office in 1987, I was assured by him that there was a full commitment by the Social Partners to the NESC strategy and he was confident that a new National Plan could be negotiated based on that strategy.

I was particularly concerned about the attitude of the Trade Unions because of the need for public expenditure reductions. I had personal discussions with leading trade unionists such as John Carroll, Billy Attley and Christy Kirwan in which I explained that rigorous measures would be necessary as regards public expenditure since the scope for further borrowing was clearly doubtful.

At this time of crisis, Ireland had the good fortune to have probably the most enlightened trade union leadership we have ever had. Our Trade Union leaders at that time were fully aware of the economic and financial difficulties we faced and the abyss into which we were all staring. They could, also, clearly see what needed to be done, what action was urgently necessary if national bankruptcy was to be avoided.

The real question was: could it be done and by whom could the crucial decisions be taken and implemented? The trade union leadership knew that, in taking and implementing these decisions, they would have to play a decisive but difficult role. History records that they were not found wanting, but they played their part; they carried their members with them; and they took the difficult decisions that saw us through.

The economic and fiscal situation which faced the Fianna Fáil Government coming into office in March 1987 were indeed precarious, but it is also true that there were some advantages inherent in the situation.

The very economic difficulties themselves played an important part in providing a solution. The extent and seriousness of the problems themselves played an important part in contributing to a general realization that drastic action was necessary and had to be undertaken as a matter of urgency.

Among other things which helped us find our way out of our seemingly intractable problems was the fact that Fianna Fáil out of office had spent four years in opposition from 1982 on, preparing and shaping plans which they were now ready to put into operation.

These included:

a). The establishment of an International Financial Services Centre in Dublin.

b). A major reduction in Public Service numbers by the introduction of a Voluntary Retirement Scheme.

- c). The securing and skilful use of European Communities Structural Funds.
- d). The serious discussions in NESC leading to general agreement on the budgetary and other fiscal and economic measures needed.
- e). The undertaking of an intensive tourist promotion campaign.
- f). The vital establishment of the National Treasury Management Agency (one of the most important steps taken) whose contribution in managing the National Debt was of crucial importance.

The first day we were in office in March 1987, I had a luncheon meeting in my office with Ray MacSharry, Minister for Finance, and Pádraig O hUiginn. At that meeting I explained that our new policies would include:

- (1). A commitment to a National Economic Plan, based on the NESC Strategy, to be negotiated with the social partners by Mr. O hUiginn who would be responsible directly to Ray Mac Sharry and myself. The social partners, in due course, accepted this proposal.
- (2). As a first fiscal measure, the current budget deficit in the budget to be introduced by Ray MacSharry would have to be lower than that proposed in the budget proposals of the outgoing Fine Gael Government.
- (3). That we should introduce a voluntary redundancy scheme in the public service to help curtail the public sector pay bill.
- (4). That we establish an International Financial Services Centre in Dublin with attractive tax incentives, on the lines recommended to me by Mr. Dermot Desmond.
- (5). That we should take measures to reduce the leakage of €250 million a year in cross-border shopping even though the EEC would oppose them.

I was able on 9th. October 1987, to announce the successful negotiation of the first Social Partnership programme, The Programme for National Recovery, to cover the years 1988 - 1990. The Opposition political parties all opposed the principle of Social Partnership for different reasons, but, as we know, they have all embraced the concept since. Essentially, what Social Partnership aimed to do - and succeeded in

achieving - was to enable the measures necessary to create a growing competitive economy to be taken by consensus between Government and Social Partners even if some of the measures necessary were unpopular. It was this lack of consensus in the 1970s and 1980s, which, in the very unfavourable economic conditions, made it difficult for successive Governments to remedy the imbalance in the public finance. I saw this principle of consensus clearly in attempting to get agreement for the 1982 Plan.

I returned successfully to the issue in the Programme for National Recovery and its successor, The Programme for Economic and Social Progress. One feature of both programmes was critical. We negotiated a moderate pay policy but one which was accompanied by income tax reductions so that take-home pay was increased without burdening both the Exchequer and private enterprise with heavy labour costs.

This policy moderated the Exchequer pay bill and made the private sector more competitive; the latter has been a major factor in the growth of the economy. The reductions in income tax inaugurated the policy of reducing income tax, which has been so important for social equity and for stimulating enterprise.

The measures, through Social Partnership, had dramatic effects on the public finances. The current budget deficit fell from 7.8% of GNP in 1986 to 0.6% of GNP in 1990 and to zero in 1994. The total exchequer borrowing fell from 12.1% of GNP in 1986 to 2.0% in 1990. Growth was restored to the economy from negative growth in 1986 of 0.4% in GDP to +5.5% in GDP on average in the period 1987 - 1990. Unemployment fell from 227,000 in 1986 to 172,000 in 1990. The Celtic Tiger was born!

Under Social Partnership, some one million persons more are now employed. Unemployment has fallen to 4.4% of the labour force. A significant objective in the original Social Partnership programme was the International Financial Services Centre, which now employs 19,000 and contributes over €800m annually to the Exchequer in corporation tax alone. In 2004 there was a net trade surplus of €4.9 billion in IFSC activities. The expansion of the tourist industry was another objective of the PNR. In 1986 we had only 1.9m overseas visitors and now have over 7m overseas visitors. We envisaged doubling foreign visitors in five years, inter alia by radical changes in airline policies leading to lower access fares. One of our proudest achievements in Social Partnership was that net emigration which was 27,000 in 1986 declined to zero in 1993. Other important and successful measures I introduced, under the same partnership, included the tax incentives which have created a commercial film industry; the establishment of a National Treasury Management Agency, as advocated by Dermot Desmond, which has made significant savings in the management of the National Debt; and the development of Temple Bar area of Dublin, which has greatly increased overseas visitors to Dublin. At the European level, I pioneered, as President of the European Council, meetings

with the President of the United States, which have done much to improve mutual understanding between the United States and the European Union.

It can be argued, and in my personal view successfully, that the establishment of the International Financial Services Centre was one of the most important steps we took. There were major aspects involved. Firstly there was the confidence-building psychological side, the fact that we could successfully undertake such a sophisticated project, provide the skilled workforce and all the state of the art technology that such a project would require.

Perhaps most importantly, was the dramatically favourable impact it has had on our public finances. When one recalls the dire state of things previously, when as one Minister put it at the time "there was no money for anything", the new economic situation which developed together with the additional tranche of structural funds coming on stream from Europe and the increasing flow of Corporate Tax, the improvement in our public finances bordered on the phenomenal. The Exchequer receipts rose from €10 billion in 1986 to €14 billion in 1991 and net receipts into the economy from Europe rose from €1,151 million in 1986 to €2,353 million in 1991. As a result, our economic possibilities grew significantly.

The establishment of the IFSC illustrated dramatically the commitment of the Government to innovate employment measures to accompany the other measures necessary to restore balance to the public finances. The crucial fact that the Programme for National Recovery, as an economic plan, produced by comparison with 1986 a fall of 55,000 in unemployment figures in the period 1988 - 1990 after the previous decade of growing unemployment ensured the acceptance of "Social Partnership" as the correct way to make our economy successful and prosperous.

It is arguable whether the concept of "Social Partnership" standing alone, and without the favourable background climate it generated would have succeeded to the extent it did. Perhaps it would have, because the ideas to which the Partnership gives expression are so inherently sound as a practical way of conducting our affairs.

I thought it important that this year we should recall the dire situation in which the economy was 20 years ago in 1986 and from which it was rescued by the determined and patriotic combination I put together of Government, Trade Unions, employers and farmers which, I am glad to say, has continued ever since. I hope it will long continue