



SOCIAL DEVELOPMENT NOTES

ENVIRONMENTALLY AND SOCIALLY SUSTAINABLE DEVELOPMENT NETWORK



The Participation and Civic Engagement Team works to promote poverty reduction and sustainable development by empowering the poor to set their own priorities, control resources and influence the government, market and civil society institutions; and influencing governmental and private institutions to be responsive, inclusive, and accountable.

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Case Study 1 - Ireland: Participation in Macroeconomic Policy Making and Reform

Ireland: Participation in Macroeconomic Policy making and reform

Background

Since 1987, Ireland has developed five “social partnership” agreements, with the latest launched in February 2000 called the “Program for Prosperity and Fairness”¹. This program outlines a comprehensive set of economic and social objectives finalized over extensive consultations among the government and a range of civil society organizations from November 1999 to February 2000. The idea of social partnerships evolved in the late 80s when Ireland was going through a tough recession (1980-87), aggravated by high inflation, heavy public borrowing and deficit, and loss of manufacturing base. The NESC (National Economic and Social Council), formed in 1973 to play an advisory role to the government on “the development of the national economy and the achievement of social justice”, has, since 1986, been facilitating consultations among a range of social partners to go through a process of shared

learning for an inclusive overview of socio-economic ‘options, challenges and trade offs’. In 1990, NESC identified essential elements for a consistent policy framework within a national strategy as follows: i) macro-economic policy securing low inflation and steady growth, ii) evolution of incomes which underpins competitiveness while handling conflict over distribution, and iii) promotion of structural change to adapt to changing external environment.

While one of the key motivations for introducing partnership agreements was dictated by the inevitable need to discipline the economy in order to meet the entry conditions of European Monetary Union (EMU), NESC did not see this as a matter of technical economic management alone, arguing that these strategies succeeded only with the active consent and participation of those affected by these policies. In this spirit, the National Economic and Social Forum (NESF), established in 1993, was brought on board to address social policy issues such as exclusion and unemployment. The narrow economic mandates of the earlier agreements were thus substantially broadened for the fourth (1997-2000) and the fifth (2000-2002) agreements.

¹ www.irlgov.ie/taoiseach/publication/prosperityandfairness

This note was prepared by Swarnim Wagle and Parmesh Shah of the Participation and Civic Engagement Group in The World Bank as a case study input on “Participation in Macroeconomic Policy Making and Reform” for the Action Learning Program on “Participatory approaches at the Macro level”. Further details and documents related to this Action Learning Program are available at www.worldbank.org/participation

Process and Structure

Based at the Department of the Taoiseach (Prime Minister), NESC's membership comprises of representatives from the government², trade unions, business and employer organizations, farmers' associations, and since 1996, community and voluntary organizations. There are 19 social partners in total, who were selected by the government to broadly represent the four 'pillars' of Irish society as follows. *Employer and Business Organizations*: Irish Business and Employers Confederation, Small Firm's Association, Chambers of Commerce of Ireland, Construction Industry Federation, Irish Exporter's Association, Irish Tourist Industry Confederation; *Trade Unions*: Irish Congress of Trade Unions; *Farm Organizations*: Irish Farmer's Association, Irish Creamery Milk Suppliers Association, Irish Cooperative Organization Society, Macra na Fierme; *Community and Voluntary Organizations*: Irish National Organization of the Unemployed, Congress Centers for the Unemployed, The Community Platform 1, Conference of Religious Ireland, National Women's Council of Ireland, National Youth Council of Ireland, Society of Saint Vincent de Paul, Protestant Aid.

The process is kick-started by the Department of Finance's preparation of a central economic forecast. This is submitted to the NESC, which over a period of one year discusses the issues and parameters laid out in the forecast with the experts, and together with inputs from other thematic reports on aspects of socio-economic performance, draws up a strategy report to serve as a background paper for discussion. This preparatory process is followed by three to four months of formal consultations among all the partners and the government. This then produces a new agreement. The negotiated agreement obviously takes a different form to that of the strategy report, it emerges as a compilation of endorsed 'Operational Frameworks'. For example, in 2000, the council prepared a background paper, "Opportunities, Challenges and Capacities for Choice". One of the key sections of the report dealt specifically with macroeconomic policy spelling out how approaches to handling budget balance, current and capital expenditure, tax strategy and public sector pay can support the implementation of the national program. Further, the report's one of

two central conclusions had a broad macroeconomic orientation dealing with tax reform, wage formation, labor market, and enterprise policy. Following intensive discussions, this paper was modified and reshaped into five operational frameworks: i) Living Standard and Workplace Environment, ii) Prosperity and Economic Inclusion, iii) Social Inclusion and Equality, iv) Successful Adaptation to Continuing Change, v) Renewing Partnerships. The first two frameworks deal with macroeconomic policy issues, and while the overall document is not an exclusive agreement on macroeconomic policy per se, it is clear that both the background report and the final agreement see macroeconomic policy as a crucial tool to achieving the broader social and economic goals. That these agreements are an outcome of an intensive consultative process involving lengthy deliberation, negotiation and bargaining over a set of macro socio-economic priorities between a diverse group of citizen representatives and the government thus stand out as a unique case of 'participation in macro socio-economic policy making and reform'.

The government creates and serves as a forum in which the process operates. It sends invitations to participants to begin the process and determines the limits within which the partnership structures operate. It moderates competing claims and facilitates the negotiation process. This is quite different from a bilateral interaction, say between the government and the trade unions where one usually puts forward a wish-list of demands and the other is compelled to react, often unwisely. With a diverse representation of groups armed with mutually contradictory interests, the consultative process permits each party to present its individual position, listen to others and adjust its stance accordingly. This outcome has been particularly noteworthy in Ireland where in the 80s, the process of making non-participatory and independent 'claims on the output' of the economy led to adverse consequences, for to meet them the government had to resort to borrowing or inflationary financing. The process of bringing together all parties for a 'joint observation of unpleasant facts' and have them deliberate the issues with each other, as McCarthy puts it, 'reshapes the understanding, identity and preference of participants', for each party now not only sees jointly the trade off each one is faced with but they are also obliged to explain and be accountable for their decisions to each other.

² Includes Secretary Generals from five key government departments and independent experts appointed by the govt.

The earlier agreements, especially the first plan (1987-1990) had a narrow macro-economic focus. They were mostly about negotiating wage levels in both the public and the private sectors for a period of three years with the central goal of maintaining public finance discipline and ensuring competitiveness. Issues of tax reform, welfare payments, exchange rate adherence within the ERM band, etc. were also discussed and agreed upon as secondary issues. These processes encouraged consensus building and in the aftermath of the recession, centered around the need for the country as a united whole to not create undue inflationary pressure through exaggerated fiscal claims on the exchequer that would prompt devaluation of the currency. The trade unions thus became an important participant in the context that the recession of the early 80s had particularly been worsened by increased public borrowing within a regime of narrow tax base³. Early effort to stall increasing deficit and debt meant that taxes had to be raised which hit hard the already burdened. So, an important outcome of the early negotiations was that for not pushing for high pay rise, the government would assure the unions that the value of social welfare payments would be maintained even when it cut its public expenditure; it would however introduce income tax on benefits to union members⁴.

The five different agreements since 1987 have each been struck through slightly different processes, with a notable departure witnessed in 1996, when the community and voluntary organizations were first allowed to come to the negotiating table, and issues with greater 'social' slant, such as exclusion, given greater prominence. The process differs from a traditional tri-partite model, and is characterized, according to O'Donnell, by what the partners themselves describe as, i) being dependent on shared understanding of key mechanisms in any given policy area, and ii) a problem-solving approach designed to produce consensus. There is thus a built-in mindset among partners to bargain and present trade offs to each other. For example, trade union demands for higher pay countered by business organizations' argument that higher wages have a perverse impact on employment.

³ Manufacturing tax was just 10% and farmers were out of the tax net, which meant that the burden fell on a narrow pool of employees with earned income.

⁴ O'Donnell, R. "Social Partnership: Principles, Institutions and Interpretations", EIRI Review, Nov/Dec 1999.

Results⁵

Social partnership has been identified as being the driving force of Ireland's economic success over the past ten years. By establishing an institutional framework and process in which the government, the private sector and civil society representatives take major socio-economic decisions with broad-based popular support, a virtuous circle of benefits has been created for all participants by restoring competitiveness, maintaining industrial peace, and providing a conducive environment for investment and growth. Dermot McCarthy and Rory O'Donnell, among others, note the following economic changes over one decade:

1. Budget *surplus* in 1999 of over 1.1 billion Irish Pounds compared with a *deficit* of 1.4 billion in 1986. This has allowed expenditures on health to be increased by 150%, on education by 84% and on welfare by 70% since 1987.
2. Exchequer *surplus* of 747 million pounds in 1998 against an exchequer *borrowing* requirement of over 2.1 billion 10 years ago.
3. Unemployment reduced from 17.5% to under 5% in 12 years.
4. Average annual inflation of 2.8% since 1987 contrasted with rates up to 20% in the early 80s.
5. National debt/GDP ratio of 52% in 1998 compared with 120% in 1986.
6. Average GDP growth of 4.9% a year including a 9.5% growth in 1998 compared with the EU average of only 2.8% that year.
7. Stock of US manufacturing foreign direct investment doubled from US\$ 3.8 billion in 1994 to US\$ 8.1 billion in 1998. A third of American investment in Europe is going to Ireland, especially into high-tech companies.
8. Inflation-adjusted pay rates rose by about 30% in the 90s, which is 2.5 times greater than the increase for EU and four times that for the US. In fact, Irish per capita GDP has surpassed that in Britain; in 1987 it was two-thirds of British GDP per head (in

⁵ Draws on McCarthy, D. "Building a Partnership" in Social Partnership in a New Century, CORI Justice Commission, March 1999; and O'Donnell, R. "Social Partnership: Principles, Institutions and Interpretations", EIRI Review, Nov/Dec 1999; "Social partnership", National Competitiveness Council; "Hot and Sticky in Ireland", The Economist, July 29 2000.

GNP terms, however, Britain is still ahead by around 14%).

While claims of direct causality between the partnership agreements and Ireland's dramatic U-turn in economic fortunes will be disputed by some, there exists an unambiguous basis to argue that *stability* offered by these multi-annual policy and wage commitments has really been instrumental in firmly positioning Ireland as one of Europe's fastest growing economies – the so called Celtic or Emerald Tiger, making it one of the most attractive places for foreign investors globally in the 90s. Traditionally known to be one of Europe's weaker economies (Ireland's GDP is a mere 1% of EU GDP), the partnership programs have especially been credited for facilitating the country's successful participation in the EMS and the EMU by allowing it to pursue sound macroeconomics through prudent public finance management, maintenance of low inflation, low interest rates, and credible exchange rates, and improved competitiveness. As O'Donnell claims, this participatory approach to macroeconomic policy in Ireland has shown that 'technical mechanisms can only be effective where the *political economy* of inflation, incomes and public expenditure is resolved.'

In addition to the tax and pay agreements, other macroeconomic issues such as long-term unemployment, enterprise policy and financing of public services have not only been addressed in subsequent consultative exercises, but by 2000 the agreement had grown to become more than a macroeconomic strategy by embracing broader policy initiatives on the social side. Overall, in addition to the tangible economic benefits that these partnerships have facilitated, if not directly brought about, there are many allied aspects of 'social capital' that this process of civic engagement is argued to be fostering. It has also been said that 'shadow of the future' – the fact that the parties know they will meet again - has generated an environment of patience and trust, which, as has been argued by Robert Putnam and others, "nurtures reciprocity, facilitates communication, improves flow of trustworthy information and increases cost of defection."

The logical question to pose after reading the above is what is that guarantees consensus in an environment where parties on the table have clear conflicts of interests and have no common

understanding of issues at the beginning of the consultative process. Rory O'Donnell implies that a notable pre-requisite could be that when the 'society expects partners to be problem-solving' they do so by not going into debating their ultimate socio-economic visions. This means that consensus and shared understanding of issues end up becoming the outcome of the process, not pre-conditions⁶. It has further been argued that the kind of consensus reached through a problem-solving deliberation is practical in outlook, which has helped transform Ireland's 'internal system of interest mediation'.

It has been pointed out though that the country's performance is not as striking on the broader measures of socio-economic progress, as reflected in, say, the UNDP Human Development Index (HDI) or some of its variant versions⁷. Similarly poverty, social exclusion and widening inequalities remain big problems. But McCarthy points out that these owe more to structural factors operating separately from the social partnership approach to economic management, asserting that these factors were in place prior to 1987 as well.

Concerns

Although brought into being by the Fianna Fail party in 1986 as a reaction to a short-term crisis in public finance, these participatory partnership agreements have since been broadly embraced and recognized as an innovative experiment across the political spectrum. Indeed this has also been seen as a formalization of the old Irish tradition of voluntary bargaining between employers and unions. Academic economists have not, however, warmed up to the idea, arguing that the politicization of industrial relations, by augmenting the bargaining power of trade unions, has tended to protect pay and conditions of union members at the expense of the unemployed who would have been prepared to work for less. This, they claim, has worsened problems of unemployment and emigration. But proponents cite a noted economist's observation⁸ that the unemployed seldom undercut wages, and have in turn accused the economists of complaining about a mechanism that 'works in practice but doesn't in theory'.

⁶ Jean Monnet Inaugural Lecture, University College Dublin, 29 April 1999.

⁷ Ireland's Gender-related HDI (GDI) is the worst in EU.

⁸ Solow, R. "The Labor Market as a Social Institution"

Economists also suggest that agents should act in their own self-interest, and that collusion among interests in the name of partnership is a distortion that creates deadweight losses. This has been countered by an observation that in a small, open economy like Ireland with little control over exchange rates, a negotiated consensus over public finance and services (pay, taxes, welfare), and monetary policy is a necessity. That parameters, especially exchange rates, can be set as long term policy gives credibility to a country's policy regime which not only sends good signals to foreign investors, but inflationary expectations that are minimized as a result of credible policy commitments actually result in low inflation, making it easier for trade unions to settle for three-year wage agreements. As a consequence, O'Donnell mentions, these agreements have taken exchange rate and inflation issues 'out of day to day political competition and industrial relations conflict'. This is probably a welcome development for a country where a recent commentary in a well known newspaper observed the "oddity is the mismatch between an astoundingly bright and modern economy, which has left its old rural roots far behind, and the old village hall tackiness of its politics"⁹.

There have also been deeper criticisms along the lines that such agreements undermine democratic processes by influencing actions of an elected government through extra-constitutional channels. But it has been presented that the government is very much a driving force in the process, and that depending on circumstances, it is allowed to digress from the terms of agreement. Also, there is no indication that the level of political competition and accountability has gone down as a result of these agreements, although all four major parties in the parliament have participated in government and operated the agreements with undeterred enthusiasm. A case has further been made that with greater global economic integration, the ability of states to set their own macroeconomic targets in isolation has been undermined. An agenda developed in consultation with domestic allies has thus been suggested to represent a 'new public policy instrument'¹⁰. But of course there is no room for complacency on the part of the government which will need to assume a strong leadership role to ensure that 'trade off between interests and

agendas are not skewed', and that the process does not subvert established democratic procedures.

Concerns have also been raised about the limits of inclusion and representation. While the social partnerships were widened to include community and voluntary organizations, agents within the sector differ on *who* represents them in the negotiations and *how* they get represented in the negotiations. Calls have been made to clarify positions within the sectors before representatives go off to participate nationally. It has been argued that "before the partnerships are widened, they need to be grounded"¹¹. There is also a perception that issues such as social equality and inclusion are being overshadowed in an agenda that is dominated by economics. Women's and feminist groups have thus been particularly vocal in making it clear that they are not satisfied with the way consultation is being equated with participation, and that gender analysis of socio-economic issues must first take place within the member organizations.

The NESF itself did a review of the partnership process and concluded that the existing arrangements were not adequate, admitting to the following problems¹²: the limits of consensus, limited terms of inclusion, difficult linkage between national representation and local action, problems of monitoring, relationship between partnerships and representative democracy, etc.

Final Remark

The fact that a project that initially began as a short-term solution to diffusing a public finance crisis has now been institutionalized as a three-yearly process and broadened to represent a wide section of the Irish society to 'deliberate, negotiate, bargain and attain consensus' on economic and social issues is an indication that the model has been deemed highly successful by the Irish themselves. To outsiders, this exercise presents a case where remarkable economic returns have been reaped through a model of negotiated governance. Although a process driven by the government (issuing invitations, providing fora and logistics, setting broad parameters to lead informed discussions, aggregating inputs, developing and implementing strategy, etc.), consultation among

⁹ The Economist, 29 July, 2000.

¹⁰ McCarthy, D. "Building a Partnership" in *Social Partnership in a New Century*, CORI Justice Commission, March 1999

¹¹ Zapponne, K. and S. McNaughton, "Should We Stay at the Table", in *Social Partnership in a New Century*, CORI Justice Commission, 1999

¹² O'Donnell, R. "Social Partnership: Principles, Institutions and Interpretations", EIRI Review, Nov/Dec 1999.

participating groups is probably the essence of the process that involves a tremendous degree of learning from and understanding of each other's positions. Dubbed an exercise at multi-party negotiations, this is actually in many ways a thorough attempt at broad-based stakeholder participation, for partners not only influence the outcome of the process by providing inputs, but the negotiated product expects partners to fulfill their part of the pledge, making them accountable for it. There is some merit to the theoretical arguments presented by detractors of the process, but the broad-based political support for the partnership agreements in Ireland gives the impression that as long as the process goes on delivering results at a very practical level, patience with theoretical dissent will be short-lived.

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Rory O'Donnell, Jean Monnet Professor of European Business at University College Dublin. Professor O'Donnell has worked as Director of the National Economic and Social Council (NESC), has published extensively on European integration and regional development, and is a founder member of the Institute of European Affairs. In his work on *A Strategy for the 1990's* (1990) and *Strategy into the 21st Century* (1996) he laid much of the analytical foundations for Ireland's successful system of social partnership.