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Let's accept a smaller slice of a shrinking cake. The Irish Congress of Trade Unions and Irish public sector unions in crisis

Roland Erne

Final Draft

At the time of writing, in April 2013, Irish public sector workers have overwhelmingly rejected a new national collective bargaining agreement in a decisive union ballot (Labour Relations Commission, 2013). If a majority of union members in a majority of public sector unions within the Irish Congress of Trade Union (ICTU) had endorsed the proposed 'Croke Park 2' agreement, the public sector wage bill would have been cut by another 7 per cent with union approval, although public sector workers have already suffered a reduction in their earnings in the order of 25 per cent since 2009.¹ This development raises two questions. First, why is there a sudden need for an additional one-billion-euro cut in Irish public sector pay? Secondly, why were the leaders of Ireland's biggest public sector unions – namely, SIPTU and IMPACT – campaigning for a 'yes' vote despite the pay cuts that the proposed deal entailed?

¹ Irish public sector agreements cover all government departments, government agencies and local authorities, including the public health and education sectors, but not the well-unionized semi-state companies in the public transport and utilities sectors, which were not subject to comparable wage cuts.

Why is there a sudden need for an additional one-billion-euro cut in Irish public sector pay?

This question is relevant because the proposed cuts were included neither in the original adjustment programme of the IMF/EU/ECB troika nor in the initial post-crisis collective agreement for the Irish public sector. On the contrary, the initial Croke Park agreement (2010–2014) explicitly excludes any further wage cuts for the duration of the agreement, in other words, until the end of June 2014 (Department of Finance, 2010).

Since the adoption of the so-called ‘six-pack’ on economic governance, the European Commission is not only monitoring national wage trends, but is also issuing binding wage development thresholds (Erne, 2012). If one compares Ireland’s wage trends with the EU’s new 9 per cent nominal unit labour cost increase threshold for euro area countries over the past three years, one would not think that they represent a problem for the EU’s neoliberal policy-makers. While nominal unit labour costs in Germany rose by 5.9 per cent and in the United Kingdom by 8.1 per cent during the past three years, Irish unit labour costs fell by 12.2 per cent during the same period due to the imposition of wage cuts (especially in the public sector) and an increase in Irish labour productivity. Compared to the Irish, across the entire EU only Latvian workers faced a bigger unit labour cost loss (–15 per cent) (European Commission, 2012: 24).

In addition, the Irish government implemented all the austerity cutback demands set by the EU/ECB/IMF troika without hesitation. In turn, Commission President Barroso (2013) celebrated Ireland at a recent conference of the Irish Business and Employers Confederation (IBEC) because the Irish case apparently ‘shows that the [troika] programmes can work’.

So where is the sudden demand for an additional one-billion-euro cut in the Irish public sector pay bill coming from? Why is the Irish government so determined to break the first Croke Park agreement that was supposed to run until June 2014 and to take an additional one billion euros out of the economy? The answer to this question is surprisingly simple. The government and troika underestimated the negative impact that austerity cutbacks would have on the growth rate of the economy:

According to Olivier Blanchard, the fund's [IMF's] top economist, the impact of fiscal consolidation is 'large, negative, and significant'. The size of this effect is bigger than the fund previously thought. 'Fiscal multipliers' – the change in GDP growth that results from a change in the government's structural budget deficit – were thought until recently to be 0.5. New IMF research now suggests a multiplier effect of 0.9–1.7 is more likely. So deficit reduction of one percentage point could knock up to 1.7 percentage points off growth. (*The Economist*, 2012)

What are the implications of this IMF miscalculation for Ireland? Following an extremely costly bank bailout programme,² Irish public debt currently stands at 106 per cent of its GDP, which is above the EU threshold of 60 per cent (European Commission, 2012: 24). The government in turn agreed to a severe austerity programme that does not seem to have an end. Because the austerity cutbacks reduced GDP to a larger extent than previously thought, it is mathematically quite impossible to reduce the debt to GDP ratio by the imposition of additional austerity measures, such as the proposed pay cuts. Hence, the IMF's miscalculation very much confirms the judgement of those who have argued that the national economy does not work in the way private households work, as eloquently outlined in a recent piece in the *London Review of Books*, which assessed the implications of the IMF's miscalculation for the United Kingdom:

Imagine for a moment that you come across an unexpected ten pounds. After making a mental note not to spend it all at once, you go out and spend it all at once, on, say, two pairs of woolly socks. The person from the sock shop then takes your tenner and spends it on wine, and the wine merchant spends it on tickets to see *The Bitter Tears of Petra von Kant*, and the owner of the cinema spends it on chocolate, and the sweet-shop owner spends it on a bus ticket, and the owner of the bus company deposits it in the bank. That initial ten pounds has been spent six times, and has generated £60 of economic activity. In a sense, no one is any better off; and yet, that movement of money makes

² The controversial bank guarantee scheme has so far cost Ireland at least €64bn. Hence, Irish inhabitants have paid so far €8 956 per capita for bank bailouts compared to an average cost of €191 per capita for the EU as a whole (Healy, 2013). Although the Irish bank guarantee scheme was initially set up by the Irish government (following serious threats from the banking sector), the IMF recently acknowledged that the Irish bank bailout benefited international financial firms but harmed the domestic economy (IMF, 2013: 37).

everyone better off. To put it another way, that first tenner has contributed £60 to Britain's GDP. Seen in this way, GDP can be thought of as a measure not so much of size – how much money we have, how much money the economy contains – but of velocity. It measures the movement of money through and around the economy; it measures activity. If you had taken the same ten quid when it was first given to you and simply paid it into your bank account, the net position could be argued to be the same – except that the only contribution to GDP is that initial gift of £10, and if this behaviour were replicated across the whole economy, then the whole economy would grind to a halt. And that, broadly speaking, is what is happening right now. People are sitting on that first tenner. (...) The principles of running an economy are in many crucial respects different from those of keeping your own finances in order. The example of the hypothetical tenner is part of the reason why: governments need to keep money moving around. For a household, to deposit the money in a savings account might well be the most sensible course. Governments, on the other hand, need that velocity – they need GDP. In order to get it, they sometimes have to borrow that first tenner, which they can do in a range of ways not available to ordinary citizens (who can't, for example, just print the money). Once that first tenner is spent, the government's hope is that it will continue to be spent many more times. (Lanchester, 2013)

Hence, the proposed additional one-billion-euro cut in Ireland's wage bill is the result of the use of a failing economic model. Cutbacks take much more money out of the economy than previously thought. Last October, it seemed that this is the 'time for a rethink' of the austerity agenda (*The Economist*, 2012). But obviously this is not the case in Ireland or any other EU country. On the contrary, the government is determined to take another one billion euros from public sector workers, because it is apparently being forced to do so by the troika. Conversely, however, it successfully resisted all calls to implement the EU's very modest financial transaction tax of 0.1 per cent on transactions in bonds and equities, and 0.01 per cent on derivatives transactions which were, incidentally, also supported by the Irish Congress of Trade Unions (ICTU, 2012), but not the Labour Party that forms part of the government.

Nonetheless, the leaders of Ireland's two biggest public sector unions, SIPTU and IMPACT, campaigned for a 'yes' vote in favour of the 'Croke Park 2' agreement

despite the wage cuts and the obligation to cooperate with management's neoliberal public service restructuring agenda it entails (see Doherty and Erne, 2010) whereas others – namely the unions in the health and education sectors, as well as the traditionally more left-wing unions Unite and the Civil and Public Services Union (CPSU) – warned that an approval of the agreement by ICTU's public sector committee against the will of their unions' members could lead to a split of the Irish Congress of Trade Unions.

Why are many Irish union leaders supporting further public sector wage cuts?

The SIPTU and IMPACT leaders who campaigned in favour of the Croke Park 2 agreement argued that their members should accept further pay cuts if they want to retain a centralized collective agreement in the public sector that prevents compulsory redundancies, limits redeployment and restricts outsourcing. The Fine Gael/Labour coalition government indeed seemed to be determined to abandon Ireland's voluntarist industrial relations tradition and to impose a 7 per cent flat-rate wage cut in the case of a 'no' vote (Sheahan, 2013), even if this violates core ILO Conventions (No. 98 Right to Organise and Collective Bargaining Convention and No. 87 Freedom of Association and Protection of the Right to Organise Convention) that a much poorer Ireland ratified in 1955. The proposed Croke Park 2 (2013–2016) agreement would have therefore been the best that could have been obtained through negotiations in these dire circumstances. On the other hand, it is no secret that the Labour Party would have been very much relieved if the members of Irish public sector unions could have been convinced that there is no alternative to further pay cuts. The imposition of pay cuts by law may indeed require a willingness to commit electoral suicide by many Labour Party parliamentarians.

Despite SITPU's close links to the Labour Party, the outlook of SIPTU and IMPACT's leaders may also be related to Ireland's recent history. During the Celtic Tiger years, most Irish unions supported a competitive corporatist development model, which did not leave much room for autonomous union action (see Sweeney, 2008). Accordingly, almost all Irish unions accepted wage increases below the inflation and productivity benchmark in order to attract foreign investment according to the maxim: let's accept a smaller share of the cake in order to get a bigger cake. Given the unprecedented growth rates that Ireland experienced from 1987 to 2007, union

leaders indeed seemed to have good reason to celebrate the Irish social partnership model that was geared towards the attraction of foreign direct investment (Roche and Cradden, 2003), despite wage moderation (Erne, 2008), a lack of worker co-determination rights (Roche and Geary, 2006; Doherty and Erne, 2010), the minimal welfare state and the self-defeating financial asset and house price bubbles this development model entailed (McDonough and Dundon, 2010). But when the Celtic Tiger bubble burst, the union movement that was the result of years of social partnership and economic growth had lost a lot of its capacity to act independently. During the social partnership years many Irish unions even delegated the collection of union membership dues to employers.

Nevertheless, Ireland's recent history cannot fully explain the shift to the current maxim – let's accept a smaller slice of a shrinking cake – either. The proposed pay cuts would contribute very little to a reduction of Ireland's public debt, as acknowledged by Irish trade union economists (Public Sector News, 2013). Nevertheless, it had seemed likely that a majority of IMPACT and SIPTU members would follow their leaders' recommendation and endorse the new pay deal for a simple reason: the government and senior negotiators of the Croke Park 2 agreement made sure that it would not affect all public service workers equally.

In fact, the proposed agreement stipulated that most cost savings would come from specific sections within the public sector; for example, from workers in the health and police³ sector who work evening, night, Saturday or Sunday shifts; or from workers who earn more than €65 000 gross per year. There is a broad agreement in the Irish trade union movement that employees on very high salaries should contribute more, but first and foremost through higher income taxes that apply to everybody. But the unequal impact of Croke Park 2 across sectors and genders caused widespread alarm (Wall, 2013). Whereas staff nurses on a pre-agreement gross pay of €49 501 would have lost 11.4 per cent of their earnings (Joseph G Byrne & Sons Consulting Actuaries, 2013), civil servants on the same pay level and on a normal 39 hours working week would only have faced losses due to a three-month deferral of the annual incremental pay increase (SIPTU, 2013).

³ The Garda Representative Association is banned by law from joining the Irish Congress of Trade Unions, even though the provisions of public sector agreements are also applied to the police.

Because IMPACT and SIPTU control nearly 50 per cent of the block votes within ICTU, it had therefore seemed very likely that the Croke Park 2 agreement would be approved by its public service committee, even if an overall majority of Ireland's unionized public sector workers and a majority of ICTU's affiliates voted to reject the deal. On 8 April 2013, eight unions that represent a third of Ireland's public sector workers therefore announced that they would not be bound by an ICTU 'yes' vote on Croke Park 2 and threatened to leave ICTU (Walsh and O'Regan, 2013).

Eventually, however, the government's endeavour to divide and conquer Irish public sector workers and unions (Roche, 2013) did not succeed, as not only the members of unions whose leaders recommended a 'no' vote overwhelmingly rejected the deal. A majority of rank-and-file members of SIPTU also voted 'no' (see Table 1), regardless of the contention of their union leaders that they would have suffered less from the unequal cutbacks contained in the proposed deal.

Table 1. How Irish trade unions voted on the draft Croke Park 2 agreement.

(TYPESETTER PLEASE Place Table 1 about here)

The ballot result shows that there is growing discontent with the austerity programmes that have been imposed on Irish workers, especially in the public sector. As a result, the Minister for Public Expenditure and Reform may not only be facing a revolt of Labour Party backbenchers in parliament but also a major confrontation with public sector workers if the government moves to introduce legislation to cut their pay.

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Table 1. How Irish trade unions voted on the draft Croke Park 2 agreement

| Trade union | Membership ballot | | Vote within ICTU | Voting weight within ICTU* |
|--|-------------------|-------------|------------------|----------------------------|
| | Yes (%) | No (%) | | |
| SIPTU** | 46.3 | 53.7 | No | 719 |
| IMPACT | 56 | 44 | Yes | 606 |
| Irish Nurses & Midwives Organisation | 4.5 | 95.5 | No | 390 |
| Irish National Teachers Organisation | 30.5 | 69.5 | No | 314 |
| Association of Secondary Teachers of Ireland | 15 | 85 | No | 183 |
| Teachers Union of Ireland | 14 | 86 | No | 158 |
| CPSU | 13 | 87 | No | 128 |
| Public Service Executive Union | 61 | 39 | Yes | 113 |
| Irish Medical Organisation | 8 | 92 | No | 68 |
| Unite | 16 | 84 | No | 60 |
| Prison Officers Association** | 64 | 36 | Yes | 34 |
| Association of Higher and Civil Public Servants | 15 | 85 | No | 32 |
| Irish Federation of University Teachers | 25 | 75 | No | 20 |
| UCATT (construction union) | 38 | 62 | No | 20 |
| Medical Laboratory Scientist Association | 41 | 59 | No | 19 |
| Technical Engineering and Electrical Union | 34.4 | 65.6 | No | 10 |
| Veterinary Ireland | N/A | N/A | N/A | 7 |
| BATU (construction union) | 72 | 28 | Yes | 5 |
| OPATSI (plasters' union) | 66 | 33 | Yes | 3 |
| Veterinary Officers Association | 18 | 82 | No | 3 |
| Total | | | | 2 892 |

Source: *Irish Times*, 17 April 2013, p.2.

* Block votes within ICTU's public sector committee.

** SIPTU fire-fighters and the Prison Officers Association obtained exemptions from Croke Park 2 cuts in shift payments.