

Ian Guider: Public sector pay rises will only dig us deeper into inflation crisis

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Politics

Benchmarking social welfare rates to inflation would make more sense than an across-the-board percentage pay rise for all

If there was any remaining doubt that the country is waist-deep in a spiralling cost-of-living crisis, it was confirmed last week by the Central Statistics Office. Prices are now rising at the fastest pace since the agency began collecting data decades ago. It is feeding into virtually every aspect of day-to-day living.

The government's efforts so far to alleviate rising prices, through the €200 energy bill credit and increasing the fuel allowance, are having little real impact. With the squeeze on incomes being felt, it may be that employers will face increasing demands to raise wages to meet inflation.

As the state prepares to engage with unions representing 300,000 public sector workers later this month on pay, will it be able to resist claims for inflation-matching wage increases?

The dangers of pay chasing the mounting cost of living are well known, and were reiterated by the Central Bank last week. As it stated in its latest quarterly economic bulletin: "Where growth in wages or profits respond entirely to the currently high rates of inflation, or are detached from underlying productivity growth, the likelihood increases that harmful higher inflation becomes embedded."

The sensible comment by the Central Bank is unlikely to stop unions when they do sit down with Michael McGrath, the Minister for Public Expenditure, in the coming weeks to discuss the existing Building Momentum pay agreement, which is due to deliver a 1 per cent hike in pay later on this year.

Even before the most recent CSO data showing inflation running at an annual 6.7 per cent rate in March – and the Central Bank forecasting it will hit 8 per cent in the coming months – the state has been given notice that unions are calling for employers to make up the gap.

Speaking at its annual conference last month, Joe Cunningham, the general secretary of Siptu, said his members will be looking towards employers to do their bit to prevent the crisis getting worse.

“We are making this clear: we will pursue wage claims to assist workers and their families to meet this crisis. We will be particularly mindful of low and average-income earners, as inflation hits them harder. We will not accept the idea that wage increases will fuel further inflation,” he said.

So far, some major private sector employers have managed to conclude wage agreements for the next couple of years well below inflation. Bank of Ireland staff are being balloted on a 7.5 per cent offer that covers two years. Permanent TSB staff are also being offered a two-year deal, paying 3.5 per cent in the first year and 3 per cent in the second.

While the fact that jobs are being shed in the financial sector might be having an effect of limiting the increases being proposed, the state might appear to be a softer touch. After all, no shortage of money has been found in the last couple of years to fight the economic consequences of the pandemic.

Do public sector workers deserve a pay rise, when the economy is going through a bout of inflation that is hurting those on fixed incomes and low pay? They may be feeling the pinch as much as everyone else, but they have also been cushioned throughout the pandemic. Despite the shocks to the economy, there was no reduction in pay for them. Nor was there a change to the conditions of the majority, with the exceptions being those involved in the pandemic response. That was at a time when hundreds of thousands of workers were forced to live on €350 per week for months on end during lockdowns.

It is only now, with the recent announcement of plans for a statutory sick pay scheme and automatic enrolment in a pension, that the private sector are getting some of the benefits and perks the state has always provided to public sector employees.

These are the same workers who have benefited from wage “restoration” following cuts during the bailout years. Later on this year, those same workers are seeking to benefit from reduced hours. In 2013, employees in the public

sector agreed to an increase in working hours for no additional pay, but this is being reversed and it is estimated that this alone will cost the country more than €600 million a year.

That's before any changes to the Building Momentum agreement. Were the government to reach a deal similar to that which Bank of Ireland has offered, it would cost more than €1 billion extra for the first year alone. That is neither affordable nor warranted. If anything, given the last couple of years, the government needs to ensure it gets real and sustained productivity gains from any renegotiated agreement.

Simply forking out extra money to placate unions will do little to ease the pressure faced by everyone else. As the Central Bank noted, without getting any productivity benefits, higher pay risks exacerbating the problem by getting into a spiral that jeopardises the economy.

The better option for all those suffering the most right now is to tackle the problems faced by those on fixed incomes, such as social welfare payments and the state pension. They are the ones struggling the most as their electricity and gas bills increase sharply.

If anything, benchmarking social welfare rates to inflation would make more sense than indexing state workers' pay. Raising the basic salaries of those on the lowest pay, rather than an across-the-board percentage pay rise for all, would be a more targeted intervention.

This is a very real crisis for the country. Restraint by the government in its negotiations with public sector unions is vital for the rest of the economy. If it caves in during discussions with unions, it will place pressure on companies to do the same. That will not end the inflation crisis, and may indeed make it worse. And for those who really need help, it will not do much at all.