Ireland Unbound

A vision and a strategy for the 2030s

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[1] This paper was presented at a Workshop at the Annual Labour Party Conference in Killarney, Ireland on 30th November 2013. The author, Tom Healy, is Director of the Nevin Economic Research Institute (NERI). The NERI has been established by a number of trade unions affiliated to the Irish Congress of Trade Unions. The views expressed in this paper are those of the author, only. The author's use of the term 'Unbound' in the title of this paper was inspired by a similar title in a paper given by Dr John Sweeney of the National Economic and Social Council in 2006 at a conference of the Institute of Public Administration [http://files.nesc.ie/nesc_staff/NESC_Staff_JS_Ireland_Unbound_The_Implications_for_Public_Management_2006.pdf]. This paper does not necessarily represent the views of Dr Sweeney.

Introduction

Why the 2030's? The answer is to do with the way important shifts in thinking, in values and in human behaviour as well as in coordinated societal responses happen. In the late 1960s many espoused the view and the desire that 'the seventies would be socialist'. Whatever the meaning of 'socialism' then and now it is clear that expectations of a radical social disruption in the Irish political landscape did not materialise for a number of complex reasons including some the following:

- An innate and widespread social conservatism in relation to political and social change (witness, for example, the lack of implementation of the recommendations in the 'Kenny' Report of the early 1970s on land prices)
- The difficulty of implementing radical social change on a standalone basis in an increasingly inter-connected and globalised world where free movement of labour and capital is now well established and where a huge amount of fiscal, monetary and social policy is shared at supra-national level.
- The enormous change in the balance of political power and forces within Europe and across the world.

Where we stand today in the second decade of the new millennium is a very different place to where we ever stood before. Europe is in a political and economic crisis. Ireland has carved out a much stronger position economically than before in terms of living standards, public services and opportunities – notwithstanding the worst economic downturn and disruption in banking in at least 80 years.

In this short paper and talk I would like to touch on three issues:

- How did we ever get here?
- Where do we need to go?
- How do we get there?

1 How did we ever get here?

Much has been written and said about how we got here. I do not intend to add to this other than to reiterate that the causes of current economic malaise go beyond failures in corporate and public governance and relate to the fundamental choices and values at the heart of Irish political economy. Ireland bought into the new order of de-regulation or light-touch regulation from banking to planning to other areas of social life. It bought the story that everyone could be better off by paying lower taxes and purchasing their own home, education and future pension on the basis of a share in finance capitalism. Rates of lending facilitated by exceptionally low interest rates and systematic tax reliefs and reductions in headline taxes from the late-1990s helped create the tragedy of the Celtic Tiger – that boom that lifted many people up from poverty, unemployment and emigration only to be returned to this as quickly as the boom emerged.

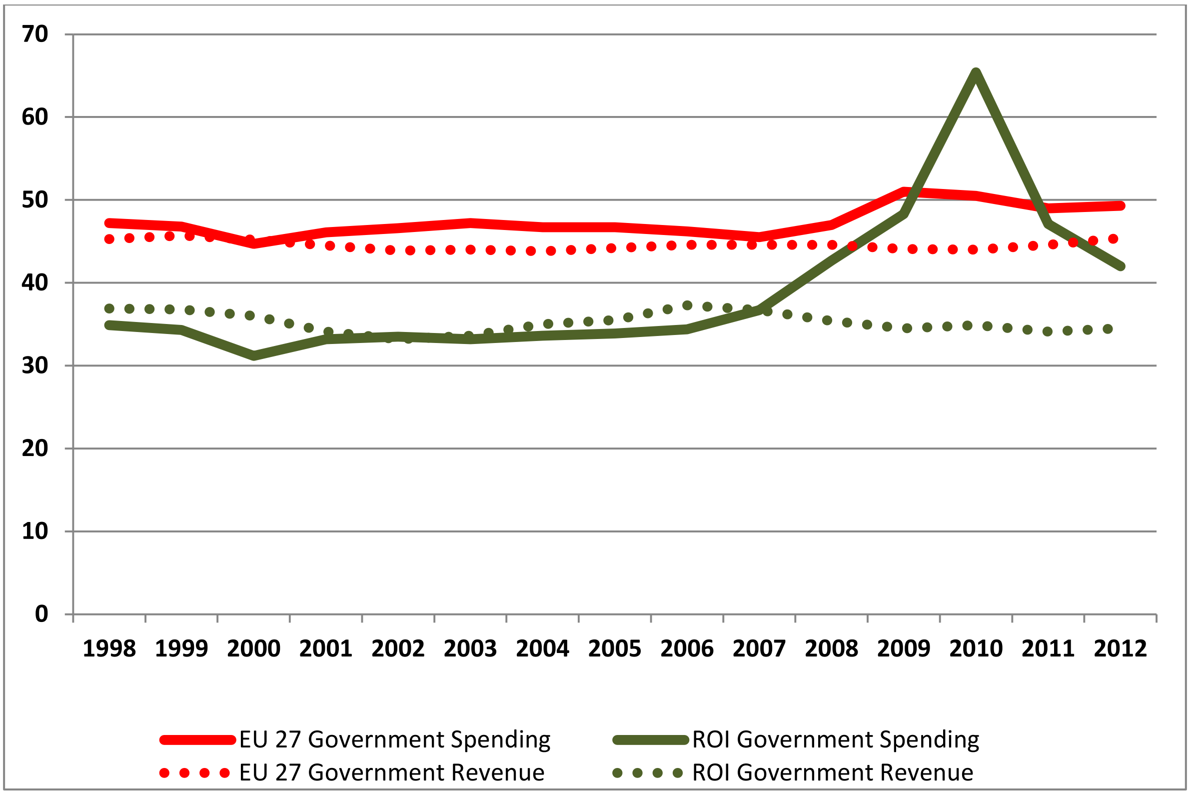
The signs of trouble in the period leading up to the crisis were rising levels of private debt – corporate and personal – and not public debt until 2008. A very unbalanced structure of public revenue ensured that the country was hugely exposed when property-related revenues began to dry up from early 2008 onwards. Public spending was increasing rapidly but more or less in line with GDP and revenue ensuring small surpluses or government deficits until 2007 (Figure 1). On the positive side rates of employment rose sharply throughout the 90s and the decade up to 2008 meaning that individuals and families had stronger reserves to deal with the sudden decline in employment and income that happened in the 2008-2010 period. At a global level the normal cycle of recession and recovery was broken in 2008 with a deep shock to world trade, investment and GDP in many advanced industrial countries. Most Eurozone countries have been profoundly impacted and it has proven extraordinary difficult to reclaim growth in employment and output as a combination of debt, political dysfunction and dogmatic subscription to pro-cyclical fiscal policies has held back recovery. The roots of the global crisis are complex but related to:

- Emerging global imbalances in trade and capital flows mirroring changes in political power balances.
- A gradual undermining of many of the social gains of the post-war settlement in Europe as governments sought to ‘reform’ in a particular way labour markets and systems of social protection.
- A long-term decline in the wage-share of national income in many advanced economies implying relative stagnation in real income even prior to the crisis as well as growing income inequality.
- A huge growth in forms of lending, shadow banking and high-risk investment which created a new dynamic and source of instability in global markets with a deadly transmission chain between financial institutions across the global and, ultimately, government finances through exposure to bust banks and unstable markets lending to governments.

In some ways the last two bullet points are related: a large increase in income inequality in most of the major industrial economies (and let it be said in many Scandinavian countries also) was associated with (i) rising disparities between the top and lowest paid in private and public sector organisations and (ii) a falling decline in the share of wages in total income. This, in turn, squeezed real household incomes with a dampening effect on consumption. However, the impact on consumption was more than negated by a huge increase in debt – housing related and non-housing related especially in the US, UK and Ireland. A crash was unavoidable – it was a question of timing and degree as to its softness. When it happened nearly all analysts apart from a handful of contrarians completely under-estimated the scale of collapse in asset prices, confidence and investment.

A credit-fuelled bubble and a declining wage share spelt trouble. When the crisis hit in Ireland the ground had been laid by our love affair with land and property added to by a new love – for exotic forms of banking which proved lethal in a short space of time.

Figure 1 Trends in public spending % GDP



The Great Recession of 2008 spelt a perfect storm spreading like wild fire through a forest of highly complex and inter-connected debt chains. In Ireland petrol was thrown on this fire by means of a series of catastrophic decisions in relation to a non-discriminatory guarantee of all private bank liabilities and nationalisation of all the assets and liabilities of a large toxic zombie bank. However, the damage had, in large part, been done by bad economic policies over a generation. Witness creeping privitisation of public goods from health to key utilities and a gradual erosion in a collective bond or spirit of solidarity. More and more had been outsourced to the market including public values. The wages of neo-liberalism in 2008-2010 were disruption to living standards, pensions, public services and market confidence. The very things that neo-liberalism and promised – security of income, employment and rising living standards look very remote especially for a young generation struggling to find its feet in the world of work, education and training.

Picking up the social debris is a major challenge for societies that have been traumatised by a such a once-in-a-century disruption. So, here in Ireland, have we learned the lessons? Do we correctly understand what went wrong and why? Future generations will not thank this one if we miss the opportunity to effect fundamental reform in our fractured society and economy. A vision is needed without which people will perish in apathy and cynicism. Ireland has been blessed by the absence of extreme right-wing and racist political movements. However, the warning signs are emerging in many parts of the European Union and we should not be complacent either about the state of social cohesion or democracy, such as it is, here in Ireland. Courageous, creative and realistic thinking is needed about framing a vision for Irish society. Political economy has a vital role to play in helping shape such a vision about where we need to go.

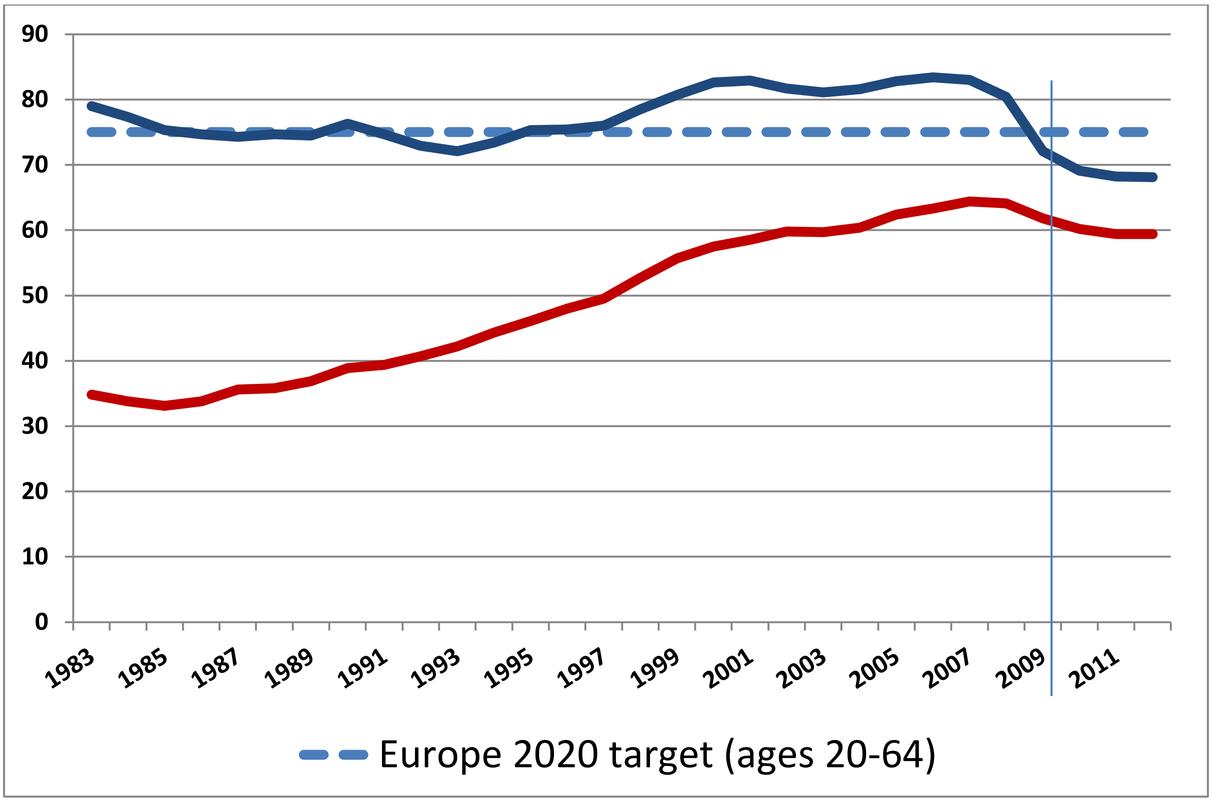
2 Where do we need to go?

A key challenge for any society is to enable all of its citizens to provide for themselves the goods and the means to live a life that they value. Individual freedom, family and community bonds and civic rights and responsibility are vital and indispensable elements of human well-being. Research on the determinants of individual well-being place huge emphasis on the role of employment and strong inter-personal ties among other factors. The two are related. Creating and sustaining employment that provides for human need and dignity must be a primary goal of any society focussed on the well-being of all its members. But we need to be careful not to define employment too narrowly as activity orientated towards paid work. Political economy is about all types of economic behaviour including non-paid but vital work to care for others and contribute to the community. That said, paid work in what economists call the 'labour force' is vital to social progress.

We are in the midst of a huge employment crisis not seen since the early 1990s when unemployment exceeded 15% in 1993. The problem is not just one of unemployment and under-employment. The problem is rates of employment that are too low compared to what we need to envisage to provide the means for people to be self-reliant and contributing to society. Following a sharp and very welcome rise in employment rates from the 1990s to 2008 employment rates for both men and women in the 20-64 age-group have fallen since the onset of the crisis. We need to reverse this and aim for a much higher and more sustainable level of employment. There are three reasons for this:

- Under-employment and unemployment are hugely damaging to individuals, communities and societies.
- Demographic change expected in the coming two decades will require higher rates of participation in the labour market throughout the whole age span of what traditionally has been termed 'working life' and beyond it to include work-learning experience for young people and employment opportunities for those over the age of 65 who want and need to engage in paid work and have the skills to continue making a valuable contribution to organisations and communities.
- High employment rates are associated with a social capacity to provide quality public services and income protection to the most vulnerable.

Figure 2 Trends in employment rates (Republic of Ireland)



Aiming for high employment rates – I would recommend 80% by 2030 – is a realistic goal. We were moving up towards a level of 75% before the Great Recession. While some of this employment growth was not sustainable (for example excess construction activity and of the wrong sort) there is every reason to aim for employment increases of over 1.5% per annum on average over the next 15 years. Combined with an average annual labour productivity increase of 1.5% this is compatible with a long-term scenario of real GDP growth of 3% per annum on average (I said average!). Making this possible will depend, crucially, on the following three goals factors that 'unbounds' Ireland to achieve its role in Europe and the larger world:

Developing new exporting enterprise based on strong indigenous small and medium-sized enterprises and some large ones compete on global markets where Ireland could develop further its competitive advantage in key product and service areas (e.g. natural resources of wind, grass and water, Agri-business, English language education, health services and construction services where we have plenty of experience of building on flood plains!).

Creating decent jobs for all through up-skilling and innovative investment to raise productivity of both labour and capital: I suggest a target of 95% NFQ level 5 (Leaving Cert or equivalent) for all adults by 2030 with a particular focus on a reformed apprenticeship system and vocational further/higher education sector to raise skill levels to Levels 6 and 7 or higher for more than 70% of all adults.

Enabling a basic minimum living income for all– young, old, middle. This is about raising wages at the bottom towards a collectively bargained, agreed level of wages appropriate to each sector and exceeding to a greater or lesser extent an agreed 'living income' which takes account of household composition and urban/rural. By 2030 poverty in work and outside work should be abolished. Why not? Ireland is in the top 13 countries in the world as measured by GDP per capita[2].

[2] Based on GDP per capita adjusted for purchasing power parity in 2012. Ireland was the third highest among the 28 member states of the European Union. If a measure similar to Gross National Product were used Ireland would be in the top 25 countries globally.

3 *But how do we get there?*

In summary we need to focus on Three Goals:

- Developing new exporting enterprises
- Creating decent jobs for all
- Enabling a living income for all

These outcomes are ambitious but not unattainable. Which person here, might have thought in 1991 that employment was about to double within 15 years, living standards would increase to the extent they did and involuntary emigration abroad in Irish rural communities would be largely abolished? Circumstances including very favourable headwinds from the world economy and financial support from the European Union played their part in the economic miracle that emerged. However, domestic policies helped enormously notwithstanding some disastrous fiscal and de-regulatory decisions that did not appear to be so at the time. Investment in education in preceding decades laid some of the crucial foundations (Healy, 2002[3]).

Corresponding to Three Goals for 2030 we can envisage three overarching socio-economic Strategies:

European norms of public service delivery, taxation and social insurance

A New Enterprise Strategy linked to better corporate governance and reform of banking to drive innovation

A programme of economic and social investment with a focus on lifelong learning, renewable energy, social housing, public transport and investment in children.

In regards to the first Strategy it is important to acknowledge the truth that is so hard for people to accept, namely:

- Ireland is a low-tax country especially when it comes to corporate tax and employer contributions to social security
- We (households and corporates) are not paying enough tax to pay for a decent, efficient and reformed public service
- The Irish tax system is not as progressive as people think or claim it is.

I would like to mention one area in particular – social insurance. Ireland is way out of line with the rest of Europe in the extent to which employers (and employees) pay into a social insurance fund (whether actual or notional according to government accounting). Figure 3

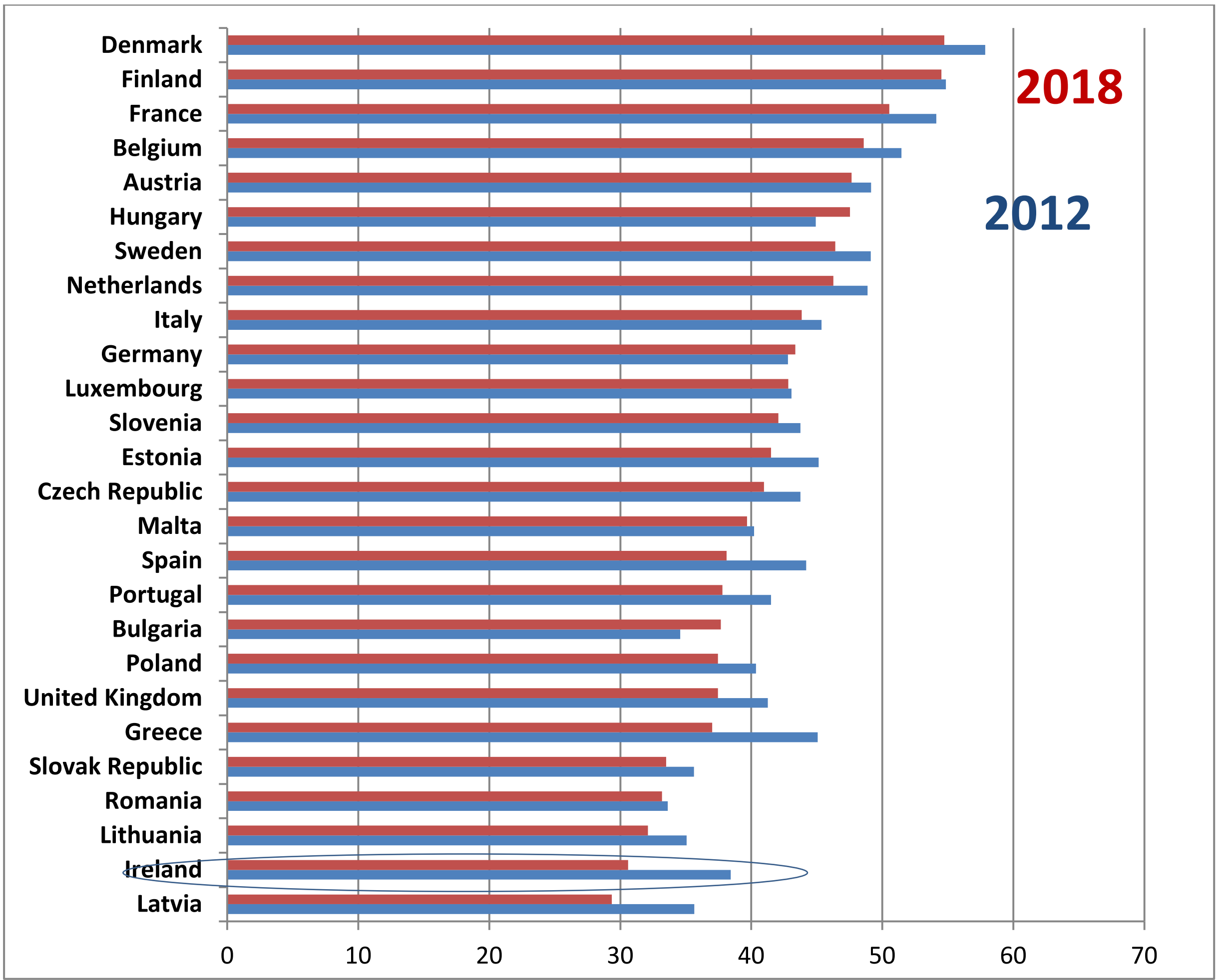
[3] 'Miracles do happen: the story of recent Irish economic growth', Knowledge Economy Forum "Using Knowledge for Development in EU Accession Countries" World Bank Conference Paris 21 February 2002

shows Ireland's contribution to social insurance (employers and employees but not self-employed) as a percentage of GDP. Even if a different measure such as GNP or some hybrid of GDP and GNP the fact remains that Ireland is seriously out of line with the rest of Europe in relation to how we fund and provide social goods such as health, training and income protection when you need it.

But, we have choices.

We can continue to mainly play the markets with a mix of financial products including equities to provide for long-term pension income. Or, we can move towards a more balanced provision of income protection at all stages of the life cycle including retirement where income is protected as a proportion of average earnings but with strong social supports to re-train and up-skill where necessary or to draw on social goods such as health and education primarily on the basis of need and not capacity to pay to seek advantage in access to scarce public goods.

Figure 3 Actual and projected public spending (excluding debt service)



Source: IMF *World Economic Outlook database* (October 2013)

There is a strong case for a public debate over coming electoral cycles and programmes of Government about whether we should or should not move towards EU-average levels of public spending and revenue – pitched at between 45 and 50% of GDP and ensuring an appropriate balance of spending and revenue over the course of economic cycles which will never go away.

In regards to the second Strategy, a key area where economic policy has failed is in the generation of innovative enterprises drawing on skilled labour and targeting export markets. There have been some excellent exceptions. However, in the main we have relied far too much on large enterprises and, in particular, multinational companies to drive Irish exports and GDP. This will continue and needs to continue at a significant level. But, we need new strategies or we need to reinvent old strategies to equip new enterprises.

If there was a tendency in the past for some on the left to believe 'private=bad, public=good', there is, I suggest, a possible tendency to reverse this relationship. We should not have ideological qualms about making better use of those precious assets that remain in public ownership including vital public utilities to engage in new forms of enterprise and investment. Why not? Some of the most successful forms of Irish enterprise in the last 50 years were semi-state enterprises that made crucial investments in cost-effective infrastructure that helped lift Ireland economically. State enterprises operating in a commercial environment can continue to make an important contribution to transforming Ireland from a high-carbon and imported fossil fuel dependent economy to a more sustainable, balanced and dynamic economy. A State Strategic Investment Bank could play an important role as did the Industrial Credit Corporation in the past[4].

Finally, in regard to investment, the Nevin Economic Research Institute has already outlined a modest proposal for an investment boost equivalent to 2% of GDP over 5 years with investment in key areas such as renewables, broadband and water and drawing on commercial state, private and European investment finance sources. But, this is only a start and conceived as a stimulus to help restart domestic demand as well as avoid damage to Ireland's infrastructural and competitive position. We need a coherent plan of social and economic investment to address some of the more glaring gaps in our infrastructure including:

- Early Childhood education and care where quality, standards and overall provision is not acceptable.
- Social housing where the current output could precipitate a severe social crisis in the coming years.
- Community health services where a more cost-effective delivery of health can be provided.

[4] Perhaps it is time to revisit the legislation which established ICC in 1933?

- Public transport in urban and rural areas where excessive reliance on car transport is not environmentally or socially sustainable.

Some concluding remarks

At the heart of political economy are values, visions and emotions. The battle to win hearts and minds to a different vision will not be won, primarily, by recourse to data, detailed policy blueprints – vital and important are these to understand the world, inform policy and win arguments. Rather, it will be though a sense of hope that things need not be this way and a better world is possible and we can work together to make it possible.