A BLUEPRINT FOR RECOVERY
Address to TEEU Conference
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Portlaoise, Co Laois

In the last few weeks you might have seen some public exchanges between the Troika and ourselves concerning the programme of fiscal adjustment forced on us.

Five years into that programme it is clear that it is failing……austerity has become a mantra without meaning:

- €24 billion has been taken out of the economy in five harsh budgets;
- €16 billion has been cut from public expenditure;
- Domestic demand has collapsed by 25.7 per cent and is still falling;
- GNP has fallen by over one fifth;
- Unemployment is 15% - 60% of it structural….in effect people unlikely to work again;
- 282,000 have emigrated since 2007.

And still we are facing at least another two harsh budgets.

Nor are there any 'green shoots' of recovery in prospect. The hope for an export led recovery is receding as growth projections in our main trading partners – Britain and Europe – are revised downwards. The Eurozone fell back into recession for the first time in three years in the third quarter of 2012. Exports decreased by €1,764 million in September reducing our trade surplus to €2.9 billion from a high of €4.9 billion in August.

Earlier this week the Government reduced its own forecast for GDP for 2013, 2014 and 2015 to 1.5 per cent, 2.5 per cent and 2.9 per cent respectively. Unemployment is now projected to be 13 per cent in 2015 whereas the forecast last April was for it to be 11.7%. That's a downgrade of 1.3 percentage points in only six months which is extremely worrying.

The reality is that our economy needs to grow at a rate of 4 per cent to make the national debt – including the €64 billion we put into the banks – sustainable. That level of growth is not achievable under present conditions.

The social cost of all this is too high.

This social cost is being inflicted on us to save the big German and French banks. Our Government was expressly forbidden to burn the senior bond holders by the ECB. Being the best performing pupil in the class carries very little comfort for the families broken up by emigration or for those who stay here with no prospects of a job.

At the onset of this crisis we warned that we were heading for a Japanese style 10 year slump. We are now half way through and even that forecast is beginning to look optimistic.

We produced a 10 Point Plan which accepted that the fiscal gap between tax revenue and expenditure would have to be closed. But we wanted to do it in a particular way. Simply put, we wanted to extend the period to 2017 and backload the adjustment. This was intended to give growth a chance to take hold and to do some of the heavy lifting of the adjustment.

The German philosopher, Schopenhauer, wrote that: *All truth passes through three stages. First, it is ridiculed. Second, it is violently opposed. Third, it is accepted as being self-evident".*

We are still, I think, at the second stage. But the tectonic plates are shifting all the same. What is my evidence for saying this? I offer two exhibits.

First, the political balance is shifting. The election of President Hollande in France, the return of the Dutch Labour Party to Government and, of course, the re-election of President Obama are all positive auguries for a more serious commitment to generating growth.

Second, the admission by the IMF that the multipliers used to calculate the effects of austerity on growth were wrong and seriously underestimated. Not just that but there has been a very public rift between the IMF and the Troika about the unsustainability of debt for countries, Greece specifically.

This accords with our own experience of dealing with the Troika. We consider them to be extremely doctrinaire and not at all open minded. Indeed, in some respects they seem redolent of Keynes 1930's description of those who so tragically failed to prevent the Great Depression, *"Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back".*

Nevertheless, in the hope that the battle for ideas can be eventually won and a change in direction brought about, I want to put before you a blueprint for recovery. This covers 10 challenges Ireland must confront if it is to return to a sustainable economy and society.

1. Domestic demand is the key imperative. It has dropped by 25.7% since the crisis began and is forecast to contract for a sixth successive year in 2013. Domestic demand is the main driver of jobs. That is why we wanted to stretch the adjustment over a longer period. If we were wise we would put a hold on

austerity measures for at least this year to allow some growth back into the economy.

Is it an impossible goal? It would be difficult surely but consider that on Wednesday Commissioner Olli Rehn agreed to new targets for Spain. Spain was supposed to reduce its deficit to 6.3 per cent of GDP this year and 4.5 per cent in 2013. This has been revised to 8 per cent and 6 per cent respectively. This, to me, is a strong signal that the Commission is moving closer to the more rational perspective of the IMF. If the door is beginning to open any bit at all we should give it a hefty shove. Why? Because the social cost of austerity is too high and it is not working anyway.

2. We also need some stimulus. That is why we presented Government and the Troika with a detailed plan earlier this year aimed at creating an annual €3 billion off balance sheet investment programme with the potential to create 100,000 jobs over three years. A central focus of this plan was to facilitate private pension fund money – which amounts to €73 billion – in association with the EIB, invest in infrastructure bonds. In this way we could rejuvenate the construction industry, at least to some extent, and at the same time improve the competitiveness of the economy.

   To be fair the Government did respond with a €2.25 billion investment stimulus over 7 years. This is welcome but it is not an adequate response given the magnitude of the employment challenge. In fact I would say that ultimately the State must be willing to contemplate being an employer of last resort through local authorities or social employment. The lessons of the Great Depression may have been lost but they are as valid in social terms now as they were in the 1930s. No country, no society can afford to regard so many of its unemployed citizens as expendable.

3. The social cost of austerity is already too high. So far the burden of fiscal adjustment has fallen on the people who need public services most, with €16 billion or two thirds coming from expenditure cuts. Taxation should be the main focus in this budget with the ratio being reversed. As the last few weeks have revealed there is still considerable wealth in Irish society.

4. The truth is that all the low hanging fruit has been picked. The preservation of social cohesion requires that wealthy individuals and the corporate sector should be seen to make a contribution. The time has come when there should be no more sacred cows. The IFSC should not be allowed to write tax policy. In particular Ireland should sign up to the Financial Transaction Tax. The shadow banking sector was the cause of this crisis. It would be unconscionable to let them off scot free while needy elderly citizens are denied home help.

5. We have to reorientate our thinking on what is really important to us as a people. Significant demographic change is happening in a way that will create major challenges for social policy. By 2020 the cohort of the population over 65 will increase by one third. To the extent that occupational pension schemes are unravelling we are looking at a pension's time-bomb. It doesn't have to be this way though and wise regulatory policy decisions built on the long term nature of pensions could avoid it. In justice, prospective changes to the old age pension should be phased in over a longer period. The proposed changes to eligibility criteria will be particularly unfair to women. Older people often suffer

from chronic illness and there is a large embedded cost for the health service here. We cannot expect public services comparable with those of other European countries unless we are also prepared to accept similar levels of taxation and public spending.

6. We really need an entirely new pension's regime based on mandatory savings. For the approximate €1.2 billion spent annually subsiding occupational pensions – the bulk of which goes to the better off – we could get a better bang for our buck.

7. Looked at from the perspective of demographics the middle and lower income earners who are in the younger age cohort are facing a future where many demands will be made on them. The problem is compounded by a world-wide stagnation of wages. A few weeks ago the Resolution Foundation in the UK published a research project in which they forecast that the real value of wages would contract by 15% by 2020. A discussion of why this is so would take some time but a central factor is the absence of collective bargaining in many parts of the modern economy. As you know, there is no legal right to collective bargaining in Ireland and even the existing labour market institutions for setting pay have been under sustained attack in recent years. I might say in passing that TEEU deserves great credit for its stout defence of Registered Employment Agreements. However, a legal right to collective bargaining is the only real way of reducing inequality in society. This is what the 1913 Lock-out was really about and it is a sobering thought that 100 years later it still continues to elude our movement.

8. But, of course, you cannot vindicate any rights unless you have a job. Industrial policy as it now stands is not adequate. It is built

on the single premise of attracting FDI via low corporation tax. The controversy in Britain, France and Germany about the low rates of tax paid by companies like Google, Microsoft, Amazon and Starbucks headquartered in Ireland is a straw in the wind. It seems to me that we are facing an existential threat here and we simply have to build up our indigenous industrial base to create jobs at home. I was astounded by a CSO report recently which said that Irish multinationals sustain twice as many jobs abroad as at home.

Skills are obviously important in this context too. Recently I was in Finland where they have come to realise the importance of apprenticeship in an industrial economy. For too long apprenticeship has been looked down upon as second best to an academic education. Germany has always – back to the time of Bismarck – accorded a high status to apprenticeship which is perhaps why they are the strongest exporting country in Europe. Our principal companies should tasked with sponsoring apprentice training in line with the current and projected skills needs of the economy.

The history of Ireland is that our domestic capitalists have failed the country. The collapse of the banks and the Quinn Empire is just the most egregious manifestation of that. How important it is then to preserve our real national champions – like the ESB – and make them the fulcrum of a reimagined indigenous industrial strategy using vehicles like a State Holding Company. How important it is too to make patient capital available for start-ups and developing companies through a State Investment Bank, as ICC used to be.

9. More generally the banking sector must be made to function normally again. The citizens of Ireland have poured €64 billion into it to keep it alive – because the ECB insisted we could not burn senior bondholders. We cannot afford this money. The economy would have to grow at a rate of 4 per cent to make that level of debt sustainable. That is not going to happen. Unless we get a deal on debt all other efforts will be in vain.

10. The final of my 10 point recovery blueprint addresses how we deal with Europe. It is fairly clear now that a decision has been taken not to allow the Euro to fail and even Greece will be kept within the Eurozone. This implies a significant further deepening of European integration. At the same time Britain – described by the Taoiseach as our closest ally in Europe – is moving in the opposite direction. The Tory Party is so congenitally Eurosceptic that no other outcome seems possible. So what does this mean for Ireland? We are Britain's 6th largest trading partner so we matter to them. We do not matter to Germany. It seems to me that our foreign policy should focus on making alliances in Europe with the small open economies and France. European Union policy must tackle the structural trade imbalances within its boundaries. That means balancing the economic interests of Germany with those of the other countries. Germany cannot expect others to cut their current account deficits and at the same time hold on to its own surplus.

Most people probably hope that if we keep our heads down for a couple of years we will eventually get back to 'normal'. After 5 years of austerity we need to come to the realisation that there is no normal anymore.

We need to do the strategic thinking about the issues I have identified and coalesce around a vision of the future which gives us a sustainable economy and society.

The trade union movement too must reflect on whether it is fit for the purpose of shaping this necessary public discourse. In the end it will be about conflicting ideas. We must be able to advocate for and defend what we stand for. We have made a good start, with your help, in setting up the Nevin Economic Research Institute. Nevertheless, we have much more to do. As Keynes wrote at the end of *The General Theory*, the book which have us the golden age of post-war social democracy "*Soon or late, it is ideas, not vested interests, which are dangerous for good or evil".*

The budget we are facing into on 5th December is of seminal importance. In my opinion it should be constructed on the three pillars of growth, hope and jobs. Above all it must demonstrate fairness if social cohesion is to be preserved. This means it must ensure a proper contribution from private and corporate wealth, areas that hitherto have been untouchable. The touchstone for whether that is to be or not will be the attention given to executive pensions, occupational pensions and the eligibility criteria for the State Old Age Pension respectively.

In 2008 we were almost alone in pointing out that collective austerity would prove self-defeating and would sooner or later become unacceptable to the people of Europe.

We are alone in that opinion no more. It is no longer politically acceptable for Europe to try to deflate its way out of trouble. At the end of the day Europe is more a political than an economic project.