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For the past couple of weeks, whenever I get a chance, I have been trying to dispose of papers and books hoarded over the years.

One report I looked through contained my inaugural speech to the 2001 conference in Bundoran. In it I spoke about my experience travelling in Asia in the late 1990s and the devastating impact that financial crisis and volatile capital flows had on the lives of the people who lived there. I did not expect to experience similar trauma in my own country.

Nevertheless, a decade later that's what happened. The collapse of Lehman's Bank in September 2008 precipitated a crisis which altered our world and our prospects in a way that none of us ever imagined.

Even now, as the waters of that cataclysm subside, the social consequences are revealed in stark relief. The most striking of these consequences is the rising level of inequality. While I am speaking of inequality in the economic sense, it cannot be denied that it has a strong gender dimension which I will revert to later.

Robert Shiller, who won the Nobel Prize for Economics in 2013, said in the course of his acceptance speech that "the most important problem we are facing now today, I think, is rising inequality in the United States and elsewhere in the world".

Likewise Finance Ministers attending the G20 meeting in Istanbul a couple of weeks ago warned that the widening gap between rich and poor following the 2008 financial crisis may threaten economic and political stability.

Indeed it may, and so it should, for extremes that impoverish the vast majority while a wealthy minority have so much more than they can ever either use or need is an affront to human dignity.

The most egregious example is that the richest 85 people in the world have as much wealth as the 3.5 billion poorest people.

Of course such extremes do not exist in Europe. Nevertheless, what the financial crisis and its aftermath have brought out is that politics is challenged by a fundamental conflict between the competing expectations of markets and citizens. Simply put, markets want:

- Higher profits and bonuses for the rich **and**
- Lower wages, precarious work and minimal social security benefits for everyone else.

And it is certainly the case that markets have dictated policy over the last seven years. The fact that residual levels of public debt are another legacy means that they will continue to do so for the foreseeable future. The reason is that international economic integration has added greatly to the difficulties of successful economic management at a national level.

The most advanced example of economic integration is, of course, EMU and the single currency. What few of us realised, I think, is the way EMU is designed means that – absent the ability to devalue the currency, and in the event of an exogenous shock – countries in a currency union are forced into an internal devaluation via wage adjustments and public service retrenchment in pursuit of the goal of maintaining competitiveness.

The consequences of this type of adjustment are socially very costly. As former Social Affairs Commissioner, Laszlo Andor, put it:

> "Internal devaluation has resulted in high unemployment, falling household income and rising poverty – literally misery for tens of millions of people".

I am sure it will occur to you that Britain is not in the Eurozone so why did it effect an internal devaluation? Unfortunately, I can only conclude that the coalition took the opportunity to reduce the size of the public sector, something the Tory Party is ideologically committed to.

A couple of weeks ago TASC published a most compelling report which has received much publicity, including an all-out assault on its findings by the political right and their fellow travellers. It is a forensic analysis of inequality in Ireland.

Mouth-watering levels of pay for a minority are reflected in a grim reality at the bottom. Ireland's median gross income for all those at work is currently €28,500 a year – half of all wage earners take home less, while two-thirds, less than €35,000 (close to the average wage).

This pattern for Ireland is unlikely to be unique in Europe.

However, where Ireland may be *sui generis* is in its low overall level of taxation at 30 per cent of GDP. This inhibits our capacity to provide the kind of public services – like childcare for example – which could provide a threshold of decent living for all citizens.

So, what is to be done about inequality?

First, we need a level of social investment across Europe that will equip welfare states to respond adequately to modern kinds of social risk. This requires an adequate tax base but debt servicing is now a huge drag on tax revenue.

The concept of social investment is key. What it means is coming to the realisation that new types of social risk have to be catered for by the welfare state. The post war welfare state was built on principles designed to alleviate poverty and reduce inequality through financial transfers.

It worked well up to a point. Ireland is one of the most unequal countries in the EU based on pre-distribution income. But when welfare transfers are applied it brings us in line with the EU average.

The problem is that the post war welfare state in most of Europe is based on a male breadwinner model. It protects against unemployment, child poverty and old age. The feminisation of the labour market now requires different kinds of risks to be taken on board. Family formation is different. Caring needs are different. These have to be provided for if people – male and female – are to be able to participate in the labour market and achieve their full potential.

Social investment takes on a whole new meaning in this context. It means investing in people so that they can contribute fully to the economy and society. If they can participate then the tax base needed to support social investment is strengthened. In a nutshell social investment is about turning viscous circles of poverty and unemployment into virtuous circles of a strong economy, good public services, high taxes and full employment.

The thing is that these virtuous circles do exist in some parts of Europe. The Nordic countries are the most economically successful and socially cohesive in the world actually.

In the mid-1950s two economists of the Swedish LO – Rudolph Meidner and Gosta Rehn – designed an incredibly brave and ultimately successful political economy model. In time it was also implemented in different degrees in the other Nordic countries.

The model was based on the idea of universal high quality public services creating the conditions, through childcare provision etc., which eliminated all barriers to women's participation in the labour market. These universal services are paid for by a lot of people working in good well paid jobs paying relatively high taxes. Wages are good because productivity in the economy is high. Productivity is high because a conscious decision was taken to squeeze out low level industries as an inefficient use of capital. Female participation in Denmark is 70 per cent and 72.5 per cent in Sweden, whereas it is only 55.9 per cent here.

Compare this Nordic social market economy to the liberal economy markets of Britain and Ireland where large numbers of women work in precarious employment with zero hours contracts and low pay. The number of people on zero hours contracts in the UK rose from 1.4 million to 1.8 million over the past year. While similar statistics are not yet available for Ireland, we are on the cusp of a major industrial dispute in Dunne's Stores over precarious work.

Of course it must be borne in mind that the Nordic countries are culturally different to us. They operate a social democratic polity. Social Partnership is a way of life and they have union density levels of over 70 per cent.

Without doubt there are the best countries in the world to be a woman in.

That is what I always wanted for our women - to be equal in a way that gives every person the opportunity to be fulfilled, to have children and to enjoy them and yet to have the freedom to obtain your own dreams, whatever they might be.

That was what Social Partnership was about, the achievement of a social democratic polity in a country where 80 per cent vote centre right. An impossible ask you might think, but worth fighting for all the same.

Now, more than ever people need hope for the future. The 2008 crisis is the fourth time since independence that Ireland has looked into the abyss of economic desolation. It must force us to reflect on whether there isn’t a better, fairer way to organise our economy and society.

The truth is that the recovery is still fragile. The Irish model is neither fish nor fowl viewed in a European context. It is not a social market economy certainly. It remains incredibly vulnerable to low tax induced foreign investment. Simply put, we cannot ever have the type of public services the Danes, the Finns and the Swedes have with US levels of taxation.

That is why the Nevin Institute is currently working on a new political economy model for Ireland. It will outline how we can have a sustainable economy with good quality public services and what it will cost. It will be a Rehn-Meidner Model for our times and circumstances. It will at the very least show that we do have political choices.

As for Europe, austerity combined with reform was never a good choice to offer Europe. Growth has to be part of the deal. A new grand bargain is needed in which the European economy is stimulated, both by fiscal and monetary means. For the bargain to work everybody has to see that they benefit. A strong commitment to arresting the rise in inequality through social investment is a necessary first step in constructing the new grand bargain. This is the only way the European integration project, the most ambitious political experiment in history, can be saved.

**David Begg, General Secretary,**

**Irish Congress of Trade Unions**

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