

Shaping a Fair Recovery

Speech by the Minister for Social Protection, Joan Burton TD

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Introduction

Ladies and gentlemen, fellow speakers, good afternoon.

This is a very timely conference and I'd like to thank the Irish Congress of Trade Unions and President David Begg for the kind invitation to address you here today.

It was John Maynard Keynes who famously said that:

“When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.”

Pre-2008, Ireland had an economy built on casino construction, and we know only too well the disastrous effects of that.

We are still living with them.

But the good news – as the latest ESRI report indicates today - is that the effects are easing, slowly but surely.

When the Labour Party took office in 2011, the country was in a downward spiral – no investment, no growth, no jobs.

Thanks to the work done by the Government, and the willingness of the Irish people to stay the course – despite the enormous demands made of them - we have now moved into a virtuous circle.

We have exited the bailout, the economy is growing again and, crucially, we are getting people back to work.

The crisis is over and the recovery has begun – that was the first phase.

However, we now face what is in many ways the more challenging phase – ensuring that the recovery is felt in every person's life and in every family and community across the country.

To do so, the Labour Party in government and its allies in the trade union movement will have to spell out a vision of the society we want to achieve.

And then we will have to fight for it.

In doing this, we will in particular have to resist the siren calls of those for whom the crisis merely postponed business as usual and what they see as the natural order of things.

But we will also have to be honest in our own assessment of the changed world in which we operate and how this shapes our response.

Today, I'd like to offer my thoughts on what that response should be.

Full employment is the foundation on which we will build a fairer society.

Full employment is how we increase tax revenue without increasing rates, build a viable social insurance system, reduce welfare spending and create room for new investment in essential public services.

But if that's the foundation, we need the tools to build it with.

And a Job Guarantee could be one of those tools.

A structural shift

I'll come to the issue of a Job Guarantee shortly.

But firstly, I want to say a word about the international context – because of course, in spelling out a vision for Ireland, we must also recognise we are rooted in a globalised economy.

And in recognising that, and responding to it, we must ask ourselves whether the Great Recession was merely cyclical – despite its devastating effects – or profoundly structural in nature.

The distinction is critical in fashioning our response.

Where there is consensus now about the events of 2008, it is on the role of the financial system in almost destroying the broader economy.

Before the Great Recession, generations of neo-classical economists treated the financial system like a footnote, and when they did focus on it, they tended to follow the view of Alan Greenspan that any imbalances and asset bubbles would ultimately be self-correcting.

We see now what folly this was.

Less explored is what lay behind the increasing “financialisation” of the economy and what implications this had for income distribution and employment.

Many are now drawing an explicit link between these; chief among them is the French economist Thomas Piketty.

His recent book, *Capital in the 21st Century*, analyses data on wealth and income distribution over nearly three centuries.

Piketty's fundamental point is that historically the return on capital – assets, investments and other forms of securities - has generally exceeded wage income growth, which is what most people rely on.

As most capital is in the hands of the wealthy, this has meant that, apart from the period from the late 19th century to the early 21st century, the rate of income growth has fallen below the rate of return on capital - implying steadily rising inequality.

The 20th century saw a temporary pause in the trend of increasing inequality, largely due to two world wars and the advent of the welfare state in the US and Europe.

However, far from representing normality, Piketty argues that the last century was an historic anomaly that is unlikely to be repeated.

In the coming decades, without countervailing political action, income growth will most likely fall back below the rate of return on capital.

As a result, he warns that the “consequences for the long-term dynamics of wealth distribution are potentially terrifying”.

After World War II, there was a social democratic settlement which, for several decades, succeeded in reducing inequality.

The tragedy was that the fantasy of “trickle-down” – the notion promoted by the super-rich that if we protected them, their wealth would trickle down to everyone else – over time became dominant and then dismantled that settlement.

It's my belief that, given the global financial crisis from which the world is just emerging, recovery is not enough by itself.

We need a new social democratic settlement to reduce inequality in the decades ahead.

And while Piketty rightly argues that any solutions must take place at an international level, there is no reason why Ireland cannot take a lead.

A Job for Everyone

This brings me back to the issue of full employment and the Job Guarantee.

One of the ways we see the trend towards increased income inequality playing out is in the labour market and the increase in “job polarisation” – more low-skilled and high-skilled jobs, and a hollowing-out of middle-skilled jobs.

Traditionally, such middle-skilled jobs were well-paid and unionised.

Now, rapid improvements in technology have provided employers with ever-cheaper machines that can replace humans in many middle-skilled activities such as book-keeping, clerical work and repetitive production tasks.

Taken together, the increase in returns on capital and polarisation of the labour market pose a profound challenge.

Workers and their families face unprecedented threats to their living standards and we as social democrats have yet to offer them a reliable remedy.

So what would a concrete programme seeking to protect workers from these structural forces of income inequality and job polarisation look like?

I think it must prioritise work and wages through the achievement of what I call “real” full employment.

As you know, I have long advocated full employment as the central goal of economic and social policy.

And I am pleased that this is now an explicit target for 2020 in the Government’s Medium Term Economic Strategy.

But what do we mean when we talk about full employment and what policies must we put in place to achieve it?

The Medium Term Economic Strategy defines it as an unemployment rate of approximately 5 to 6 per cent.

This is consistent with what mainstream economists call the “non-accelerating inflation rate of unemployment”, or NAIRU.

In other words, mainstream economics holds to the position that there is a certain level of unemployment that is “tolerable” to avoid inflation.

For me, this is a council of despair – and a devastating testament to the tunnel vision of mainstream economics.

For social democrats, there cannot be a tolerable level of unemployment.

So when I talk about “real” full employment, what I have in mind is a situation where a job offer at a basic living wage is available to anyone who wants one.

However, the difficulty we face is that the private sector cannot guarantee real full employment even in good times.

To achieve this, we must look again to Keynes.

Not to his counter-cyclical pump-priming this time, but instead to direct job creation for those who wish to work.

And while many think of public works as his solution only in depressions, Keynes was unambiguous that direct employment should be undertaken in good times as well.

While we have begun to make inroads into direct employment creation, I will be strongly advocating that the Labour Party now builds on the Youth Guarantee to adopt a Job Guarantee.

The Youth Guarantee, which we are now putting in place, will provide enhanced work, training and education opportunities for jobseekers under 25.

A wider Job Guarantee would be for those of all ages who want to work but have not found jobs in the private sector.

Just as the goal of the Youth Guarantee is to ensure viable work, training or education opportunity for young jobseekers within a set period of them becoming unemployed, a Job Guarantee would roll out similar opportunities for those over 25.

It would represent a fundamental and decisive shift in our labour market, welfare and training systems.

In essence, a Job Guarantee would ultimately secure real full employment at every stage of the economic cycle by making the state the employer of last resort guaranteeing employment and training opportunities for unemployed people.

Such a scheme would be flexible and attuned to the economic cycle.

As the economy grows and experiences inflationary pressures, the numbers of people receiving a Job Guarantee would shrink.

In other words, it would have a deflationary effect to counter inflationary pressures in the private sector.

By contrast, in a recession when large numbers of workers are laid off, deflation would be countered by the increased spending on hiring the unemployed - who would otherwise be on welfare - under a Job Guarantee.

The fixed Job Guarantee wage would serve as the effective basic living wage in the economy and stabilise demand.

Practical training would be a key component of the guarantee, so that workers would have the appropriate skills when the labour market improved.

And because these workers would be spending the recession in active employment and training rather than on welfare, private employers would then be prepared to hire them once the economy recovered.

I acknowledge that we have a long road to travel before such a concept would gain widespread acceptance.

But it strikes me as the only practical way in which real full employment, which is the cornerstone of a decent society, can be achieved.

What the global crisis taught governments the world over was that boom-and-bust could never be abolished, despite the claims of some.

But we can mitigate the effects of future downturns, and a Job Guarantee can be central to that process.

Winning the Battle for Ideas

But as I said, spelling out a vision is one thing.

The hardest bit is fighting to implement it.

Last month, I was in Washington representing Ireland over the St Patrick's Day period.

The consistent message I got from figures in the Obama administration and progressive think-tanks was the how much the left needs to shift the conservative worldview that has been so successful in presenting its deeply ideological positions as facts of economic life.

We face the same challenge here.

What Paul Krugman calls zombie ideas are alive and well — that is, ideas that should be dead by now, having been repeatedly refuted by evidence, but just keep shambling along.

Chief among the zombie ideas still stalking the land here is that Government cannot create jobs, it can only create the environment in which private sector employment takes place.

Clearly this is nonsense.

A Job Guarantee and sustainable increases in public sector employment should be central to our strategy for full employment.

We need to make progressive solutions second nature just like conservative ones have become to date.

And we need to make these economic facts of life.

Conclusion

The union movement will, of course, be central in the battle for a new social democratic settlement.

When I was in Washington, Labour Secretary Thomas Perez noted that while trade union density had reduced significantly in the US, unionised jobs continue to be paid approximately \$200 more per week on average.

A strong trade union movement will help raise living standards – it's that simple.

But while much of what I have spelled out above certainly relates to a battle of ideas, it does not mean unions and employers, or public and private sector, must be at war.

A strong welfare state can, for instance, protect the vulnerable and help employers at the same time.

I know this to be the case because the Department of Social Protection not alone provides income and employment supports for jobseekers, but a range of schemes and supports for employers to incentivise them to hire from the Live Register.

While I have serious difficulties with employers who pay subsistence wages when they could afford to pay more, I have no issue with a welfare state which seeks to support those employers who genuinely need it – because this helps jobseekers too.

I have no issue because we are already doing that and it is working.

Unemployment is down from a crisis peak of 15.1% to 11.8% now.

Data published by Eurostat, the EU's statistical agency, shows that Ireland's unemployment rate is now in line with the Eurozone average, having been up to 40% above the Eurozone average only two years ago.

We are on the right road, but as I've said before, recovery in itself won't be enough.

We need a new social democratic settlement, the Irish version of which should focus on full employment and, over time, a Job Guarantee.

Such a settlement would reduce inequality and build a fairer society.

In this building in January 1919, the first Dail adopted the Democratic Programme, which the then Labour Party leader Tom Johnson had been instrumental in drafting.

That programme stated:

“In return for willing service, we, in the name of the Republic, declare the right of every citizen to an adequate share of the produce of the Nation's labour.”

The language may be dated, but the aspiration remains as sound as ever.

Thank you.

ENDS