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### **The Just Society - Can We Afford It?**

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The flagship publication of the United Nations is its Human Development Report. For the first time ever it was launched in Dublin on 8 July. This was a significant coup for the Government and a recognition that Ireland is regarded as a serious player in the matter of International Development Co-operation. The Human Development Report is an invaluable source of information on the developing countries and is used extensively by diplomats and aid agencies like Concern, Oxfam, Trocaire and Goal. But it is a very revealing document too in what it has to say about the countries of the developed world.

Amongst the countries of the OECD Ireland's performance is impressive. We are ranked 12th in the World, out of 173 countries, in the Human Development Index (HDI). The HDI captures average levels of the nation's human development, by reflecting achievements in longevity, knowledge and standard of living. In terms of GDP per capita Ireland comes third with a purchasing power parity in US Dollars of 32,410. Luxembourg heads the list with a figure of 53,780 and the US is second with 34,320. Just for the record Sierra Leone is the lowest with just 470.

By contrast the Human Poverty Index (HP1-2) is a multidimensional measure of poverty for selected high-income OECD countries. It takes into account deprivations in survival and knowledge, social exclusion and lack of economic means. Ireland comes second worst out of 17 countries, just behind the United States. It is rather startling also that:

- 9.3% of those born today are not expected to survive to age 60;
- 22.6% of adults lack functional literacy skills
- 12.3% live below the poverty line.

Overall Ireland is rated second only to the United States as being the most unequal society in the Developed World.

Is this a fair portrayal of Ireland? Probably not quite. The statistics used to compile the UNDP Report are usually a couple of years out of date. The figure for long-term unemployment for instance is given as 3.2 per cent of the labour force whereas it is now down to 1.4 per cent. Nevertheless, and given that the same time lag occurs for other countries, it presents a reasonably accurate picture of Ireland in relative terms. It is necessary to be aware that, in relation to inequality, the rapid growth of good quality employment will have contributed to a widening gap between the top and bottom income barriers. Still, to have very large divergence in society is ultimately debilitating of social cohesion and, while it might be tolerable in a short-term catch-up phase, it is not sustainable in the longer term.

As the ESRI has pointed out in its Medium-Term Review 2003-2010 the strategy of economic development adopted in Ireland since 1960 has involved the opening up of the goods and the capital markets as part of the long-term process of EU integration. However, there was more to Ireland's success than merely a liberalisation of markets. There was also active intervention by the State investing in human capital, albeit twenty years after the rest of Northern Europe, and by directly encouraging foreign direct investment. This two-pronged approach has been pursued with consistency by all governments over the past thirty-five years. There was also a series of 'enabling' factors that have facilitated the success of the last decade, as well as some policy mistakes that have rendered the convergence path unnecessarily bumpy.

While Ireland still had an economic dependency ratio well above the

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EU levels in the 1980s, it has now fallen below the EU average. This contrast, and its related effects on living standards represented by the movement in GNP per head, reflects the window of opportunity that is available to Ireland over the next twenty years. The declining dependency ratio, at a time when the ratio is rising elsewhere in the EU, has made possible a rapid rise in living standards in Ireland.

The challenge we face is how to harness the potential to create a just society. In posing this question I am aware that the concept of a just society is not universally accepted, or at least not defined in the same way by all shades of opinion. There are, for example, discernibly different approaches between those who hold Liberal and those who hold Social Democratic views. I place myself in the latter category.

I see the challenge as requiring us to commit ourselves in a serious way to the European Social Market Economy model. Others see our future moving deeper into the Anglo/American model. They express an almost sycophantic admiration of the United States and all it stands for. There is much to admire in the United States in terms of its openness, its tolerance, and its sense of patriotism. American investment in this country has also been very welcome and for all its current economic imbalances it remains a powerful engine of growth in the global economy. But its record on equality and social cohesion is not to be emulated. The statistics make dismal reading:

- 53 per cent of Americans have no pension provision;
- 41 million have no health insurance;
- 37 million have no coverage for drug costs;
- 23 million are illiterate;
- 60 per cent have jobs which pay less than \$30,000 a year.

In fact in terms of earnings trends there is a widening gap between rich and poor. Since 1980 Chief Executive pay has increased by 536 per cent while factory wages have actually decreased by 8 per cent.

It is to European values that I look when seeking to promote the type of Ireland I want to see. In forming these opinions I have been, paradoxically, influenced by the writings of one of the greatest American thinkers, John Kenneth Galbraith. Forty years ago he wrote about his country degenerating into a state of ‘Private Affluence and Public Squalor’. In 1998 the UNDP invited him to revisit this topic for the Human Development Report. He wrote that there was one significant change he wished to note; whereas there was a sense of guilt about this condition of growing inequality when he first wrote about it, now it is seen as acceptable.

The ESRI Medium Term Review is, on the whole, a positive document. It predicts that unemployment will rise to 5.7 per cent over the next two years. But from 2005 onwards the forecast is for a return to 5 per cent per annum growth until 2010 at which stage full employment will have returned and Ireland will assume a growth pattern of around 3 per cent per annum, more in line with that of a developed economy. Possibly the most important conclusion in the review is that Ireland’s economic growth since 1994 was not a bubble or a transient phenomenon. It was rather a period of long overdue catch up with the rest of Europe delayed by policy errors in earlier years.

If this is indeed the case we can look forward, beyond the immediate downturn, to a more positive future. However, this does require us to resolve certain contradictions at the heart of public policy.

The position as I see it is this. Over the last fifteen years we have moved from a high tax regime with a stagnant economy to having one of the lowest tax bases and least regulated countries in the OECD and one of the highest economic growth rates. We also have a very flexible labour market. Prima facia, therefore, the formula works and we should stick with it. The problem is that what was effective during the catch up phase of our economic development may not be appropriate as we consolidate that progress. The additional tax revenue from job creation at a time of high unemployment was hugely beneficial. But we have probably overshot the target at this stage because:

- The overall level of tax revenue is not adequate to finance the public services we need;
- Economic growth puts huge pressure on housing and other forms of economic and social infrastructure.

Those who listen to current affairs radio programmes like “Morning Ireland” will have noticed that, apart from international news, the greater proportion of coverage is about problems of public expenditure. A great variety of civil society organisations and public representatives contend about cutbacks or lack of resources for new initiatives. It is all about competing priorities for the distribution of an inadequate amount of money.

In essence we have become unbalanced. We desperately need to bring physical infrastructure up to standard, we need to reduce housing costs to affordable levels, we need substantial increases in social housing provision, we need to improve health care and education and we face long-term challenges in terms of:

- Providing an infrastructure of caring;
- Providing for an aging population;
- Dealing with the collapse of occupational pensions values;
- Reversing the growing inequality in society;
- Providing a whole range of public services that do not exist at present (Alzheimer’s care, disability, respite care, drugs problem etc).

There is, I suspect, some official recognition of this imbalance but government response to the inadequacy of our tax base has been to introduce by stealth a whole series of administered and local charges. The problem is that these are regressive taxes insofar as they do not have regard to ability to pay and they also push up inflation. The projected shortfall in tax receipts for 2003 is likely to create pressure for more of the same or more swinging cutbacks in service.

The political problems of changing course should not be underestimated. Apart from the ideological platform associated with low taxes and small government there is the practical difficulty of persuading the population that a change is necessary. And, anyway, it is not so much that income tax is out of line, it is rather that the tax base is too narrow. We do not have any significant wealth taxes and it was a serious mistake, in my opinion, to reduce employers' PRSI and corporation taxes to current levels. Congress tried unsuccessfully to persuade government to keep corporation tax at 16 per cent but to introduce R&D credits which could have the effect of bringing the tax paid by companies that we wanted to put roots down in Ireland to 12.5 per cent. There is no advantage in having a uniform rate of 12.5 per cent corporation tax applicable to hotels and banks as well as to manufacturing industry.

A further complication is that costs associated with housing provision, childcare and the high cost of living in Ireland - 12 per cent over the EU average - means that people are not receptive to paying higher taxes. We need more government intervention to tackle some of these problems.

Take housing for example. In the recently negotiated "Sustaining Progress" agreement Congress and IBEC pursued successfully the objective of building 10,000 affordable houses within the lifetime of the agreement and using government owned land to offset the cost. The objectives were fourfold:

- To help people who are currently priced out of the housing market to be able to buy a house;
- To take pressure off social housing demand so that it should be easier to meet the needs of people in this category;
- To "cool down" the housing market (currently with an inflation rate of 15 per cent) by intervening on the supply side;
- To help reduce inflationary pressure in the economy.

It is important to acknowledge that this is not a complete solution. A recent report by Jerome Casey reveals that the land component in the cost of a house in the rest of Europe would work out between 10-15 per cent. In Ireland the cost is closer to 50 per cent. Moreover, there is an extensive volume of zoned land in the greater Dublin area which is owned by a small number of people who drip feed it on the market in a way that balances supply with demand to keep prices high. This is a situation where the common good is being subordinated to superior property rights of a few rich individuals. It is morally wrong, an absolute scandal in fact. Casey convincingly demonstrates in his analysis that government intervention on three key points is necessary to rectify this situation, viz:

- 1. The Constitutional Right to Private Property Needs Amendment**, along the lines suggested in 1996 by the Whittaker Expert Review Group. In 1937 De Valera was influenced both by history - the scholastic philosophy of John Charles McQuaid and by current events - totalitarian excesses in Germany and Italy against persons and property. And so in Article 43.1.1. private property is stated to be a “natural right, antecedent to positive law”. The Review Group was not impressed: it considered that “this elaborate statement as to the origins of the right to property does not greatly assist either the Oireachtas or the courts in their attempts to protect the sustenance of the right”. More generally the Review Group found that the two articles (Article 40.3.2 and Article 43) dealing with private property in the Constitution were confusing and poorly worded. It proposed to replace these two articles with a single article which would guarantee everyone the right to peaceable enjoyment of their property and its transfer, and would limit private property in the interest of the common good, especially but not exclusively in relation to taxation, proper land use and planning, and the protection of consumers, the environment and heritage.

2. **Betterment Legislation is Required Immediately.** Betterment occurs when a planning authority re-zones agricultural land for development, thus raising the value of such land up to tenfold. Uniquely in Europe, all of this betterment goes to the Irish landowner. Ten years after the 1963 Planning Act was passed, disquiet over betterment resulted in the Kenny Report. Judge Kenny suggested a judicial-type body to determine what increased building land would be required around towns over the following ten years, purchase of this zoned land by local councils at agricultural value + 25 per cent and subsequent sale of this land to builders as required. This was a very ambitious, very statist solution to the betterment problem. The two senior Department of Local Government representatives on Kenny strongly opposed his land price proposals as unconstitutional, and signed a minority report to this effect. The Department never implemented Kenny, but neither did it put another solution in place. This policy failure directly caused both the corruptions in the planning system in the 80's and early 90's and the current monopoly profits of developers.

Local planning authorities will have to become more assertive in leading development if betterment proposals are to succeed. At present, planning authorities transfer a publicly-created absolute right to a superior class of real property to a developer in the hope that this will result in the orderly rollout of the new homes, factories, offices etc. that society needs. A modern betterment system might combine the public auction of development rights with a licensing system to ensure that development actually occurred.

3. **Reform of the Planning** system is required which, while less dramatic than legislative changes, may have at least an equal impact. In relation to planning, the 2002 Act was too complicated and hugely increased the workload of planners without increasing their supply. The DOELG, as the main client/employer of planners, should compel the planning

institutes to adopt the educational model used by accountants for new entrants to the profession. This involves study for examinations while training on the job - rather than graduate qualification at university. The accountants' model ensures a balance between demand and supply, whereas the planner's current model will continue to under-supply public and private planning offices with qualified planners.

The problem of generating tax revenue to support necessary public services is not unique to Ireland. A culture has developed whereby political parties promise the electorate that it is possible to improve public services while reducing tax. Anybody who bucks this trend is apt to get dusty response from the voters. When the British Cabinet Minister, Peter Hain, called for a "mature debate" on the question a couple of months ago he was immediately slapped down by Downing Street. Fear of being branded a "tax and spend" party affects all Western political parties.

Nor is this a dilemma exclusive to the political system. It is worth recalling that it was the Dublin Council of Trade Unions that organised the protest marches against taxation in 1979. It is also true that tax reduction in return for wage moderation was a feature of all the partnership agreements up to and including the PPF. In fact the tax reductions actually implemented went considerably beyond the terms of the individual agreements.

There is a major political, economic and social challenge in achieving a national consensus around what is the required level of public service provision and how it is to be paid for. There is also the increasingly problem of inequality and social marginalisation and our collective will to arrest this trend. Because fiscal policy is an important instrument of redistribution it is necessary to try to achieve a broad measure of agreement about what we do as a country in terms of changing direction - if we want to change direction that is. What we have been doing up to now is avoiding the question.

My personal belief is that the citizens of Ireland would, given the

political leadership, be willing to fund proper levels of public service and the creation of a more just society on certain conditions. What they most resent is unfairness, waste and inefficiency and they would also want to be assured that:

- The tax base would be broadened to capture wealth and a fair share of corporate profits;
- Special tax shelters and favourable treatment of rich exiles would end;
- Everything possible to modernise and make public services more efficient would be done;
- Government would intervene, as in the case of housing, to legislate for the common good.

Dealing with these issues in a serious way is unavoidable. The demands of an aging population on health and caring provision will increase for example. The time has come to think about radical solutions including, perhaps, funding this through a universal insurance system, as is the case with most European countries.

In relation to efficiency in public service provision it is Congress policy that everyone who works in the public service should do what is in their power to make those services as efficient and effective as possible. This is clearly in the best interest of all workers and their families and the population at large which depends on those services. The will to invest in public services depends on whether people believe that their quality of life will improve as a result. It would be helpful too if we could have a more thoughtful debate about the role of the public sector. For the last 20 years the notion of a public realm has been under sustained attack from those of a more liberal political persuasion. Not all of the criticism is unfounded but the reality is that there are essential services that must be provided by the State in the interest of the common good. The number of citizens who could themselves adequately provide for the needs of their families in this regard to education, health etc. are small. Indeed, even in the area of housing, as I have already argued, people who in times past would have been able

to provide their own housing can no longer do so and State intervention to help them is necessary. The same is becoming increasingly obvious in regard to childcare. The issue is about using public resources to achieve the best possible quality of life for most of the people and how best to do that.

In my opinion the value of social partnership lies in its capacity to secure a measure of consensus around choices which have to be made from time to time. Government, if it wishes, is empowered by virtue of its electoral mandate to decide policy direction on its own. But then all civil society organisations can also pursue their priorities. It seems logical to see if agreement can be found to pursue some and exclude others. Indeed, that is what has been attempted in “Sustaining Progress”.

Within Congress there was a lot of criticism of “Sustaining Progress” and its passage through the democratic process was the most difficult of the six programmes negotiated since 1987. Most criticism was focussed on the perceived inadequacy of the pay agreement and its attendant provisions.

On the whole I do not think the critique was valid or that the fears expressed will be borne out. However, I do think there is cause for concern about the general drift towards a model of society which is more individualistic, more consumer driven, less solidaristic and more unequal. There is no popular desire to go back to the high tax stagnant economy of the mid-eighties with its high unemployment and emigration. Equally, however, I do not think people want to go too far in the opposite direction. We must try to maintain a dynamic economy and a just society in co-existence and I fear we are some distance from equilibrium as things now stand.