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Making Choices – Shaping Futures: Why We Should Embrace The Nordic Model

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On the day that this chapter was written there were five major items of news. The Taoiseach announced the end of the era of ‘The Tent’ at the Galway Races – “A pain in the arse anyway” said Commissioner McCreevy, welcoming the decision. “No more cheap flights,” declared Willie Walsh of BA, noting that oil price movements were wiping out airline profits. The British Labour Party lost the Crewe and Nantwich bye-election to the Tories, the latter’s first such win in 25 years. Developer Bernard MacNamara pulled out of four PPP (Public Private Partnerships) Social Housing projects with Dublin City Council and the Irish Association of Investment Managers (IAIM) called for the resignation of DCC Chief, Jim Flavin.

Acknowledging that one cannot extrapolate the future direction of the country from the news events of a single day, they still provide an interesting insight into certain chickens returning to roost. They may even be metaphors for where Ireland stands today.

Take the last issue first, the insider trading case involving Fyffes and DCC that returned a ‘profit’ of some €85m to DCC. It was illegally acquired wealth. Yet nobody in politics – government or opposition – had anything to say about it. At the same time many in government and luminaries in Irish business have been falling over one another to exhort workers to moderate their pay expectations. One such, Mr David Drumm, was quoted in *The Financial Times* as saying that Irish people were realists and “we will tighten our belts”. Mr Drumm is head honcho of Irish Life & Permanent, an organisation which has not distinguished itself minding our pension funds. Last year Mr Drumm received total

emoluments of €5.59m. Mr Drumm is a member of a Golden Circle of top business leaders, a kind of Celtic Oligarchy, who are virtually untouchable except in extreme cases. Whether Mr Flavin has pushed beyond the boundaries of that realm of untouchability remains to be seen.

In fairness to these people what is happening in Ireland is but a manifestation of what is happening in other countries. In recent weeks two multinationals, Shell and GlaxoSmith Kline, paid massive bonuses to senior executives disappointed at not getting the CEO position in their respective companies. The ostensible purpose of the payments was to induce the people concerned to stay. So payment for failure is now official policy in top businesses.

The problem is that the extraordinary inequality which this epitomises and the sheer injustice in the way people at different levels of society are treated are eroding social cohesion. In Ireland's case 71 per cent of the people earn less than €38,000 per annum and 18 per cent earn less than €10 per hour. 17 per cent are at risk of poverty and 30 per cent of the households at risk of poverty are headed by a person with a job. The mantra for our economic and social policy for the last 20 years has been that a job lifts people out of poverty. We are now beginning to realise that, while this is indeed an appropriate priority, it is not, of itself, a sufficient condition. In short we are encountering in the modern Ireland the phenomenon of the working poor.

But this condition exists side by side with ostentatious wealth. Builders and developers have made a real killing over the last 10 years. Doing away with The Tent at the Galway Races was a good move by Brian Cowen. The symbolism of wealthy developers hand in glove with Government is bad. It is also bad that a major figure in the industry can walk away from a PPP project so important to public well-being as social housing.

The tax system, with its range of shelters relating to construction, has facilitated the creation of ostentatious wealth. Although scaled back somewhat in recent years they still exist to a significant degree. A case in point is the €400-€500m the state will forego to incentivise building of

co-located hospitals. In the process we will reinforce two tier health service delivery. The Irish health system has always been a public-private hybrid, but co-location will push the balance towards privatisation in a way that future generations will come to regret. It is also worth observing that if PPPs are now failing how can co-location, which is based on less exacting financial standards, hope to succeed? Moreover, if Bernard MacNamara can walk away from social projects without risk is it not likely that an even greater potential transfer of risk to the state is inherent in co-location in the event of failure?

The taxation of wealth, to put it at its most charitable, is underdeveloped in Ireland. It is imperative that we move to a system where:

- Tax shelters exist only to the extent that there is a proven economic objective served by their existence. Even then they should be regularly reviewed;
- Capital taxes are aligned with income taxes to stop mega earners disguising earnings as capital gains;
- Tax relief on pension contributions is capped at some small multiple of average earnings rather than at today's €250,000 in order to prevent rich people building up tax free savings;
- The top 400 income earners cannot escape tax free

And

- Tax exiles, if they want to be tax exiles, stay out of the country. The idea of allowing such people to play a prominent role in Irish society is offensive to the compliant taxpayer. Nor should such people be lauded for philanthropy as happened recently when Mr JP McManus was praised by the then Minister for Education for financing scholarships here. If everybody paid their taxes there would be some chance that Ireland's expenditure on education would not be one of the lowest in the OECD.

In drawing attention to such matters one runs the risk of being accused of the politics of envy. So be it. But who can stand over a situation where Irish individuals and companies made €41 billion in capital gains from investment in land, property and equities in the three years between 2004 and 2007. The 450 with at least €10m each have done incredibly well from the Celtic Tiger. The 100 people with at least €100m have done even better. There is a nice pyramid of money, with 330 individuals worth in excess of €30m, a further 3000 with a net worth of between €5m and €30m, and 30,000 worth between €1m and €5m – even when their principal residence is discounted. No wonder the Shelbourne Hotel sells 100 bottles of champagne every day! No wonder Punchestown resembled Bagram Airbase with helicopters landing and taking off every few minutes this year! As we are expected to tighten our belts the least the rest of us can expect is that these happy people should pay their fair share of tax.

In some respects it is surprising that there has been no backlash against the inequality manifest in these statistics. One possible reason is that in recent years living standards have become detached from incomes. While incomes have remained modest for middle and lower earners the availability of mortgages at low interest rates has fuelled house purchase. In a low inflation environment repayments were manageable and appreciation in the capital value of houses created a wealth effect. This is all an illusion now. Eight successive interest rate increases by the ECB have pushed up repayments significantly. This is being exacerbated by the banks increasing their rates to claw back some of their profit losses. Inflation is moving upwards and unions are finding it hard going to negotiate wage increases in line with inflation.

Of course, for people at the lowest end of the income spectrum the problem is even more acute. This cohort of the population spends a greater proportion of its income on food and energy. There is a long term structural change which will see both commodities keep inflation high. Even if there is some abatement of this pressure next year it will return thereafter. Demand for energy and food in China and India, the use of land for bio fuel production, feeding of cows to produce dairy products,

climate change and peak oil all combine to make this a long term problem for the poor.

Ireland prides itself on being a low tax economy. If the recently appointed Commission on Taxation is anything to go by, both in terms of its composition and terms of reference, then no policy change is in prospect. But what are the implications of this?

Every day on *Morning Ireland* at least 80 percent of the discourse is about public services – their availability or their adequacy. Let us take it as read that it is in the interest of the population to have public services as efficient and effective as they can be. How though can we, by spending 35 per cent of our GDP, achieve service provision as good as a European average based on an expenditure of 47.5 per cent?

In the last number of years we have experimented with PPPs, co-location and delivery through private and not-for-profit agencies. Everything we do is minimalist. There is neither coherence nor consistency. In the Community & Voluntary sector, budgets are arbitrarily cut regardless of the consequences for services. In the public sector cuts are applied as a blunt instrument regardless of whether the result makes economic or social sense. According to the HSE it was left €454m short of what it needed to keep health services this year in line with 2007 levels.

Another example of minimalist thinking is in respect of payment of third level fees for mature students which is a *Towards 2016* commitment. After two years of argument a sum of €10m has been allocated. It won't even scratch the surface of the issue. About 2 per cent of our population are mature students; the EU average is 7 per cent. How can the alleged commitment to move people up the skills value chain be taken seriously?

It's the same with pensions. We know that we already have a pensions' crisis. We know that demographic change will make that problem a lot more acute in future years, not least because the OECD has told us so. Yet there is a terrible inertia about policy making in this area.

We know from the CSO that our population will increase, perhaps to as high as 5.7m by 2021. If our public services are not adequate now, how will they cope with that kind of increase?

To be fair we do have *Towards 2016* and *The National Development Plan* which is rooted in its provisions. The former is as close as we will ever get to a social democratic programme in this country. A crucial point about it is that it recognises that economic and social development are equally important. The question is though, does anyone in the policy making community believe in that balance?

In truth I have become increasingly despondent about Ireland's future. Our Social Partnership model is predicated upon Ireland as a flexible developmental state, as so often explained by NESC. The alternative view of Ireland as a competition state in which the requirements of business is privileged over its citizens seems to me to be forcing itself to the fore.

What we lack is a convincing vision of the future in which there is a common good that everybody can subscribe to. One feels at times like a naive fool in holding to the rhetoric of a social partnership more honoured in the breach than the observance. It is a no brainer to me that Ireland should set its sights on the Nordic countries. In competitiveness, in productivity, in research and development, in social cohesion and in public services they are everything we would wish to be. Yet it is not possible to get anyone to engage seriously on the implications of following that course. We prefer to stay on the neoliberal course charted by the Progressive Democrats so many years ago.

The world around us is changing. The deregulation of financial markets which opened the current era of neo-liberalism is coming to a close. It will not be possible to continue with business as usual after the financial crisis. Some reregulation will be necessary. We are now experiencing the failure of public private partnerships. Low cost air travel, another icon of neo-liberalism is coming to an end. Last week a government sponsored investigation of Post Office liberalisation in the UK declared it a failure.

When Francis Fukuyama declared *The End of History* in 1992 he assumed that the universal values of liberalism would permeate the entire world. It hasn't worked out like that. China has followed a different course, as has Russia. The latter has set itself up as an ideological alternative to Europe – a very unattractive one at that. Authoritarian capitalism is no answer but it exists because of the inability of liberalism to make globalisation beneficial for ordinary people.

This brings me finally to the Nantwich and Crewe by-elections which destroyed Gordon Brown, a decent well intentioned man. But he and especially his predecessor abandoned their core voters in favour of the business elite of Britain. They were the leaders of a liberal party calling itself New Labour. Perversely, Labour has been rejected for a worse alternative but the party has sold its social democratic soul and it has nowhere to go.

If we continue to tread on Britain's neoliberal coat tails I predict that we will wake up in seven or eight years time and realise that we have nothing to show for our Celtic Tiger experience. There is a better way in the Nordic example if only we could see it.