Planning and Delivering a Fairer Future

Values, Democracy and Service Provision

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Edited by
Brigid Reynolds, s.m.
Seán Healy, s.m.a.

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Social Justice Ireland
Arena House
Arena Road
Sandyford
Dublin 18
Ireland

Tel: 01-213 0724

e-mail: secretary@socialjustice.ie
website: www.socialjustice.ie

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CONTRIBUTORS

Thomas Fazi is a writer, activist and award-winning filmmaker.

Seán Healy is Director, *Social Justice Ireland*

Michelle Murphy is Research and Policy Analyst with *Social Justice Ireland*

Seán Ó Riain is Professor of Sociology at Maynooth University and is also with the National Institute for Regional and Spatial Analysis (NIRSA)

Eoin Reeves is Senior Lecturer, Director of Privatisation & Public Private Partnerships Research Group, University of Limerick.

Brigid Reynolds is Director, *Social Justice Ireland*

Colin Scott is Principal, College of Human Sciences and Professor of EU Regulation & Governance at UCD.

INTRODUCTION

Ireland is facing major choices. They are the same choices that faced the country in the early 2000s. They weren't addressed directly then and there is little evidence that they are being addressed directly now. The failure to address these choices directly in the early years of this century led to them being answered on an ad-hoc basis. Vested interests constantly prevailed over the common good.

In the 'years of plenty' there was a dramatic increase in investment in infrastructure which produced major progress in areas such as motorways, airports and public transport. At the same time the failure to address other major deficits in Ireland's infrastructure and social services was an indictment of the decisions made and of the processes through which these decisions were made. Areas not addressed adequately included water, broadband, energy, social housing, waste management, healthcare facilities and schools. The situation has been exacerbated in the 2008-2014 period as the low level of investment resulted in the deterioration of both physical and social infrastructure and a substantial reduction in the services available, especially to those who are vulnerable in Irish society.

It is time Ireland addressed these choices and answered some key questions. Among these are:

- What vision should guide Ireland's development?
- Where does Ireland wish to be ten years from now?
- What infrastructure is required?
- What services are required?
- How are such infrastructure and service requirements to be delivered?
- How are they to be financed?
- How are decisions on these issues to be made?
- How and on what basis is progress on these issues to be measured?
- What policy framework will ensure these questions are answered

The chapters in this book, which were first presented at a policy conference on the topic of '*Planning and Delivering a Fairer Future - Values, Democracy and Service Provision*', seek to address these key questions and related issues. They

set out the challenges and identify options, frameworks and pathways towards a future that would be just, sustainable and desirable. Readers will be challenged and energised by the possibilities, problems and opportunities presented in these chapters. We hope this publication will stimulate discussion and fuel debate on the issues raised.

Social Justice Ireland expresses its deep gratitude to the authors of the various chapters that follow. We wish to thank them as they have made this publication possible. They brought a great deal of experience, research, knowledge and wisdom to their task and contributed long hours and their obvious talent to preparing these chapters.

Special thanks to Pobal whose support made the publication of this volume possible.

Social Justice Ireland advances the lives of people and communities through providing independent social analysis and effective policy development to create a sustainable future for every member of society and for societies as a whole. We work to build a just society through developing and delivering credible analysis and policy to improve society and the lives of people. We identify sustainable options for the future and provide viable pathways forward. In all of this we focus on human rights and the common good. This publication is a contribution to this process.

In presenting this volume *we* do not attempt to cover all the questions that arise around this topic. This volume is offered as a contribution to the ongoing public debate around these and related issues.

Brigid Reynolds
Seán Healy
November 18th, 2014

Planning and Delivering a Fairer Future

Values, Democracy and Service Provision

1. Recovery and Transformation: Investing in a New Social Contract

Seán Ó Riain

Beyond the Celtic Tiger

As Ireland sits on the edge of possible economic recovery, we face many of the same choices about the future as in the early 2000s. Having ducked those choices then, there is a real risk that we will make the same mistake in the crucial years before us. How can we avoid this?

It was not simply a case of 'everyone partied', nor of individual examples of bad behaviour in private and public institutions. In fact, in Ireland in the Celtic Tiger years there were deeper problems in the Irish model.

First, reduced capital gains tax and lax regulation gave private finance the power to make most of the investment decisions for society – which then mis-allocated most of the society's resources to property development and financial speculation. The financial regulator was weak but the private institutions that were supposed to control this behaviour – the stock market, centralised management, market competition and credit rating agencies – also completely failed to do so (Ó Riain, 2014: Chapter 3).

Second, monetary union and integration of financial markets in Europe hollowed out the European model and made the Eurozone a playground for speculative finance. The European Union that had invested heavily in Ireland in the 1990s now enabled the financial flows that grew Ireland's financial and property bubble out of all proportion to the size of its economy (Ó Riain, 2014: Chapter 4).

Third, Ireland's economic and social model emphasised low rates of taxation on income and business and left Ireland's public finances deeply vulnerable to economic shocks. Worse still, the facade of full employment masked low employment participation rates and a failure to invest in upskilling our

working age population. In the boom, rising levels of spending were built on the sand of a weak tax base. In the crisis, these foundations simply collapsed (Ó Riain, 2014: Chapter 5).

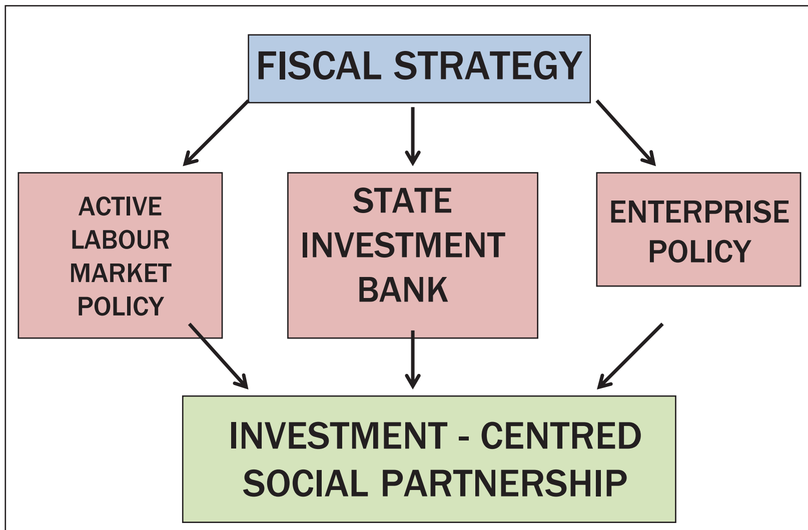
Ireland's strategy for recovery is based on getting public debts under control and boosting private sector competitiveness. Despite recent improvements, the recovery is fragile. Even more important, the old failings of the Irish model are returning. Private finance is back in Ireland and just as hungry for property as ever. Investment in domestic business and the real economy remains weak and there is little reason to expect that the same banks that offered weak support for such investment in the good times will do better now. Investment in European infrastructure and communities has been reduced when it was needed most and Europe's political power is used in a one sided manner to enforce discipline on its members while neglecting the potential to enable member states to rebuild towards a 'European model'. A key part of this European model has been social solidarity, underpinned by strong shared social services. Ireland is getting its deficit under control but at a huge cost to public services. At the peak of the bubble in June 2008 the OECD commented that Ireland had a small public service compared to most European countries – and public employment has fallen significantly since then. Furthermore, promises of tax cuts over a three year period pose a serious risk that Ireland will return to a model based on a thin revenue base and a weak social contract.

Most fundamentally, Ireland needs to recover through not only rebuilding the economy, but by also stitching a new social contract into the fabric of the economy itself. Furthermore, it needs to develop the capacities of both its private and public sectors in order to allow them to support this new 'investment-centred' social contract. There is no point looking to small firms to boost their social security payments if many of them are laden with debt and follow business models that rely on low wages and low tax wedges. There is little point looking to public services to boost productivity and social protection if their capacity to do so – financially and organisationally – is weak. Can Ireland break out of the vicious cycle of private and public weakness? This requires a new approach – but it is an approach that can build on significant capabilities already within Ireland's political economy and public agencies.

That new approach is built around an 'investment diamond' – a set of

interlocking policy areas that create new capacities for economic development, industrial upgrading, expanded revenues and enhanced social protection. Going back to Mjoset (1992), observers have warned of the dangers of the underdevelopment of Ireland's 'national system of innovation' – as Ireland begins the process of recovery, it is time to tackle this issue properly for the first time in her history. This paper tackles the key elements of the investment diamond that can address these issues. It briefly comments on the fiscal aspects of macroeconomic policy. It then goes on to explore in more detail the 'meso' level policy areas of labour market policy, financing and enterprise development – together forming an 'investment infrastructure' for the economy. Finally, it suggests a new form of social partnership that would bring these new capacities at the meso level into firms and workplaces.

Figure 1: The Investment Diamond



Fiscal Strategy

Ireland is operating under severe fiscal constraints. Nonetheless, trade-offs are possible. A variety of different approaches have been outlined in recent years, with different clashing projections of returns on investment and the medium-run effects of fiscal consolidation of various types.

Given the scale of Ireland's fiscal contraction, the question of whether fiscal consolidations are up to the task of restoring credit worthiness and growth or whether they are self-defeating is a central one in the Irish case. The question has received increasing attention in the Eurozone as the European economy has continued to stagnate, a full five years after the crisis began. A number of papers have examined the question, to the extent that EU Commissioner Ollie Rehn was moved in February 2013 to write a note to the ECB describing the wave of new studies of fiscal multipliers during an economic crisis as "unhelpful". The IMF report on the world economic outlook in 2012 brought a lingering debate into public view when it argued that austerity policies were at fault for the failure of Europe's economy to match the growth rates that have been forecast for it over the course of the crisis (IMF, 2012). The point was echoed by prominent economist Olivier Blanchard (Blanchard and Leigh, 2013), one of the papers which attracted direct attention from Commissioner Rehn. Other analyses carried out more extensive assessments. Holland and Portes (2012) argued that austerity in the Eurozone was self-defeating as the effect of cuts on growth weakened revenues to such an extent that they undermined the direct fiscal benefit of cuts in expenditure or increases in revenue. DeGrauwe and Ji (2013) showed that the countries to implement the largest austerity packages within the Eurozone were those that saw the greatest increases in their debt to GDP ratio in 2011.

Perhaps the most comprehensive analysis is that of IMF economists Eyraud and Weber (2013), who argued that fiscal multipliers in a crisis are much higher than in normal economic times and that the effect of fiscal consolidation under such conditions was in many cases to increase the debt ratio in the short term as "fiscal gains are partly wiped out by the decline in output" (2013:1). They argue that this effect is temporary and that debt eventually declines, although under certain scenarios this decline is only evident after between two and five years. These effects of delayed debt reduction are higher in high debt countries and in periods of crisis when multipliers are stronger (Eyraud and Weber, 2013; see also Irish Fiscal Advisory Council, 2012: 45). Arguably, the most accurate summary of this debate is that, compared to a scenario with no fiscal adjustment, fiscal contraction can ultimately reduce Government debt but only over an extended period and at extensive cost to economic output, social well-being and apparently political cohesion.

Although Ireland sometimes appears in these analyses as an outlier in that deficit reduction has occurred in the presence of significant fiscal consolidation, a significant aspect of this that is usually neglected is the now familiar gap between GDP and GNP in the Irish context. While GDP has seen growth in the crisis years, helping to reduce the debt ratio below what it might have been, GNP has continued to decrease until late 2012. The use of GDP for accounting purposes is important for Ireland but the ratio to GNP is arguably more reflective of the damaging effects of debt over-hang in the real economy.

The comparison of fiscal consolidation with a zero consolidation scenario tells us little about the choice between fiscal consolidation and some version of fiscal stimulus, whether as an alternative or a complement to consolidation in the public finances. The primary alternative identified to this strategy focuses first on providing a stimulus for tackling growth (Taft, 2010; NERI, 2012). NERI (2013; see also O'Farrell, 2012; Social Justice Ireland, 2012) argue that a stimulus programme centred on investment would generate the same fiscal savings without damaging the economy to the same extent as the strategy of fiscal consolidation. In addition, as Central Bank economists Kelly and McQuinn (2013) argue, fiscal multipliers may be even higher when the state is responsible for bank solvency: "Government policies which return distressed households back into employment are likely to yield an additional benefit above and beyond that traditionally considered. Namely, by alleviating levels of mortgage distress, the solvency position of these institutions is ameliorated, thereby reducing the Irish State's future capital obligations" (2013: 16).

Most fundamentally, it is disturbing that the debate on these issues has largely consisted of different actors talking past each other. It should be possible to model these scenarios together – under a variety of agreed assumptions (which will themselves be matters of debate). These models could include different mixes of taxation and spending changes, different investment packages and varying assumptions about multiplier effects over various time horizons. Such modelling exercises would provide a more nuanced set of potential policy mixes rather than silver bullet solutions. However, they would also greatly enhance the debate over macroeconomic management over the coming years – particularly when compared to the minimal information available on the implications of the budgetary decisions in 2014. While economics can never be reduced to technical

exercises, the expansion of our technical capacity in this area and the public application of that capacity to modelling fiscal and investment changes could greatly enhance democratic debate in this area. While the Fiscal Advisory Council does some work in this area, its focus is on fiscal stability and its organisational capacity to conduct detailed ongoing analysis is relatively weak. The Economic Evaluation service in the Department of Finance could play a key role here, raising the key democratic question of what the new expertise in mainstream economic analysis in the civil service will be used for.

Is this an argument for a 'free lunch'? Sadly, no. The societies with the highest levels of investment and social spending are the Nordic social democracies which also have the highest taxation revenues as a proportion of their economies. However, as Table 1 shows, it is those same economies that have the best fiscal records in recent decades – and indeed in their previous, apparently more 'Keynesian' eras in the 1960s and 1970s. Keynesian expansionary policy is often assumed to link to the 'social models' of free spending European economies, while monetarism has more intellectual and political purchase in the liberal Anglo-American economies. However, in practice, the opposite is the case. It is the 'tax and spend' Nordics and continental economies that are more conservative in their fiscal and monetary policy, rarely running public deficits and sticking to a hard currency. However, even stretching back to the 1960s it is the 'smaller' states of the US and UK that are more likely to run a deficit and to use monetary policy and currency policy to manage growth across the business cycle (see Ó Riain, 2014: Chapters 4 and 6). Expanded state capacity is clearly compatible with fiscal discipline, under the right conditions.

Labour Market Policy

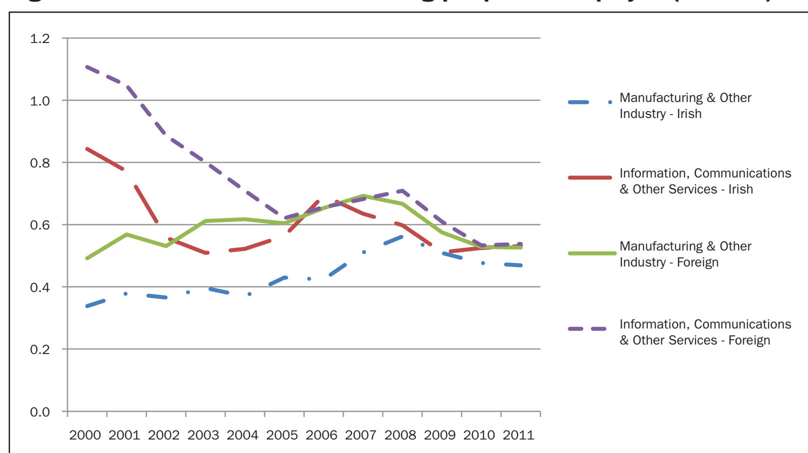
I provide only the briefest of discussions of policies relating to labour, education and training. At the start of the Celtic Tiger era in the mid-1990s Ireland's system was heavily focused on a single strand mainstream education system that worked primarily to generate a third level graduate workforce, with relatively underdeveloped 'second chance' education, weak vocational and apprenticeship strands, and small numbers of postgraduate students. The 1990s brought an increased effort in active labour market policy at the lower end of the labour and the 2000s brought increased take-up of apprenticeships (primarily in construction) and the creation of a postgraduate labour force, as well as increasing diversification of

undergraduate studies. In addition, company training spend has decreased overall – in absolute terms as well as relative to staff payroll costs – and particularly during the recession(see Figure 4).

Table 1: Social Spending and Fiscal Conservatism in the 2000s in Europe

	Social Spending, 2002 (% GDP)	Average 'Structural' Fiscal Balance 1999-2007 (% 'potential' GDP)
Nordic Social Democracies	36.6	0.3
Continental Christian Democracies	32.5	-1.7
Liberal (UK & Ireland)	27.5	-2.5
Mediterranean	26.6	-4.0

Figure 2: Cost of all Structured Training per person employed (€1000s)



Source: Forfás (2013) *2011 Annual Business Survey of Economic Impact*

In the wake of the crisis, some important reforms have been undertaken. While there are significant challenges at the graduate and postgraduate levels of the system, most reforms have been focused at the lower end – including the reform and outsourcing of labour market activation systems, an enhanced role for the former county vocational education committees and a proposed reform of apprenticeships, and the formation of technological universities from the Institutes of Technology. Recent announcements regarding the outsourcing of significant elements of the 'advising' function of labour market policy supports for the unemployed raise serious questions about two key aspects of the policy – first, whether the policy will be basically punitive or enabling, and second, whether (as seems highly likely) the labour market advising process will be essentially divorced from the provision of an integrated suite of supports across welfare, care, training and other domains that are crucial to tackling unemployment and broader issues of jobless households (NESC, 2014).

State Investment Bank

Even looking at more conventional targets of economic development policy, Ireland has historically low rates of productive investment. This is due to a variety of reasons that will remain, or even become more significant, if and when macro-economic stabilisation is achieved. Irish banks have a poor record in providing capital for investment. Even in the 1990s the contribution of the financial sector to growth was minimal (Honohan, 2006). The surge in bank lending in the 2000s systematically misallocated capital to the point where, in 2007, approximately two thirds of outstanding loans were related to property and another sixth to the financial sector itself (Ó Riain, 2009). The 'liberal' tax and regulatory regime around capital since the mid-1990s generated significant outflows, as well as speculative inflows, of capital.

There is little evidence that banking organisations have the relevant skills and orientation to promote productive investment. This is evident in the historical record of lending outcomes and practices (to the extent that we have information on the weak procedures around lending). Oversight by the private sector (bank shareholders, stock market, credit rating agencies) and by the public sector (Financial Regulator, Central Bank, ECB) failed significantly to tackle these organisational failures (Ó Riain, 2012).

The issue goes deeper into the organisational capabilities and practices of the banks themselves. The organisational practices that created the bubble are likely to be slow to change. In addition, the pressures for prudence in the re- capitalised banks are likely to create dis-incentives for business lending. Credit to businesses has recovered in recent years, but very slowly, and venture capital funding dropped precipitously until the past year.

The business lending expertise that exists among private institutions is at least as developed in the public agencies. Indeed, quite early in the course of the economic crisis, officials from Enterprise Ireland were sent to advise staff in the banking organisations on business lending (NESC, 2012). The engagement between state industrial development agencies and export oriented businesses over a period of some decades has resulted in significant organisational learning (Ó Riain, 2004). Comparative analysis of similar kinds of innovation and business development policies in Ireland, Israel and Taiwan suggests that it is this long-standing institutional commitment and learning that is crucial to an effective state role, as much as the direct funding that is provided (Breznitz, 2007).

The historical evidence in Ireland suggests no reason to expect that private lending and investment will lead recovery, even once conditions reach some degree of stability. Venture capital funding between 1997 and 1999 was led by public sources with private investors following only when growth was already underway – despite an environment which has been clearly stabilised and where the early signs of growth were well underway (Ó Riain, 2004, 2009). Similarly, it was public agencies that lead the recovery of venture funding after the dot.com bubble burst in 2001 (Ó Riain, 2010). Among Irish firms, five sectors showed an increase of 5% or more in new lending between Q3 2012 and Q3 2013 - Fishing and aquaculture; Manufacture of food, beverages and tobacco products; Sale, maintenance/repair of motor vehicles, retail sale of fuel; Other wholesale/retail; and Other business and administrative services. However, the most significant surge in credit provided is to non-Irish borrowers in Real Estate, Land and Development Activities with a 12.1% quarterly increase in transactions balance. The 'social structure of liquidity' that supported property and credit bubbles of the 2000s (Ó Riain, 2012) shows signs of persistence.

There are a variety of institutional mechanisms that shape the financing of development and that are open to public policy influence. These

mechanisms go well beyond the role of regulators to provide the institutionalized prudence that can control the 'irrational exuberance' of financial markets.

Some of these relate to investment incentives. When capital gains tax was cut to 20 per cent in 1998, capital flowed into the economy. But as is well known, the vast bulk of that capital went straight into property and, to a lesser extent, financial speculation. Even if capital gains had been reduced selectively, the gains from investment could have been channelled into more productive areas like R&D. As it was, the exceptionally low tax rate combined with various schemes promoting property investments channelled financing away from high tech and other export sectors just when many of them needed that financing most to build international scale operations. Policy will shape the incentive structures for investment, one way or another. The key issue is in what direction, and through what mechanisms.

Furthermore, a direct role in financing development is also a central issue – especially given the largely hidden but highly significant role of public investment agencies in a range of countries. A variety of institutions channel credit to business – including private investors, banks, venture capitalists, and others. In Ireland, the state agencies have been a particularly significant funding agency for high tech firms, have led the building of a venture capital industry and have made effective investments (but see Breznitz, 2012 for the difficulties with this model arising out of the insistence that the state investment programmes 'pay for themselves'). On the other hand, these investments fall well behind the scale of the investments in promising firms made by other countries – including the apparently 'non-interventionist' US (Block and Keller, 2009; Mazzucato, 2013).

Nonetheless, a wide range of public schemes provide financing for enterprise at present (Department of Finance, 2013) – the challenge is to use these schemes to both support a diverse range of enterprises and to drive change in the private financial system. Indeed, the Department of Finance has been increasingly active in developing sources of funding for enterprise in recent years – involving increasing efforts to create investment funds for different classes of firms in Ireland (including small start-ups, larger firms and distressed firms). The broad thrust of the approach has been to sidestep

the difficulties of the banks and to seek out non-bank sources of financing for enterprise. Alongside this, and sometimes entangled with it, has been a policy programme (in the Programme for Government) for developing a State Investment Fund, now in the process of turning in to a State Investment Bank. The re-organisation of the NTMA, NAMA and NPRF in principle facilitates this by providing a strategic investment mandate within this cluster of agencies and by institutionally connecting the finance-raising and lending and investment arms of the state financial agencies. A state investment bank can play a crucial role in raising funding, organising financing and linking development finance schemes, and coordinating non-financial supports with enterprise finance (Ó Riain and O'Sullivan, 2011). Support from the European Investment Bank and from the German state bank KfW has been offered. Table 2 outlines the key differences between the previous and emerging state financing institutions.

Table 2: Changing Policy Regimes in State Development Financing

	Pre-2013 Funds	**Ireland Strategic Investment Fund**	**Strategic Banking Corporation**
Mandate	Pension Fund Returns	Development Investment (national, strategic and commercial)	Development Investment and Sustainable Credit
Mechanism	Collection of Funds	Investment Committee	Banking Structure; Lending through 'On-Lenders' (retail banks and others)
Funding	*Static*	*Organisational Link to NTMA – can raise funds*	*ISIF* *EIB* *KfW*
Link to Rest of State System	*Informal*	*Indirect*	*Indirect*

At present, these tendencies co-exist within the financing area. Indeed, there are increasing initiatives around investment in property – for example,

establishing Real Estate Investment Trusts to attract small investors (with few similar opportunities for such investors to participate in similar mechanisms of investment in different sectors).

Enterprise Policy

Enterprise policy need not depend on a belief in all seeing government planners, nor must it be restricted to government doing little more than setting the framework conditions for private sector initiative. Even as they have spent the past decades lauding markets, government agencies around the world have been experimenting with new ways of supporting enterprise and figuring out how to connect research to industry, how to build skills and knowledge, and how to finance employment growth. In economies as different as Finland and the United States, as Israel and Taiwan, government has played a critical role in the growth of successful innovation economies (Breznitz, 2007; Block and Keller, 2009; Saxenian and Sabel, 2009; Rodrik, 2007).

These new experiments in industrial policy share a view, often unexpressed, of firms as embedded in the society around them. Firms are economic actors who depend deeply upon the social worlds of production around them, competing with others in those worlds but also sustained by the capabilities within them. As companies grow and develop, they draw on a wide variety of external supports – for skills, for technical and scientific background, for financing, for marketing and management, for information about industry developments, for widely held assessments of uncertain trajectories of change, and many more.

Ireland has a history and some institutional capacity in this regard. Ireland's focus on foreign investment and its formula for attracting it are well known and are not my focus here. The 1990s saw the development of new strategies for industrial upgrading and particularly the support of indigenous enterprise. Grant aid was comparatively small but was an access point for a network of supports that included R&D grants, management development, employment grants, mentoring networks, and more. State agencies sponsored the activities of industry associations and technology centres. The state played a critical role in constituting the social world of production within the industry (see Ó Riain, 2004 for a fuller account).

The existing evidence suggests that the work of public institutions has been effective. State aid to exporting companies has been found to have promoted manufacturing employment in the 1980s (O'Malley et al, 1991) and in the 1990s, where Girma et al (2007) showed that domestic companies were particularly likely to add employment when receiving public subsidies. Research into Irish-owned software firms in the 1990s showed that those firms that received the most state grant aid exported more, employed more people and grew faster – even when controlling for firm size (Ó Riain, 2004a).

While Ireland's industrial policy is activist, it is also highly restricted. The 'client base' of firms of the development agencies is small and the developmental impact of their activities is quite narrow. This raises questions of how policies can be applied more widely. Where government has been active in financing high tech, just as important will be ensuring the provision of working capital to viable enterprises through the recession, or to fund much smaller scale start-ups. Similarly, in the area of research and innovation, the importance of sources of innovation other than high end research must be incorporated into government policy. Hirsch-Kreinsen and Jacobson (2008) also argue persuasively that 'low tech' sectors can also drive development in Ireland and across Europe, and themselves depend upon innovation for competitive success.

Table 3 summarises some of the key trends in enterprise policy in the years since the crisis of 2008. Some of these trends focus on market mechanisms – including state stimulated private financing and the outsourcing of labour market activation systems. Others rely more on centralised state governance, whether largely disciplinary (the HEA and the universities) or accommodating (SFI and IDA work with foreign firms). There are also efforts to create institutions that can tackle major gaps in the network of enterprise supports – including Enterprise Ireland's extension of its mandate to additional firms, the integration of EI and the LEOs, and the reform of vocational education committees. I conclude with four sets of observations about these overall trends.

Table 3: Recent Institutional Trends in Enterprise Policy

	Capital	Labour	Innovation	Enterprise
Macro	Stimulating New Private Sector Financing State Investment Bank?	Intensified HEA control of universities	CSETs Research prioritisation	FDI Focus Extending footprint of Enterprise Ireland
Micro	Bank reform?	Education and Training Boards Apprenticeship Reform Outsourced ALMP	Technological Universities?	LEOs

First, there have been significant institutional changes and experiments since 2008, but these have followed in many respects the patterns of existing dominant institutional trends. Indeed, the focus on building coherent supports for the larger, primarily foreign firms while relying on framework conditions to support local business is indicated in the local weaknesses of financing and innovation policies. There is a genuine risk that each area may be undermined by the very institutional logic that weakened it in the 2000s. Innovation policy continues to be characterised by a narrowing of focus, driven by state and foreign investment policy. Financing brings a turn back to the market, albeit in a different form. The outsourcing of active labour market policy raises the same issues of lack of accountability and weak integration with welfare, enterprise and education that dogged it through the 2000s. The 'footprint' of Enterprise Ireland has extended in important and interesting ways but the required supports in financing and innovation may not be present and the local capacity to develop this system is still in question.

Second, there is an opportunity here to tackle some of the fundamental issues within the Irish innovation system. That system needs to be extended out from its narrow base, to bridge the domestic and export sectors. A start has been made here in the extended role of Enterprise Ireland but crucial gaps remain in financing, where banking reform cannot be avoided. Indeed a key role of a state investment bank could be not simply to fund large scale projects but to work through local banks to provide working and development capital, in the process reforming the organisational practice and culture of the banking organisations (as in the example of the KfW in Germany). Further gaps exist in innovation where changes in ITs may actually weaken locally available resources and where crucial reforms remain in education and apprenticeships. Integrating these institutions locally with central supports will be crucial to supporting newly emerging firms.

Furthermore, especially given indigenous strengths in cross-cutting areas such as IT services, transport and logistics, and business services, the system needs to open to creatively re-combining its resources and institutions to support emergent sectors. Will targeting of high level supports in innovation and finance weaken the ability to put together supports for the new sectors which will inevitably emerge and which will cross the boundaries of the research prioritisation areas?

There is a more fundamental question here as trends within the system include the outsourcing of elements of enterprise policy (e.g. private financing, activation), highly targeted state interventions (eg innovation policy) and more networked institutions and capabilities. Can these various organisational logics be integrated into flexible combinations of supports? In particular, the outsourcing of a developmental programme such as activation makes integration with supporting institutions much less likely (see the alternative approach in NESC, 2011). There are micro-choices to be made here that will have significant macro consequences.

Third, policy experimentation at home and internationally remains largely an untold story. Even the agencies that operate these policies do so under the cloak of other justifications of their activities. Sometimes they appeal to the spirit of enterprise among their client companies, even as their everyday practices show that such a spirit of enterprise still requires a significant network of financial, organisational and social supports. At other times, they appeal to the spirit of planning in reports that identify key

targets and measurable outcomes, even as everyday practices are, at their best, based on flexibility and iterative social learning. The Action Plan for Jobs (DJEI, 2013) sits between these with an extensive list of policy measures that are only loosely connected (at least explicitly within the Plan itself). The plan could be implemented in one or two ways. It might drive policy makers to focus narrowly on the delivery of discrete policy measures, operating (understandably) within policy silos. Or policy makers may seek each other out to connect across areas as the success of one measure is likely to depend heavily on the success of others. The impact of the Action Plan is likely to depend as much on these organisational questions as on the content of the plan's measures. This lack of a narrative of our own practice of policy comes at a cost. The debate is cast in terms that largely miss the point and the space for a serious discussion of how to develop our policies and practices was limited – even before the crisis.

Social Partnership Re-invented

After the economic crisis of 2008 'social partnership' was cast as one of the villains of the drama of Irish bubble and bust. However, partnership in various forms remains common across Europe's most successful economies and can play a key role in building a sustainable recovery here in Ireland.

Formal partnership arrangements fell apart in the crisis, although in practice many concessions have been made with very little conflict. Wages have been cut and so have public services. Cost advantages and efficiencies have been achieved but significant damage has been done to living standards and well-being and also to the capacities of our private companies and public institutions.

This will be a major issue in pushing forward the economic recovery that seems to be emerging, although in a very fragile form. There is a real danger that the recovery will be spread very unevenly - we already see that wages are recovering among managers and professionals but not across the whole economy. In the absence of some kind of national social bargain, the strongest can fight their corner in the open market or the political realm while the weakest will be left behind. We could end up with the worst of both worlds - increasing wage costs and rising inequality at the same time.

Furthermore, as we have seen, there are a range of issues that go beyond wages. Domestic business will be crucial to recovery but many SMEs still have a long way to go to compete with similar firms around Europe – and they are receiving little help from banks in accessing credit to build these capacities. On the public side, recent talk about lower taxes suggests that we have not learned the lessons of the bubble about sustainable public finances and the importance of sound, effective public services.

A new social partnership can address these issues and build recovery. But it cannot be the partnership of the Celtic Tiger years. Those partnership agreements traded worker wage restraint for tax cuts on the part of government. In the context of high tax rates and improving public finances these deals made sense for a period of time. Today they do not.

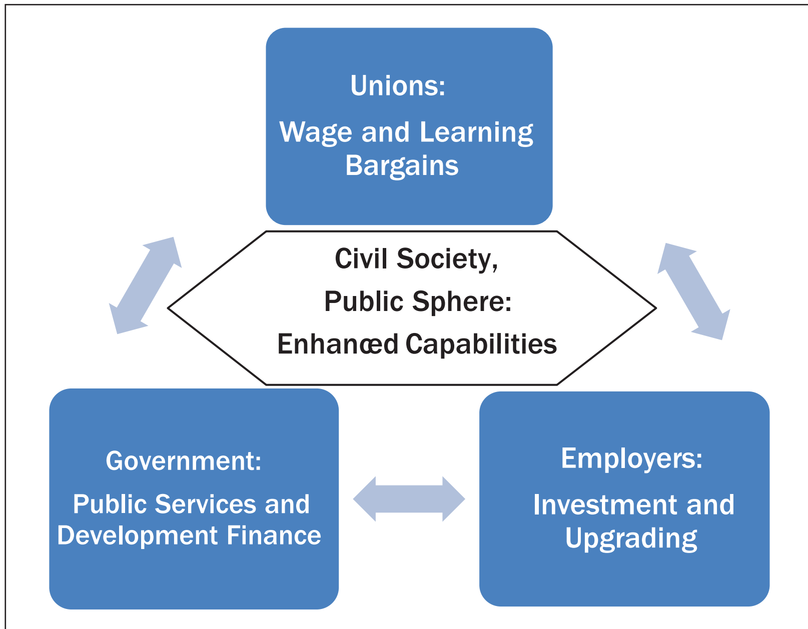
We now need a different partnership deal – one that is investment centred (see Figure 3). This would have three key elements. First, a national wage bargain that would provide wage increases that would be steady, more modest than the strongest employees could get on the open market but better than the raises that the weakest workers could negotiate. This would boost demand, support competitiveness and promote an egalitarian recovery.

Second, government can add to the benefits for workers through a better 'social wage' that is shared across all employees and in many cases all citizens. This typically is only loosely related to an employee's wages and takes the form of form of education and training, health and childcare, pension provisions or other benefits. A 'social wage' is crucial to protecting living standards, promoting opportunity in even the poorest families and investing in an active, skilled labour force.

Third, government can also promote a 'productivity dividend' through additional measures based on enabling credit for firms to invest and supports for upgrading the capabilities of companies and the skills of their workforces. Irish domestic business has long been hampered by low levels of investment in the upgrading of companies, weak financing for such investment and by poor supports for their workforces' skills and participation. A new model of partnership both challenges firms to upgrade and supports them in doing so.

At the core of the new model of partnership is not the drive towards cost competitiveness (although this is incorporated through the wage bargaining process and productivity improvements) but a broad-based enhancement of capabilities in the economy and society. This involves the construction of new 'spaces of learning' which consist of 'public spheres' in firms, regions and other economic spaces but also in communities, public institutions and the society as a whole. These are crucial to the learning economy and society (Lester and Piore, 2011). They do not emerge on their own however and the role of civil society – where the organisations of the community and voluntary sector are particularly important in Ireland – is critical here.

Figure 3: An Investment Centred Social Partnership



Partnership had significant weaknesses in the 2000s, failing to manage the balance between public and private sectors and between wages and growth. But there is plenty of blame to go around - it was primarily party politics,

weak regulation and planning, and poor central oversight of government finances that allowed the bubble to inflate. In the 1980s, partnership helped begin Ireland's recovery by delivering wage restraint and industrial peace during a deep economic crisis. In the 1990s, additional efforts were made to make creative investments in workers (through training and education), communities (through local area partnerships), companies (through enterprise policy and venture capital) and even in new policy institutions (when most policy innovation happened in new agencies, often disparaged as 'quangos').

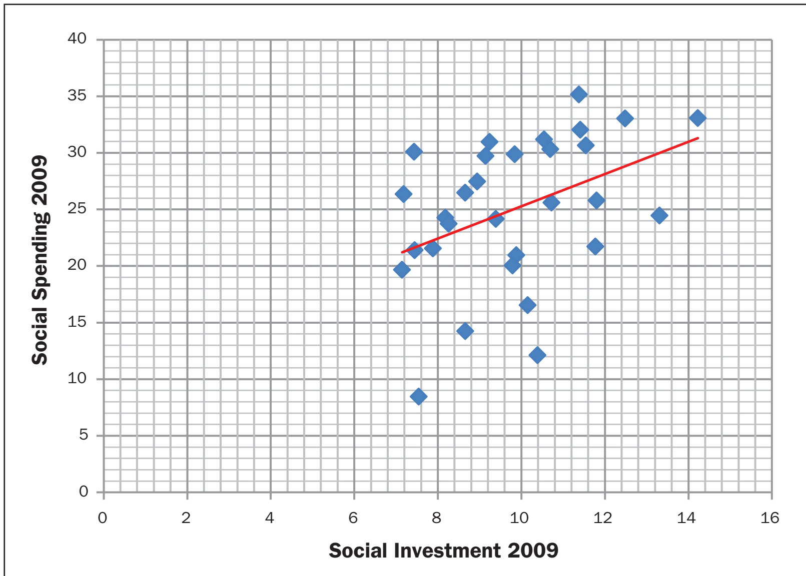
A new social partnership along the lines outlined above can re-capture these strengths of earlier periods without the failings of the 2000s. The most competitive and egalitarian economies in Europe operate on this model – supporting the development of their businesses, investing in their populations and protecting their societies. There are many forms that partnership agreements can take. It is time for a conversation about how a different partnership can help a sustainable recovery that will boost business development, improve well-being and invest in the future of businesses, citizens and communities.

Conclusion

Does an investment centred policy mean a downgrading of the social protection role of the state? Many critics have worried about this – and the response of An Taoiseach to the NESC (2014) report, arguing for active supports for jobless households, that it suggested the need to weaken passive welfare supports would encourage that view.

However, in practice, international experience is that social investment and social protection – where they operate in reality and not as ideological catchphrases – are closely linked. Figure 4 shows a strong association between higher rates of social investment (the combination of education, active labour market, R&D and family supports) and higher social spending (cash transfers and income support, health, pensions and other direct social services) in the OECD.

Figure 4: Social Spending and Social Investment in the OECD, 2009



This chapter has outlined some key steps that Ireland can take in moving towards a new model of political economy – and therefore society. Macroeconomic policy needs to become more strategic and creative, making selective investments and rebuilding both demand and competitiveness together. The new economic evaluation service should be able to provide the expertise to assess how we can combine key investments with management of the debt, if the will exists to examine and debate these questions seriously.

Ireland's capacity for investment needs to be greatly increased. For firms, an active enterprise policy focused on domestic business development is crucial. The decision to found a state investment bank is therefore very welcome but its success will depend on how well it can drive a change in culture and practices in the private banking sector.

For citizens, the current efforts to reform training and employment services will be crucial in supporting the development of the workforce and in tackling

exclusion and inequality in the labour market. Our choice is clear – do we put in place a UK-style system for 'processing' people off welfare or build a system that tackles people's overall difficulties and properly supports them in getting back into the labour market by supporting those most in need.

Alongside this enhanced ability to organise investment, the public services that are crucial in developing the capabilities of the society must play a key role in recovery and reconstruction. A complex society and economy will require healthy, educated, active citizens and communities – and the societies that develop this best are those with effective and expansive public sectors.

Ultimately, a sensible but creative macroeconomic policy; key investments in firms and in citizens; and the ability to improve and expand our public services – and private firms - will be crucial to whether this fragile recovery falls into the same old failings or leads to a reconstruction that gives meaning to the sufferings of the past six years.

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2. Vision and Values - Public Services and Infrastructure

Seán Healy, Brigid Reynolds and Michelle Murphy

Ireland has no guiding vision. The lack of such a vision has led to a lack of coherence at the core of public policy i.e. a failure to integrate policy developments across many areas of government policy ranging from education to health from infrastructure to social services from economic development to fiscal policy. There are many who dismiss the need for such a guiding vision arguing that at best it is irrelevant and at worst it is a total distraction from what should be the major focus of governments and public policy makers i.e. the development of relevant policies to address current issues of concern. There are others however who argue that without a guiding vision policy development will at best be haphazard and at worst be working at cross purposes with itself. The authors of this paper are in the latter category.

Of particular concern in the policy development arena are questions concerning how major long-term challenges are to be addressed effectively and efficiently. Too often the political process has tended to ignore such challenges because these cannot be resolved within the life-span of a Government's term of office. Instead, Government had tended to resort to short-term quick fix solutions that in many cases have moved policy away from addressing these challenges. Major issues to do with infrastructure such as telecommunications or social housing require long-term strategies if the challenges they present are to be resolved. However Ireland's experience over the past two decades shows how difficult it is to have such issues addressed in good times or in bad as governments' principal focus tends to be on securing re-election.

It is important for a country to have a guiding vision. It is also important that this vision be supported by a substantial majority of its citizens which can best be achieved by engaging citizens in shaping that vision. This paper sets out a proposed guiding vision for Ireland and goes on to specify how

policy might be developed over a period of 10 or 15 years to move towards achieving that vision.

1. Austerity is not working

There is an old saying that goes "If the facts don't fit the theory, change the theory". What we are seeing at present in the EU is the opposite – instead of addressing the failed theory there is a constant effort to disguise the facts and/or present them positively even when they are negative. German Chancellor Angela Merkel and other pro-austerity European leaders appear to believe their own rhetoric on this issue and continue to deny reality.

It is interesting to see Ireland being held up as the proof that austerity works. On 21st September, 2014 an editorial headline in the Financial Times read: "Ireland shows struggling Europe the way ahead". The article is based on Ireland's strong growth rate. There is nothing in the article about the impact on Ireland's national debt of the forced 100% repayment of reckless, gambling banks and bond holders; nothing about the fact that this debt was transferred to Ireland's tax-payers without their agreement; nothing about the growth in poverty and structural unemployment that emerged in part at least as a result of this debt transfer; nothing about the quarter of a million Irish people who had to emigrate; nothing about the rapidly growing homelessness problem and the huge lack of social housing. The article did contain some warnings about the fragility of the Irish 'recovery'. It also praised the 15% growth in investment but failed to note that it was growing from a position of being by far the lowest level of investment in any country in the EU. This assessment is based on the proposition that the economy is no longer collapsing so austerity must have worked.

The words of Nobel laureate in Economics, Joseph Stiglitz are very relevant in this context. Speaking of austerity across the EU he said: "every downturn comes to an end. Success should not be measured by the fact that recovery eventually occurs, but by how quickly it takes hold and how extensive the damage caused by the slump. Viewed in these terms, austerity has been an utter and unmitigated disaster, which has become increasingly apparent as European Union economies once again face stagnation, if not a triple-dip recession, with unemployment persisting at record highs and *per capita* real (inflation-adjusted) GDP in many countries remaining below pre-recession levels. In even the best-performing economies, such as Germany, growth

since the 2008 crisis has been so slow that, in any other circumstance, it would be rated as dismal." (Stiglitz, 2014) It is worth noting in passing that in the same article Stiglitz argues that: "The hope is that lower corporate taxes will stimulate investment. This is sheer nonsense. What is holding back investment (both in the United States and Europe) is lack of demand, not high taxes."

2. A Moment in Time

Today in Ireland, we seem to be totally focused on short-term goals such as 'making Ireland the best small country in the world in which to do business'. Perhaps there is an idea that we as a nation are strangers to grand projects and great ideas - that those are best left to other countries - and that the best we can do is to muddle through. But that would be to wilfully forget the ideas that inspired generations to struggle not only to achieve this country's independence, but also to transform Ireland's society and economy.

Since the late-eighteenth century the ideas of national freedom and social justice in Ireland have been intertwined. Ever since Wolfe Tone declared that 'our strength shall come from that great and respectable class, the men of no property', it was believed by the greater body of nationalists that without social reform, national liberation would be incomplete. Inspired by Thomas Paine, the United Irishmen formulated proposals for economic reform in Ireland. As the leading United Irishman Robert Addis Emmet told a parliamentary committee in 1798, 'if a revolution ever takes place, a very different system of political economy will be established from what has hitherto prevailed here' (Quinn, 1998: 188). During the nineteenth-century James Fintan Lalor and John Mitchell called for a wholesale democratic revolution in landownership against the tepid national revolution advocated by those who sought mere separation from England. Michael Davitt inspired landless labourers in Ireland with his ideas for land reform. One hundred years ago, the workers of Dublin defied the captains of industry for five months to defend their right to organise collectively.

It is often forgotten that the Democratic Programme of 1919, proclaimed by the First Dáil, was embraced as the founding economic and social document of the revolutionary state that conducted the War of Independence. The drafters of the Programme, Tom Johnson and Seán T. Ó Ceallaigh, were heavily influenced by the writings of James Connolly and Patrick Pearse.

The words of the Programme still resonate today, pledging that '[i]t shall be the first duty of the Government of the Republic to make provision for the physical, mental and spiritual well-being of the children, to secure that no child shall suffer hunger or cold from lack of food, clothing, or shelter, but that all shall be provided with the means and facilities requisite for their proper education and training'. Though the Programme was never put into effect, and treated with scepticism by those who would ultimately govern the new state, it can still be an inspiration to Irish citizens today.

The recent economic crisis in Ireland was partly the result of the failure of an economic and social philosophy that elevated private greed over the public good, one which measured the country's success by the accumulation of individual wealth. This myopic philosophy was sustained over a decade of credit-driven financial speculation. During these 'boom' years, fragments of the desire for a more equal Ireland remained, but this vision was too vague and imperfectly formed to be truly effective. With the onset of the crisis, successive governments turned to the outworn neo-liberal dogmas of the 'boom' years, and critics were simply informed that 'there is no alternative'.

Over the last two hundred years, there has always been a division between those who sought only 'national' territory or a narrow 'economic sovereignty', pursuing the same old agenda with a 'green jersey', and those who fought to create an Ireland of citizens, where everyone, no matter their income or wealth, would be treated equally. It is far past time for Ireland to decide the kind of society it wishes to develop.

There are many policy areas outside Ireland's control at the present time. Yet, even within the current macroeconomic restrictions, there are real choices to be made about the appropriate distribution of wealth, power and income in our society, the kind and level of economic and social infrastructure that should be developed, the amount of resources our welfare state and health service receive, how these are to be delivered and financed and the level of taxation required to furnish the resources necessary for a compassionate and civilised society. Now is the time to have a serious debate about our economic and social priorities, where we want to go and how we propose to reach our destination.

3. A guiding vision[1]

Ireland needs a combination of vision and pragmatic policies that can truly move the country towards a desirable and sustainable future. *Social Justice Ireland* advocates a new guiding vision to shape the future direction of Irish society. We believe that Ireland should be guided by a vision of becoming a just society in which human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected. The core values of such a society would be human dignity, equality, human rights, solidarity, sustainability and the pursuit of the common good.

Human dignity is central to our vision. It demands that all people be recognised as having an inherent value, worth and distinction regardless of their nationality, gender, ethnicity, culture, sexual orientation or economic and social position. *Social Justice Ireland* believes that the State must uphold and promote human dignity, treating all citizens and non-citizens alike with dignity and respect.

The need for greater equality is closely linked to the recognition of human dignity and the desire for social justice. Great disparities in wealth and power divide society into the rich and the poor, which weakens the bond between people and divides society between the lucky and the left-out, between the many and the few. A commitment to equality requires society to give priority to this value so that all people can achieve their potential.

The development and recognition of human rights has been one of the great achievements of the 20th century. In the 21st century human rights are moving beyond civil and political rights to embrace social, economic and cultural rights. In this context *Social Justice Ireland* believes that every person has seven core rights that should be part of our vision of the future i.e. the right to sufficient income to live life with dignity; the right to meaningful work; the right to appropriate accommodation; the right to relevant education; the right to essential healthcare; the right to real participation and the right to cultural respect. Policy decisions should be moving towards the achievement of each of these rights. Care should be taken that decisions are not moving society or the economy in the opposite direction.

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1 The authors have addressed this issue in details in a range of other publications, most recently in Healy et al 2014 pp. 33-35.

Solidarity is the recognition that we are all bound, as human beings, one to another, within nations, between nations and across generations. Many policy decisions taken in recent years are unjust to future generations. Solidarity requires all people and all nations to recognise their duties to one another and to vindicate the rights of their fellow members of society. Solidarity enables people and communities to become the shapers of their own destiny.

Sustainability is a central motif for economic, social and environmental policy development. Central to this is the recognition that economic development, social development and environmental protection are complementary and interdependent. None of these objectives can be achieved by ignoring any of the others. Respect for the natural environment is not a luxury to be indulged in but an imperative that cannot be ignored.

A commitment to the common good is also critical. The right of the individual to freedom and personal development is limited by the rights of other people. The concept of the 'common good' originated over 2,000 years ago in the writings of Plato, Aristotle and Cicero. More recently, the philosopher John Rawls defined the common good as 'certain general conditions that are…equally to everyone's advantage' (Rawls, 1971 p.246).

Social Justice Ireland understands the term 'common good' as being 'the sum of those conditions of social life by which individuals, families and groups can achieve their own fulfilment in a relatively thorough and ready way' (Gaudium et Spes, 1965 no.74). This understanding recognises the fact that the person develops his or her potential in the context of society where the needs and rights of all members and groups are respected (Healy and Reynolds, 2011). The common good, then, consists primarily of having the social systems, institutions and environments on which we all depend work in a manner that benefits all people simultaneously and in solidarity. A study by NESC states that 'at a societal level, a belief in a "common good" has been shown to contribute to the overall wellbeing of society. This requires a level of recognition of rights and responsibilities, empathy with others and values of citizenship' (NESC, 2009, p.32).

This raises the issue of resources. The goods of the planet are for the use of all people - not just the present generation but for generations still to come. The present generation must recognise it has a responsibility to ensure that it does not damage but rather enhances the goods of the planet that it passes

on - be they economic, cultural, social or environmental. The structural arrangements regarding the ownership, use, accumulation and distribution of goods are disputed areas. However it must be recognised that these arrangements have a major impact on how society is shaped and how it supports the wellbeing of each of its members in solidarity with others.

Social Justice Ireland believes that the values outlined above must be at the core of the vision for a nation in which all men, women and children have what they require to live life with dignity and to fulfil their potential, including sufficient income, access to the services they need and active inclusion in a genuinely participatory society. We believe the vision for Ireland set out here should guide policy development and decision-making in the period ahead.

4. Core Questions

If a vision along the lines set out here is to be achieved a number of key questions need to be addressed. These include:

- What infrastructure is required?
- What services are required?
- How are such infrastructure and service requirements to be delivered?
- How are they to be financed?
- How are decisions on these issues to be made?
- How and on what basis is progress on these issues to be measured?

The remainder of this paper seeks to set out a framework within which these issues can be addressed in a manner that ensures decisions, implementation and evaluation are integrated and clearly focused on moving Ireland towards becoming a society and an economy focused on delivering the guiding vision set out above.

4.1 What infrastructure is required?

By the mid-1990s there were major deficits in economic and social infrastructure across Ireland in areas such as roads, public transport, water, waste management, housing (especially social housing), education and healthcare. In the years that followed there was a dramatic increase in investment in infrastructure which lasted until the economic crash of 2008. This investment led to real improvements in areas such as motorways, airports and public transport.

At the same time major infrastructure gaps remained in areas such as water, broadband, energy, social housing, healthcare facilities and schools. The low level of investment in the 2008-2014 period resulted in the deterioration of both physical and social infrastructure. This is very obvious in areas such as healthcare.

The critical areas requiring investment now are:

- Water
- Social Housing
- Public Transport, especially rural transport
- Roads
- Education
- Healthcare
- Energy
- Broadband
- Environment

Current provision in each of these areas falls well short of what is required for maximum effectiveness and efficiency at the present time. Further pressure will come with the increasing population, changing age structure and growing demands driven by changes in technology and pressures in areas such as climate change. Addressing these infrastructure deficits will require much greater investment than is currently available or planned.[2]

Domestic economic investment is sorely needed to provide employment and provide much-needed infrastructure; this would reduce short-term unemployment and increase the long-run productivity of the Irish economy. The Government has created a number of vehicles to support investment. These, however, are not on the scale required if Ireland is to address its infrastructure challenges any time soon.

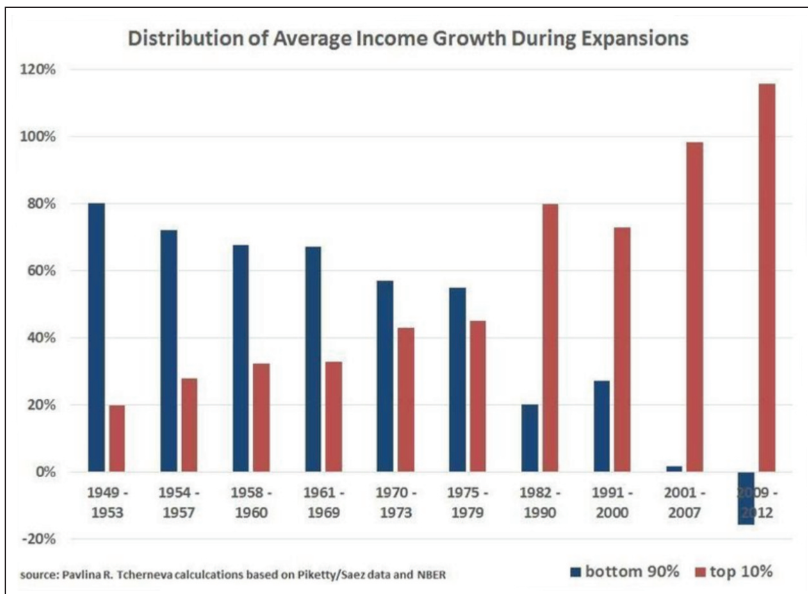
The authors believe that there must be an off-balance sheet investment programme as proposed by *Social Justice Ireland* in its briefing document, *Investing for Growth, Jobs & Recovery* (*Social Justice Ireland*, 2013). This would directly create employment and also enhance growth, which would

[2] Chapter 4 of this publication entitled *Public Capital Investment and Public Private Partnerships in Ireland 2000-2014: A Review of the Issues and Performance,* by Eoin Reeves, provides excellent detail on how these infrastructure challenges could be addressed in the years immediately ahead. It also deals with how optimal funding and financing might be achieved.

contribute to reducing the deficit by reducing unemployment and increasing tax returns. We propose that the investment programme target both economic and social infrastructure, including the construction of social housing units, investment in water infrastructure, and investment in primary care facilities as major priorities.

In this context it is important to ensure that investment is supported to provide fair outcomes and not just to make the rich richer. Those who benefit from a growing economy have changed drastically over the past half century. Research by Pavlina R. Tcherneva shows that in the USA in the 1940s, '50s and '60s most of the income gains during periods of economic expansion went to the majority of people. (Tcherneva, 2014) However, in the decades since then more and more went to the top 10%. In the 2001-7 period of economic growth 90% of the growth went to the top 10%. In the period 2009-2012 the richest 10% captured 116% of the growth i.e. their incomes continued to grow while the incomes of the other 90% fell. Those earning above $120,136 were in the top 10%. Table 2.1 has the information.

Table 2.1 Distribution of average income growth during expansions in the USA 1949-2012



The data series ends in 2012 so it may be that this negative income trend has been reversed but that seems highly unlikely. The reality is that not all wealth creation is good for society. The creation of wealth does not necessarily lead to a reduction in poverty. It is important to ensure that investment is focused on areas that prevent the kind of income distribution impacts that this analysis has exposed.

4.2 What services are required?

There have been significant cuts to social services and welfare payments in the 2008-14 period. The authors believe many of these cuts were socially destructive and counter-productive. Many cuts were implemented without an adequate examination of their impact. Substantial additional investment in social services is required

a) To ensure that current provision is not eroded further as this would have significant future costs.
b) To address the additional requirements flowing from demographic changes as the population grows and, for example, the numbers of older people and those with disabilities within this larger population also grow.

The critical areas of service provision that need to be addressed are:

- Income – to ensure everyone has sufficient income to live with dignity which would lead to a dramatic reduction in poverty.
- Work – to ensure everyone seeking work has access to meaningful work, particularly in a situation of high long-term unemployment.
- Accommodation – to ensure everyone has access to appropriate accommodation.
- Health – to ensure everyone has access to essential healthcare.
- Education – to ensure everyone has access to basic education.

These are five basic rights the authors have argued for over many years. (cf. for example, Healy and Reynolds, 1993, 2011). They are part of seven social, economic and cultural rights we believe everyone has and public policy should always work towards their achievement. [The other two rights are the right to real participation and the right to cultural respect. They are both addressed later in this chapter.) It is important to note that all of these rights must be addressed. None should be ignored. We suspect, with tongue in cheek, that everyone would agree that keeping people sick and stupid is not good, even for the economy!

Finally, the goal of universal provision for all must remain, particularly in the area of health, where inequalities persist between the insured and uninsured population, as well as within the uninsured population. These inequalities will grow as user charges are introduced, and access to medical cards is restricted.

4.3 How are the necessary infrastructure and service requirements to be delivered?

In recent years there has been a growing emphasis on cutting back the State as a means of promoting a post-crisis recovery. The basic assumption underpinning this approach is that the entrepreneurship and innovation delivered by the private sector is the key to recovery. A dynamic and competitive private sector is contrasted with a bureaucratic and sluggish public sector. This view is promoted in the media, argued by most business people and accepted by many politicians to a point where it is taken to be 'common sense'.

This view of the State has gone so far that many believe the 2007/8 crisis was caused by the State and not by a greedy financial industry - part of the private sector. They believe that the crisis was caused by public debt rather than by excessive private debt (in areas such as the US real estate market). Public debt did rise rapidly because of bank (private) debt being converted into sovereign (public) debt and because of reduced tax receipts that resulted from the subsequent recession that emerged in many countries.

This conviction has led to more and more public services across the world being out-sourced to the private sector. This is done in the name of efficiency. However, an analysis of the real costs of such out-sourcing, including the impact on quality, is rarely if ever conducted. The State is simply seen as the enemy of enterprise. This has not stopped business lobby groups arguing for a wide range of supports – which have been delivered in countries like Ireland. However, the major thrust of public policy has been to move more and more towards the private sector to deliver infrastructure and services.

In her ground-braking study *The Entrepreneurial State* (2014) Mariana Mazzucato has challenged this perception. She shows that the most radical new technologies in different sectors – from the internet to pharmaceuticals – have developed from the funding provided by a courageous, risk-taking State. Some of the biggest names in business today, Apple, Compaq, Intel,

were supported in their early stages by the State. Development of the infrastructure underpinning the ICT revolution, the internet, was funded mostly by the State. Major developments in green technologies are currently being driven by State investment.

What needs to be learned is that 'private good, public bad' is a slogan that cannot withstand much analysis. There are meaningful and substantial roles for the private sector, the public sector and the community and voluntary sector in providing infrastructure and services. Each of these sectors has strengths in particular areas and weaknesses in others.

What is required is recognition that the delivery of the infrastructure and services already identified needs different combinations of public, private and community and voluntary sectors. Whatever the issues being addressed, and they can range from climate or demography and far beyond, they require comprehensive engagement by all three sectors. The level of engagement will vary depending on the issue and the required response. Decisions should be based on evidence (cf. Reeves, chapter 4). Their implementation should be subject to appropriate regulation (cf. Scott, chapter 5). None should be demonised and false narratives should not be propagated.

4.4 How are infrastructure and services to be financed?

Infrastructure and services are financed by taxation and private financial sources investing in these areas. There can be endless debate about the balance between these. Here we wish to make three points. If Ireland's current deficits in infrastructure and services are to be addressed then:

a) Ireland's total tax-take must be increased, while maintaining Ireland's position as a low-tax country.
b) There must be a substantial increase in the benefits accruing to the State where public investment has led to major gains for private sector entities.
c) There is a need for off-balance sheet investment if current deficits are to be addressed.

a) Ireland's total tax-take must be increased, while maintaining Ireland's position as a low-tax country.

Ireland can never hope to address its longer-term deficits in infrastructure and social provision if we continue to collect substantially less tax income than that required by other European countries.

The authors have long argued that Ireland's total tax-take is simply too low to pay for the infrastructure and services necessary to ensure everyone's human dignity. Consequently, over the next few years policy should focus on increasing Ireland's tax-take to 34.9 per cent of GDP, a figure defined by Eurostat as 'low-tax' (Eurostat, 2008:5). Such increases are certainly feasible and are unlikely to have any significant negative impact on the economy in the long term. As a policy objective, Ireland should remain a low-tax economy, but one capable of adequately supporting the economic, social and infrastructural requirements necessary to support our society and complete our convergence with the rest of Europe.

Table 2.2: Ireland's projected total tax take and the tax gap, 2012-2019

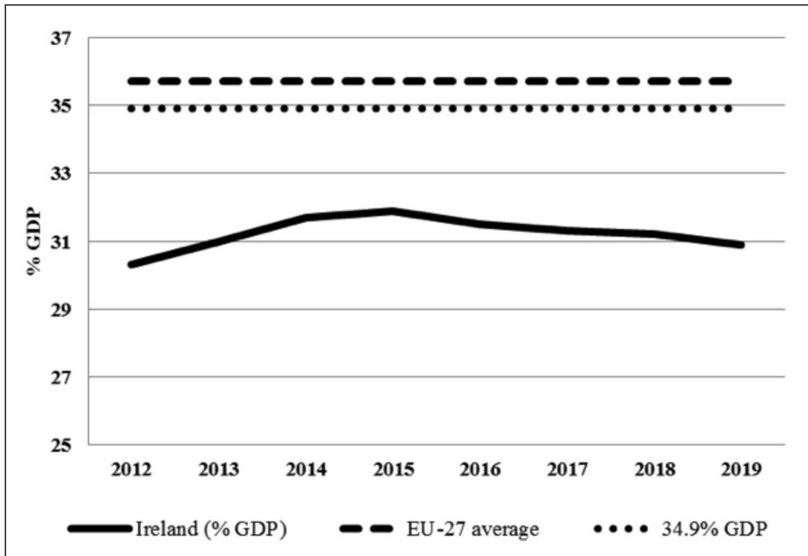
Year	Tax as % GDP	Total Tax Receipts	The Tax Gap
2012	30.3%	49,569	7,525
2013	31.0%	52,049	6,548
2014	31.7%	55,245	5,577
2015	31.9%	57,914	5,446
2016	31.5%	59,574	6,430
2017	31.3%	61,442	7,067
2018	31.2%	63,882	7,576
2019	30.9%	66,304	8,583

Source: Calculated from Department of Finance SPU (2013: 49, 50, 53).
Notes: * Total tax take = current taxes + Social Insurance Fund income + charges by local government.
**The Tax Gap is calculated as the difference between the projected tax take and that which would be collected if total tax receipts were equal to 34.9% of GDP.

Looking to the years immediately ahead, Government projections provide some insight into the expected future of Ireland's current taxation revenues and this is shown in table 2.2. We have also calculated the Tax Gap, i.e. the difference between the 34.9% benchmark we propose and Government's planned level of taxation. This gap stands at €5.5 billion in 2014 and averages at €6.7 billion per annum over the next five years. There are many ways of bridging this gap. In previous work we have set out various options that would achieve this end in a fair manner (most recently in Healy et al, 2014, chapter 4).

It should be borne in mind that over recent years the Department's projections for the overall tax-take have continually undershot the end-of-year outcomes. However, even taking the Department's projections as the likely outcome, Chart 2.1 highlights just how far below average EU levels (assuming these remain at a near record low of 35.7 per cent of GDP) and the target (34.9 per cent of GDP) these taxation revenue figures are.

Chart 2.1: Ireland's Projected Taxation Levels to 2015 and comparisons with EU-27 averages and Social Justice Ireland target



Source: Calculated from Eurostat (2013: 172) and Department of Finance SPU (2013: 49, 50, 53).
Note: The EU-27 average was 35.7% of GDP in 2011 and this value is used for all years.

There has been some debate on the appropriate measures of Ireland's fiscal capacity in recent years, given the difference between Ireland's GNP and GDP. The Irish Fiscal Advisory Council (IFAC) has suggested a hybrid measure in the form: [H = GNP+0.4 (GDP-GNP)] (IFAC, 2012: 53). *Social Justice Ireland* has argued that the tax-take should be increased to 34.9% of GDP, below the Eurostat threshold defining a low-tax country. An equivalent figure under the IFAC would be to increase taxes to a level that fluctuates around 39.5% of H.

b) There must be a substantial increase in the benefits accruing to the State where public investment has led to major gains for private sector entities.
We have already highlighted the situation where major corporations in areas such as IT benefit enormously from discoveries and innovations produced by public investment yet the benefits accrue almost totally to those who own these corporations as the profits are sheltered and little tax is paid on them. There are similar experiences in areas such as pharmaceuticals where the products of publicly-funded drug research programmes are not available to ordinary people whose taxes paid for the research that produced them in the first place.

This follows the same pattern experienced following the 2007/8 crash where the financial sector having made huge gains then socialised the risk through bailouts paid for by the taxpayers. Benefits were privatised while costs were socialised. This is a truly dysfunctional feature of modern capitalism and should not be allowed to become the norm.

So part of the conversation about securing the required levels of infrastructure and services must be questions about

- How the State is to get a fair return on its investments that have benefitted the private sector.
- How there is to be a functional risk/reward dynamic that replaces the current process of socializing risks and privatizing rewards.

For example, there has been much criticism of bank bonuses on the basis that they have promoted greed, which is true. Of greater importance, however, should be a realisation that the basis of these bonuses, as rewards for risks taken, has no foundation in reality.

c) There is a need for off-balance sheet investment if current deficits are to be addressed.
Given the fiscal constraints the Irish Government has been facing and continues to face there has been serious underinvestment. One way of increasing the investment level would be to develop special purpose vehicles that could borrow money off the Government's books to invest in socially-orientated initiatives. An area in which this might operate is that of social housing.

Ireland has had a social housing crisis for several years. The number of *households* on waiting lists is rising dramatically and is now close to 100,000. The number of people who are homeless has also grown dramatically. Low and middle income households are finding it extremely difficult to secure appropriate accommodation. Government introduced a welcome initiative in Budget 2015 to start addressing this issue. However, the scale of that initiative is nowhere near what is required. At the rate proposed in Budget 2015 the current waiting list would not be eliminated until 2051 – and that makes no provision for any household joining the waiting in the intervening 36 years.

Policy development in this area needs to begin by recognizing that up to one third of Ireland's households will not be able to access appropriate accommodation through the market alone. On the other hand given the difficult current fiscal situation and the likely limitations that Government will face in coming years due to the conditions imposed by the Fiscal Compact, Government will not be able to borrow on the scale required to provide the housing needed.

Consequently, Ireland needs a not-for-profit National Housing Agency which would assume charge of the current stock of local authority housing. Such a body could leverage that housing stock to borrow on the scale required to address this problem effectively and within an acceptable time-frame. This approach could be combined with the development of a cost-rental system. This would be viable only if a good supply of affordable accommodation to rent was available. It should be combined with security of tenure and a rent-control system in the private sector along the lines used in many EU countries. There should also be support for social housing organisations and co-operatives (i.e. non-profit providers) in this approach.

This is one example of how finance could be sourced to address Ireland's current deficits in infrastructure and services. It would increase employment and secure jobs for a large number of people currently long-term unemployed who lost their jobs in construction following the 2008 crash. It would be good for the economy and for the communities in which these people live. It would also be good for the Government's Budget as it would reduce the numbers receiving social welfare payments while increasing the tax-take. An obvious win-win situation.

4.5 How are decisions on these issues to be made?

The changing nature of democracy has raised many questions for policy-makers and others concerned about the issue of participation. Decisions often appear to be made without any real involvement of the many affected by the decisions' outcomes. In the context of the issues being addressed here there are challenges facing society if it is to genuinely engage people in shaping the decisions that affect them. The authors believe such engagement to be one of the seven basic rights referred to already. It also raises issues concerning the seventh of those rights i.e. the right to cultural respect. The authors believe there are three key issues to be addressed in this context:

a) Development of a deliberative democracy process
b) Engagement of all sectors in a deliberative process of social dialogue
c) Evaluation as a tool for ongoing learning

a) Development of a deliberative democracy process

Some of the decision-making structures of our society and of our world, allow people to be represented in the process. However, almost all of these structures fail to provide genuine participation for most people. The resulting apathy towards participation in political processes is hardly surprising. The decline in participation is exacerbated by the primacy given to the market by many analysts, commentators, policy-makers and politicians. Most people are not involved in the processes that produce plans and decisions which affect their lives. They know that they are being presented with a *fait accompli*. More critically, they realise that they and their families will be forced to live with the consequences of the decisions taken. This is particularly relevant in Ireland in 2014, where people are living with the consequences of the bailout programme. Many feel disenfranchised by a process that produced this outcome without any meaningful consultation with citizens.

Many people feel that their views or comments are ignored or patronised, while the views of those who see the market as solving most, if not all, of society's problems are treated with the greatest respect. Modern means of communication and information make it relatively easy to involve people in dialogue and decision-making. The big question is whether the groups with power will share it with others?

To facilitate real participation a process of 'deliberative democracy' is required. Deliberative democratic structures enable discussion and debate to take place without any imposition of power differentials. Issues and positions are argued

and discussed on the basis of the available evidence rather than on the basis of assertions by those who are powerful and unwilling to consider the evidence. It produces evidence-based policy and ensures a high level of accountability among stakeholders. Deliberative participation by all is essential if society is to develop and, in practice, to maintain principles guaranteeing satisfaction of basic needs, respect for others as equals, economic equality, and religious, social, sexual and ethnic equality.

The authors believe a deliberative democracy process, in which all stakeholders would address the evidence, would go some way towards ensuring that local issues are addressed. This process could be implemented under the framework of the Council of Europe's *Charter on Shared Social Responsibilities* (Council of Europe, 2011). The development of Public Participation Networks in each Local Authority has the potential to see a deliberative democracy process emerge at local level.

b) Engagement of all sectors in a deliberative process of social dialogue.
At a national level a new structure for Social Dialogue is required where these issues may be discussed in a deliberative manner. Any proposal for Social Dialogue involving Government, trade unions and employers only, and excluding the rest of society, would be a recipe for ensuring that most of Ireland's resources would be captured by those participating in the discussion. Such an approach would simply lead to deepening divisions and growing inequality in Ireland.

Government needs to engage all sectors of society, not just trade unions and employers, in addressing the huge challenges Ireland currently faces in the areas of infrastructure and services. If government wishes the rest of us to take responsibility for producing a more viable future then it must involve the rest of us. Responsibility for shaping the future should be shared among all stakeholders. There are many reasons for involving all sectors in this process e.g. to ensure priority is given to well-being and the common good; to address the challenges of markets and their failures; to link rights and responsibilities.

When groups have been involved in shaping decisions they are far more likely to take responsibility for implementing these decisions, difficult as they may be. A process of Social Dialogue involving all and not just some of the sectors in Irish society would be a key mechanism in maximising the resources for moving forward.

c) Evaluation as a tool for ongoing learning

Policy evaluation has been extremely poor throughout the years in Ireland's policy development processes. The authors welcome the steps taken by Government to increase their research and evaluative capacity. However, we believe that much more is required. Evaluation as a tool for ongoing learning should be a part of all Government initiatives. Government could for example take steps to increase the transparency of budgetary and other important decisions, which are often opaque. To this end Government should publish their analysis of the distributional impact of budgetary measures, and engage in public debate in light of that analysis. The Government previously published Poverty Impact Assessment Guidelines provided by the Office of Social Inclusion (2008) in the budgetary documentation using the ESRI's SWITCH tax-benefit model which captures the distributional impact of changes in most taxes and benefits, but this practice was discontinued from Budget 2010. Government should begin this practice again and also adopt a gender equality analysis and apply it to each budgetary measure. These are simply examples; we could cite many more where the use of an evaluation for learning process could have a very positive impact on the outcomes of Government initiatives.

4.6 How and on what basis is progress on these issues to be measured?

Sustainable development is of critical concern as has been shown by the recently published climate change study (IPCC, 2014). The future of the planet, including Ireland, depends on decisions taken now. Sustainable development is our only means of creating a long term future for Ireland. Environment, economic growth and social needs should be balanced with consideration for the needs of future generations. This has to be a central concern when progress is being measured. Sustainability and the adoption of a sustainable development model presents a significant policy challenge: how environmental policy decisions with varying distributional consequences are to be made in a timely manner while ensuring that a disproportionate burden is not imposed on certain groups e.g. low income families or rural dwellers.

This policy challenge highlights the need for an evidence-based policy process involving all stakeholders. The costs and benefits of all policies must be assessed and considered on the basis of evidence only. This is essential in order to avoid the policy debate being influenced by hearsay or vested interests or the un-reflected exercise of power. Before the current recession

began the global economy was five times the size it had been 50 years before and, had it continued on that growth path, it would be 80 times that size by 2100 (SDC, 2009). This raises the fundamental question of how such growth rates can be sustained in a world of finite resources and fragile ecosystems. Continuing along the same path is clearly not sustainable. A successful transition to sustainability requires a vision of a viable future societal model and also the ability to overcome obstacles such as vested economic interests, political power struggles and the lack of open social dialogue (Hämäläinen, 2013).

Promoting a sustainable economy requires that we place a value on our finite natural resources and that the interdependence of the economy, wellbeing and natural capital are recognised (EC 2011). A sustainable economy requires us to acknowledge the limitations of finite natural resources and the duty we have to preserve these for future generations. It requires that natural capital and ecosystems are assigned value in our national accounting systems and that resource productivity is increased.

Consequently, creating a sustainable Ireland requires the adoption of new indicators to measure progress. GDP alone as a measure of progress is unsatisfactory, as it only describes the monetary value of gross output, income and expenditure in an economy. The *Report by the Commission on the Measurement of Economic Performance and Social Progress*, led by Nobel prize winning economists Amartya Sen and Joseph Stiglitz and established by President Sarkozy, argued that new indicators measuring environmental, financial sustainability, well-being, and happiness are required.

The National Economic and Social Council (2009) has published the *Well-Being Matters* report, which suggested that measures of well-being could be constructed that capture data on six domains of people's lives that contribute to well-being including: economic resources; work and participation; relationships and care; community and environment; health; and democracy and values. We believe that a set of Satellite National Accounts incorporating such indicators should be developed alongside current national accounting measures. The OECD Global Project on Measuring the Progress of Society has recommended a use of such indicators to inform evidence-based policies (Marrone, 2009: 23). They would serve as an alternate benchmark for success.

5. Conclusion: Five Policy Pillars

How then might we summarise the proposals we are making in policy terms, proposals we believe are the key requirements if Ireland is to be guided by the vision we set out at the beginning of this paper? We identify five key areas for policy development if this vision is to be achieved:

a) The first is macroeconomic stability, which requires a stabilisation of Ireland's debt levels, fiscal and financial stability and sustainable economic growth, and an immediate boost to investment, which collapsed during the crisis. We have spelt out how that investment might be sourced.
b) The second is the need for a just taxation system, which would require an increase in the overall tax-take to the European average; such an increase should be implemented equitably and in a way that reduces income inequality.
c) The third area is social services, the strengthening of social services and social infrastructure, the prioritisation of employment, and a commitment to quantitative targets to reduce poverty.
d) The fourth area is that of the governance of our country, which requires the promotion of deliberative democracy, new processes in policy evaluation, the development of a rights-based approach and a deliberative process of social dialogue in a society that promotes the common good.
e) Fifth, policies must be adopted that create a sustainable future, through the introduction of measures to protect the environment, promote balanced regional development, and develop new economic and social indicators to measure performance, alongside traditional national accounting measures such as GNP, GDP and GNI.

Macro-economy	Taxation	Social Services	Governance	Sustainability
Debt sustainability	Bring total tax-take to European average	Secure services and the social infrastructure	Deliberative democracy & PPNs	Develop Satellite National Accounts
Fiscal stability and sustainable economic growth	Increase taxes equitably	Combat unemployment	Reform policy evaluation	Balanced regional development
Investment programme	Secure fair share of corporate profits for the State	Ensure seven Social, Economic and Cultural rights are achieved	Social dialogue - all sectors in deliberative process	Combat climate change and protect the environment

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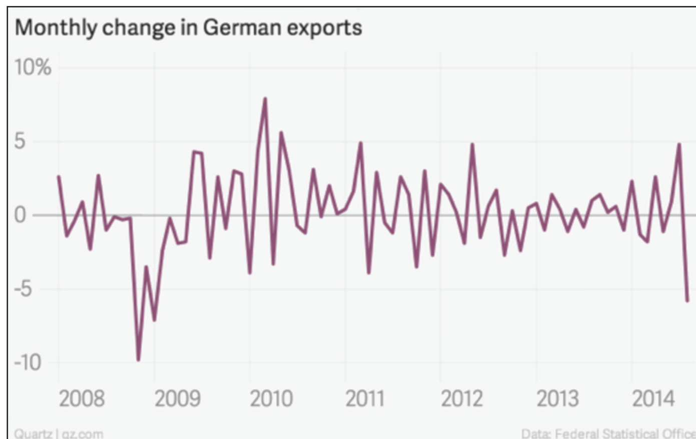
3. Germany: the real sick man of Europe. Why the 'German model' cannot – and should not – be a template for other countries

Thomas Fazi

Germany, written off as the 'sick man of Europe' when the euro was launched in 1999[3], is today considered by most to be the continent's most successful economy. But this is a dangerous misconception. As Matt O'Brien recently wrote in *The Washington Post*: 'It doesn't seem like it, but Germany is *still* the sick man of Europe. It's just that everybody else is terminally ill now'.[4]

Let's start by looking at the most recent economic data available. In August, the country reported its biggest tumble in exports since 2009, falling by 5.8 per cent.

Chart 3.1: Monthly changes in German exports 2008-2014

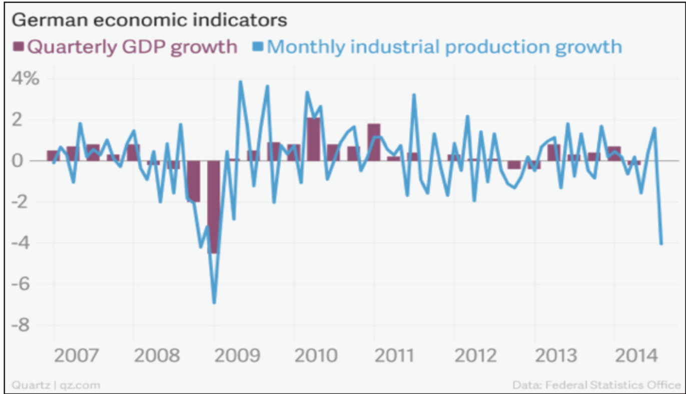


Source: Quartz.

[3] *The Economist*, 'The sick man of the euro', 3 June 1999.
[4] Matt O'Brien, 'Germany is killing its economy – and Europe's too', *The Washington Post*, 9 October 2014.

That same month, a similar reading on industrial production collapsed, falling by 4 per cent, in its biggest monthly decline since January 2009.

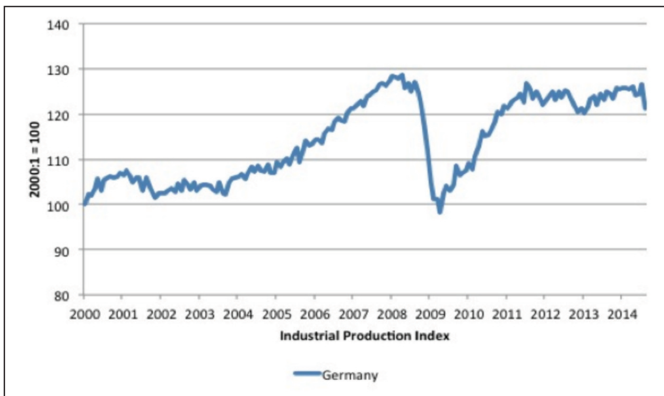
Chart 3.2: German GDP growth rate and Monthly industrial production growth 2007-2014



Source: Quartz.

This has put German industrial production back at December 2006 levels.

Chart 3.3: German industrial production 2000-2014



Source: Bill Mitchell.

Things don't look likely to improve over the short term either. German manufacturing indicators, a leading indicator for output, also fell sharply in August. The 5.7 per cent decline was, again, the largest drop since the worst of the global recession in early 2009.

Chart 3.4: German manufacturing orders, month-on-month change, 2008-2014

Source: Quartz.

Moreover, German inflation remained unchanged at 0.8 per cent – well below the ECB's target of 'below, but close to, 2 per cent'.

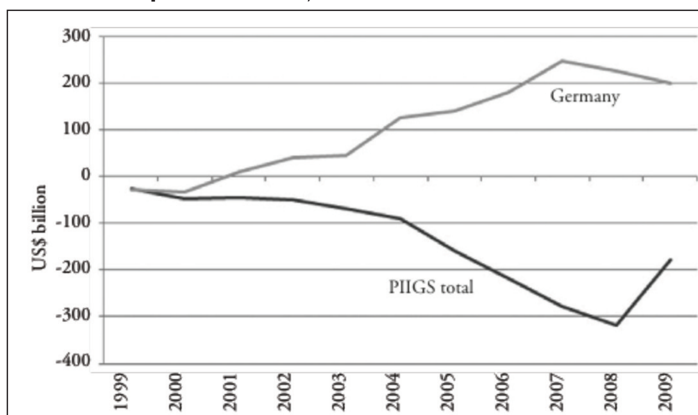
It's official: the German economy is flailing. In the face of such abysmal data, it's unsurprising that the German economy contracted in the second quarter of 2014 (for the first time since 2012), with the country's five economic institutes – or 'Wise Men' – stating in a joint report that the country is now in 'stagnation', and the president of the ZEW Center for European Economic research saying that he doesn't rule out a technical recession, defined as two subsequent quarters of shrinking GDP.[5]

Even more perplexing than the data itself – which is in fact not perplexing at all, as we shall see – was the response of the mainstream financial press, which largely reacted in shock and dismay to the dramatic slowdown of 'Europe's powerhouse', seen by the most as a model pupil for having escaped the crisis largely unscathed. This is rather ironic (not to say disheartening), considering that this outcome should have been perfectly predictable to anyone with a correct understanding of the true dynamics of the euro-crisis and a rudimentary knowledge of economics – and *was* in fact predicted by a number of non-mainstream economists and commentators.

[5] Ambrose Evans-Pritchard, 'Eurozone on cusp of triple-dip recession as German exports crumble', *The Telegraph*, 9 October 2014; Catherine Bosley and Brian Parkin, 'Germany Cuts Growth Outlook as Recession Peril Mounts', *Bloomberg*, 14 October 2014.

To understand this, we have to take a step back in time. It's a well-known fact that following the introduction of the euro, the intra-euro balance of payments – which had been more or less balanced since the 1980s – started to drastically diverge, as the continent become increasingly divided into creditor and debtor nations. The following figure – which shows Germany's current account balance vis-à-vis that of the so-called PIIGS (Portugal, Italy, Ireland, Greece and Spain) – shows the rise of these massive imbalances form 2000 onwards.

Chart 3.5: Current Account balance, Germany and Portugal, Italy, Ireland, Greece and Spain combined, 1999-2009

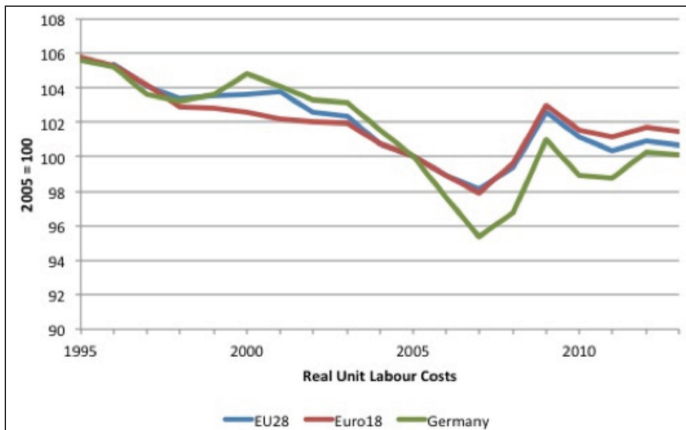


In short, Germany saw a huge increase in its trade surplus, while periphery countries saw an equally huge increase in their trade deficits. Of course, it is not a coincidence that the two trends are an almost exact mirror of each other. Although a significant proportion of Germany's impressive post-euro trade surplus increase is accounted for by trade with extra-EU countries, its trade surplus with the rest of the European Union almost tripled during those seven years, and a large proportion of this came from trade with the countries of the Mediterranean. The official story is that this was solely the result of the periphery countries letting their wages rise to excessive levels (in other words, paying their workers too generously) – or, as is often heard, 'living beyond their means' –, thus becoming less and less competitive, while Germany was one of the few countries to 'get it right', by keeping wages at a 'sustainable' level, thus becoming increasingly competitive (from a relative standpoint). At first glance it would indeed seem that this is the case – unit labour costs (ULCs) in periphery countries did indeed rise

considerably relative to Germany's – and thus that the former are in effect responsible for their own post-crisis ills, and therefore should be the ones to adjust by cutting costs and lowering wages (which is what has happened).

Reality, though, is far more complex. First of all, when speaking of the supposed responsibility of workers in bringing about the crisis, we have to situate the argument in the right historical framework, which is one where during the past three decades the share of national income represented by wages, salaries and benefits – the wage or labour share (also known as real unit labour costs, or RULCs) – has been declining, and that of capital increasing, in nearly all OECD countries, and today stands at a historical low – a point which should always be kept in mind when we hear calls for the 'need' for wages to be cut to 'increase competitiveness'. A decreasing wage share means that productivity is rising faster than real wages, leading to a redistribution of national income to profits, which essentially means that in the past decades *workers have become more productive but also more exploited*. The following figure shows the decline of the wage share (or RULCs) in the EU, Eurozone and Germany between 1995 and today.

Chart 3.6: Decline in wage share in the EU, Eurozone and Germany, 1996-2013

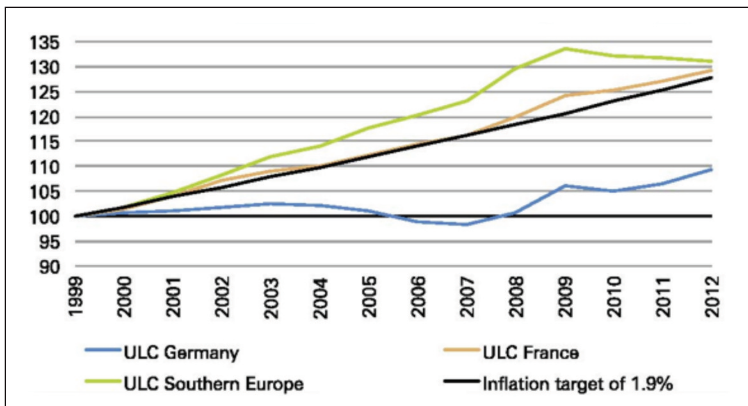


Source: Bill Mitchell.

As the above figure shows, a more accurate assessment of the post-euro wage trend in Europe would be that Germany has simply compressed wages *more* than other countries. That said, in judging who did 'right' and who did 'wrong' in the run-up to the crisis, we should look at what the Eurozone as a whole decided was 'right' with regard to wage increases when the

framework of the monetary union was created. Now, it is widely agreed that a system of fixed exchange rates can only work properly if unit labour costs converge and eliminate the need for exchange rate flexibility. The easiest way to achieve this is to ensure that in all member countries the ULCs increase in line with the commonly agreed inflation target, which – as we know – is 2 per cent for the EMU. In this regard, while it is certainly true that periphery countries overshot the EMU's commonly agreed inflation target of 2 per cent by letting their ULCs rise above that level, it is also true that Germany *undershot* its target by an even greater degree. If we compare Greece to Germany, for example, we note that in the post-euro years Greece experienced a 2.7 per cent ULC growth rate compared to a rate of just 0.4 per cent in Germany. In other words, Greece (and other periphery countries) violated the rule to a much lesser degree quantitatively than Germany.

Chart 3.7: Unit Labour Costs Germany, France, Southern Europe and inflation target, 1999-2012.



Source: Lapavitsas and Flassbeck.

As progressive economists Costas Lapavitsas and Heiner Flassbeck write, 'in view of this scale, the conclusion about wrongdoers and misbehaviour is obvious:... given this target and the overriding importance of unit labour costs for inflation, Germany headed towards a clear violation of the common target once its government started putting enormous pressure on wage negotiations to improve the country's international competitiveness, inside and outside EMU'.[6]

[6] Heiner Flassbeck and Costas Lapavitsas, *The Systemic Crisis of the Euro – True Causes and Effective Therapies,* Berlin: Rosa-Luxemburg-Stiftung, May 2013, p. 12.

As is well known, this was the result of a set of decisions made by Schröder's social-democratic government (and continued by Merkel's conservative government) which emphasised the export sector as the main motor of the economy. The core of Schröder's 'revolution' was the 2003–04 'Hartz IV' labour reform, which merged unemployment benefits and welfare at a lower level and expanded the low-wage sector. It led to a proliferation of low-paid, low-skilled jobs, also known as 'mini-jobs'. Unemployment fell significantly – fuelling the myth of the so-called German 'job miracle' or *Jobwunder* – but this was achieved in large part by creating a huge number of 'precarious' jobs; as a result, total hours worked have barely risen, even as the number of unemployed has fallen.[7] A recent study by Klaus Dörre, professor of labour studies at the Friedrich Schiller University, for the Rosa Luxemburg Foundation emphasises the heavy price paid by German workers. As Dörre writes:

As a result in part of a deliberate policy strategy but also partly due to productive failure, Germany's economic and political elites have clearly managed to bring about the creative destruction of the institutions of erstwhile social capitalism.... However, the result has not been a renewed social market economy that could serve as a model for Europe and the world, but rather the establishment of a highly selective competitive society in which social services are provided to the classes without capital only in so far as is necessary to combine allegiance at home with a 'semi-hegemonic' policy of domination on the European stage. The price for this is being paid primarily by the victims of the reforms, namely precarious workers, the socially excluded and the jobless. *Behind the facade of the supposed 'job miracle' lurks the transition to a society of full but precarious employment*, where the spread of insecure working and living conditions disciplines even those social groups whose conditions remain relatively stable.[8]

The chief effect of the reform was to allow companies to compress wages through labour arbitrage, leading to a massive redistribution of income to profits. And, more importantly, allowing Germany to dramatically increase its competitiveness vis-à-vis its European trading partners, which were not able to impose the same 'discipline' on their workforce. Herein lies the

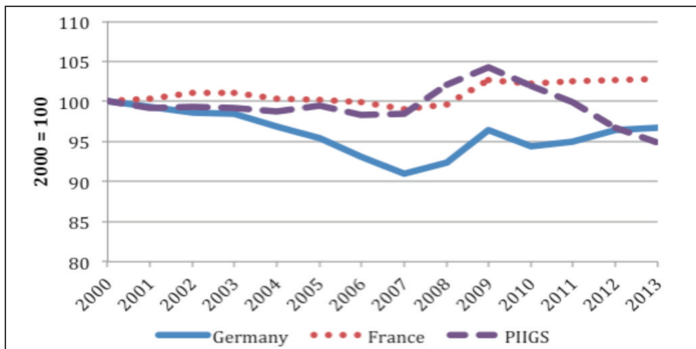
7 *The Economist*, ' Three illusions', 27 September 2014.
8 Klaus Dörre, *The* German Job Miracle – *A Model for Europe?*, Brussels: Rosa-Luxemburg-Stiftung, August 2014, p. 9.

explanation to Germany's post-euro export success, and not in the greater productivity or efficiency of the German economy, as is often implied or openly stated (as a matter of fact, Germany's productivity rate was actually lower than Greece's over the 2000-08 period). Moreover, by being part of the monetary union, Germany did not see its currency appreciate as a result its growing trade surplus, while deficit countries were prevented from pursuing currency depreciation.

This also underscores another obvious – but oft-omitted – point: that Germany was able to acquire such a massive trade surplus precisely because other countries (such as those of the periphery) were *not* following the same policy of drastic wage compression, thus sustaining internal demand (albeit through credit booms in some cases) and providing Germany with an export market, which in turn increased their trade deficit. Surpluses and deficits, in other words, are two sides of the same coin: it is economically impossible for all European states to be in surplus since they would all have to run a trade surplus with the rest of the world, which is clearly not possible (or even desirable).

In light of this, Germany's insistence, in the aftermath of the crisis, that the countries of southern Europe all develop a trade surplus of their own is at best naïve, especially considering that Germany and other northern countries, through their financial sectors, actively contributed to the bubbles in the countries of the periphery. By compressing wages, Germany severely stifled domestic demand up to 2005, as the following figure shows.

Chart 3.8: Domestic demand in Germany, France and in Portugal, Ireland, Greece Italy and Spain combined, 2000-2013 (2000=100)



Source: Bill Mitchell based on Eurostat AMECO data.

This meant that Germany could only grow through widening export surpluses. Which, as mentioned, required other countries running deficits – and, if necessary, helping them to do so. As a consequence of Germany's emphasis on exports, its banks accumulated huge amounts of euros – mostly from the countries of the periphery. Rather than using this money to increase demand in Germany (which would have stimulated not only the German economy, but the whole European economy), the German banks channelled their export earnings straight back into the countries of the periphery, in the form of debt. It was this that enabled those countries to keep on buying from the north. This amounted, effectively, to a sovereign version of what is known in retail as 'vendor finance', whereby a company lends money to be used by the borrower to buy the vendor's products (not unlike the way China and the US are bound together). In other words, to a large extent, 'Germany self-financed its own so-called economic miracle', as the American banker and economist Daniel Alpert put it.[9] That money directly contributed to the housing bubbles in Spain and other countries.

By the end of 2009, according to the Bank for International Settlements, German banks had amassed claims of $720 billion on Greece, Ireland, Italy, Portugal and Spain – much more than the German banks' aggregate capital.[10] Irresponsible borrowing, in short, was made possible by irresponsible lending. As Australian economist Bill Mitchell writes:

German government policy deliberately created widening imbalances in Europe by undermining the competitiveness of the other nations through the harsh attack on their own workers.... The suppression of consumption in Germany and the reliance on exports to maintain growth was very damaging to the peripheral states. The growth in employment in Germany in the lead-up to the crisis was not due to a well-functioning monetary union. Rather, *it reflected its malfunctioning because it depended on widening trade imbalances* – huge surpluses in Germany and some of its neighbours against widening deficits in the periphery, covered by unsustainable capital flows from the former to the latter.[11]

9 Daniel Alpert, 'Challenge to austerity deepens, the handwriting is on the wall', *EconoMonitor*, 6 May 2012.

10 Bank of International Settlements, *Quarterly Review*, March 2010, Table 9B, p. 76.

11 Bill Mitchell, 'Options for Europe – Part 62', author's blog, 8 April 2014.

Yet, despite its own responsibilities, Germany – along with the rest of the European establishment – was quick to blame the trade deficits of the PIIGS on their 'lack of competiveness'. The assumption underlying this was that Germany was the only country in the EMU that had got its policy right, so what was needed was for the other member states to improve their competitiveness by following the German wage-slashing model through so-called 'internal devaluation'. And wages have indeed fallen, to a degree that would have been considered politically impossible before the crisis. In Greece, for example, by 2012 cuts to nominal wages had reached 2.3 per cent, with the average salary down by 23 per cent and the minimum wage down by 30 per cent. This represented an 11 per cent drop in hourly labour costs over the 2008–12 period. To varying degrees, unit labour costs have been falling in all periphery countries except Italy over the 2009–12 period, as a result of nominal wages increasing very moderately compared with productivity, or even decreasing, as in Greece and Ireland. This has led to a drastic rebalancing of intra-euro trade balances, with periphery countries registering a sharp decrease in their pre-crisis intra- and extra-euro trade deficits (and Italy even gaining a small surplus in 2013). This, though, has been as much a consequence of increased exports as it has been of decreased imports, because of the drastic reduction in demand. This has meant that the benefits of increased exports for these countries has been offset by the devastating effects on the wider economy of stagnating or falling wages. This is especially so since the export share of periphery economies is rather low, amounting to 27, 32 and 39 per cent of GDP in Greece, Spain and Portugal respectively, compared with 52 per cent in Germany.

A 2012 discussion note by the European Commission pointed to the risks involved in boosting exports solely through cost cutting:

The scope for restoring competitiveness through wage adjustment is limited by the risk that this may trigger a deflationary wage spiral across the EMU – thereby simultaneously leaving their international competitiveness unchanged and depressing domestic demand in all Member States concerned and in the Union as a whole.[12]

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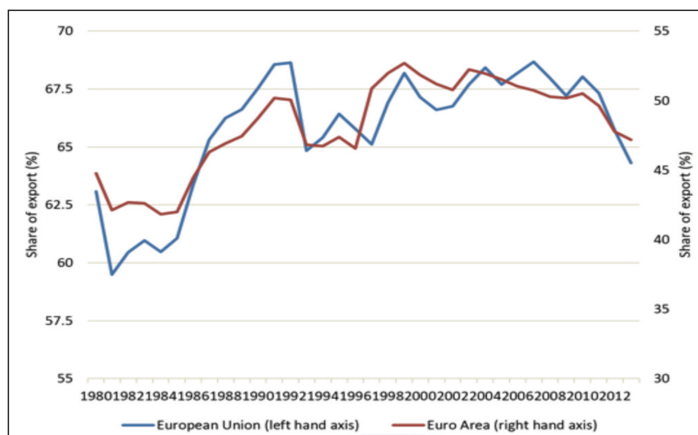
[12] European Commission, 'Discussion note: tripartite exchange of views on wage developments', 20 December 2012, p. 3.

In other words, internal deflation is akin to killing the patients in order to cure them. The reason is that wage deflation policies are based on a fallacious and ideological reading of the crisis. As we saw, it is logically impossible for all EMU countries to follow the German pattern: to a large degree, Germany's export-led success story would never have been possible without the booms in the periphery, which provided customers for German products. Competitiveness, in other words, is a relative concept: if all countries, in the years following the creation of the euro, had applied the same wage moderation policies as Germany, the whole continent would have likely plunged into recession. Which is exactly what has happened, with the Eurozone as a whole today – as a result of the deadly combination of fiscal austerity and wage compression – on the verge of a triple-dip recession and a step away from deflation, and a number of periphery countries still in recession (and in some cases outright deflation) and burdened by record-high unemployment and public debt levels. As László Andor, EU Commissioner for Employment, Social Affairs and Inclusion, recently put it: 'Internal devaluation has resulted in high unemployment, falling household incomes and rising poverty – literally misery for tens of millions of people'.[13] The result, predictably, has been a collapse of intra-euro and intra-EU trade over the course of the last four years.[14]

Chart 3.9: Intra-EU and Intra-Eurozone trade 1980-2012



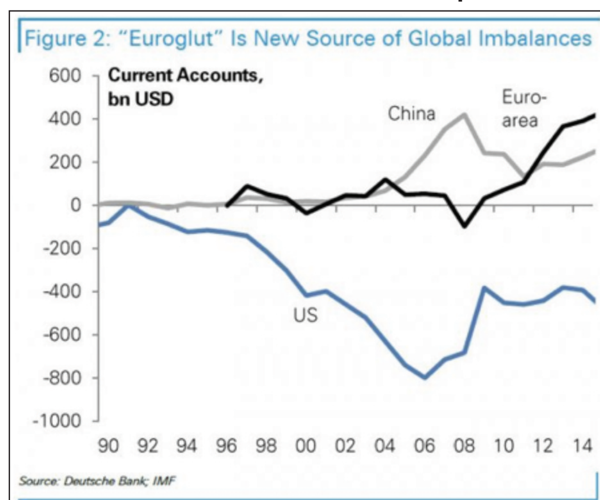
Source: Bruegel based on IMF data.

13 Nicolaj Nielsen, 'EU official says response to economic crisis is flawed', *EUobserver*, 14 June 2014.

14 Giulio Mazzolini, 'Chart: Sharp decline in intra-EU trade over the past 4 years', Bruegel, 27 August 2014.

As various non-mainstream economists number of economists had warned, given that EU nations account for about 57 per cent of German exports, killing demand across the entire continent through austerity would inevitably backfire on Germany. As Matt O'Brien put it, 'forcing your customers into a worse depression than the 1930s isn't good for you'.[15] A long-term, economically and socially sustainable solution to Europe's crisis would have required Germany to bear some of the burden, by boosting demand through increased wages and investment, and reducing its surplus (or even running a deficit). Instead, in recent years, Germany chose to keep pursuing its extreme mercantilist strategy, responding to collapsing demand in Europe by reorienting its exports towards extra-EU countries. As a result, it has managed to transform Europe's imbalances into an even more destabilising *global imbalance*, which a recent Deutsche Bank report termed 'Euroglut'.[16] The terms refer to the Eurozone's massive current account surplus (largely driven by Germany) – at around $400 billion a year, it is bigger than China's in the 2000s – caused by 'lack of European domestic demand' and 'an excess of savings over investment opportunities'.

Chart 3.10: Eurozone current account surplus 1990-2014



[15] O'Brien, 'Germany is killing its economy – and Europe's too'.
[16] *Zero Hedge*, 'Deutsche Bank's Shocking Admission: "QE In Europe Will Be Ineffective"', 7 October 2014.

‘If sustained, it would be the largest surplus ever generated in the history of global financial markets’, the report reads. The destabilising consequences of such a policy were the subject, in late 2013, of an unusually explicit report by the US Treasury Department, which openly accused the German authorities of pursuing beggar-thy-neighbour policies which were dragging down its EMU partners and the rest of the global economy:

Euro area deficit countries have sharply reduced their current account deficits, but euro area surplus countries have not reduced their current account surpluses.... Thus, the burden of adjustment is being disproportionately placed on peripheral European countries, exacerbating extremely high unemployment, especially among youth in these countries, while Europe’s overall adjustment is essentially premised on demand emanating from outside of Europe rather than addressing the shortfalls in demand that exist within Europe.... Germany’s anaemic pace of domestic demand growth and dependence on exports have hampered rebalancing at a time when many other euro-area countries have been under severe pressure to curb demand and compress imports in order to promote adjustment. *The net result has been a deflationary bias for the euro area, as well as for the world economy*.[17]

The implications of the report are clear: just like Germany’s policies are not sustainable on a European scale, they are not sustainable – especially when applied to the entire currency area – on a global scale either. Simply put, weak demand in the Eurozone means lower growth in the rest of the world, which means less imports of Europeans goods. And the economic data presented at the beginning of this paper proves it: in the face of weak global demand (see the whole debate on ‘secular stagnation’), Germany’s exports are taking a hit. The country’s share of global exports fell from 9.1 per cent in 2007 to 8 per cent in 2013 – as low as in the ‘sick man’ era, when Germany was struggling with reunification.[18]

The limits of the so-called ‘German model’ – and the folly of attempting to impose that model on the whole of Europe – seem to finally be dawning upon mainstream economists and commentators. Even in Germany.

[17] US Department of the Treasury, *Report to Congress on International Economic and Exchange Rate Policies,* 30 October 2013, pp. 24–6.

[18] Philippe Legrain, ‘Germany’s Economic Mirage’, *Project Syndicate*, 23 September 2014.

‘Germany considers itself the model for the world, but pride comes before the fall’, says Olaf Gersemann, *Die Welt*’s economics chief, in a new book, *The Germany Bubble: the Last Hurrah of a Great Economic Nation*. Gersemann says the second *Wirtschaftswunder* – or economic miracle – from 2005 onwards has ‘gone to Germany’s head’. The country has mistaken a confluence of exceptional events for permanent ascendancy. It cannot continue to live off exports of capital goods to China and the BRICS as they hit the buffers, or by stealing a march on southern Europe through wage compression, a zero-sum game. As Wolfgang Münchau recently wrote in the *Financial Times*,

One of the biggest misconceptions about the Eurozone has been a belief in the innate strength of Germany – the idea that competitiveness reforms have transformed a laggard into a leader. This is nonsense. The German model relies on the presence of an unsustainable investment boom in other parts of the world.... *The root cause of the problem is the age-old over-reliance on exports*.[19]

Marcel Fratzscher, head of the German Institute for Economic Research (DIW), goes even further in his new book, *Die Deutschland Illusion*, arguing that Germany’s export-led model isn’t simply unsustainable in the long run – it has been failing all along. He writes that Germany’s obsession for surpluses has resulted in chronic private underinvestment in the country’s economy, as the whole system depends on German capital fuelling demand abroad. This has resulted in investment falling from 22.3 per cent of GDP in 2000 to 17 per cent in 2013, less than most comparably rich countries, which – combined with one of the lowest levels of gross government investment in Europe (with net government investment negative in the past 12 years after accounting for wear and tear) – is responsible for low productivity growth (because it discourages workers from upgrading skills and companies from investing in higher-value production) and for what a recent *Spiegel* article described as ‘Germany’s ailing infrastructure’, with highways, bridges and even the Kiel Canal in desperate need of maintenance.[20] According to DIW calculations, the investment shortfall between 1999 and 2012 amounted to about 3 per cent of gross domestic product, the largest ‘investment gap’ of any European country.[21]

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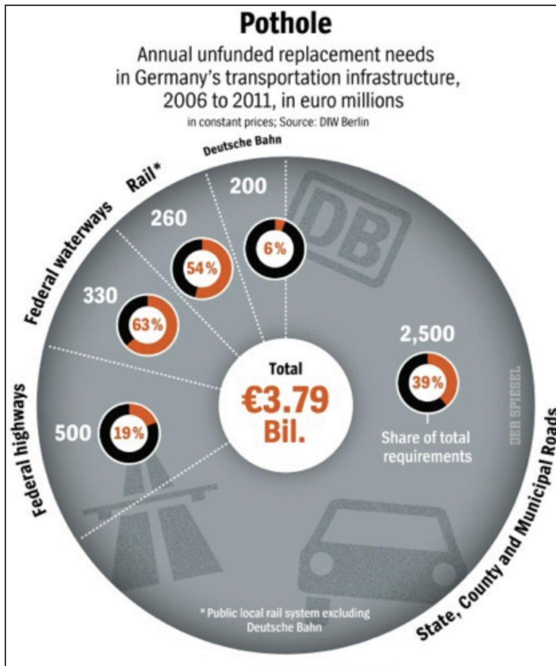
19 Wolfgang Münchau, ‘Germany’s weak point is its reliance on exports’, *Financial Times*, 12 October 2014.

20 Alexander Jung et al., ‘Germany’s Ailing Infrastructure: A Nation Slowly Crumbles’, *Spiegel*, 18 September 2014.

21 Jung, ‘Germany’s Ailing Infrastructure’.

Chart 3.11: Annual unfunded replacement needs in Germany's transportation infrastructure 2006 to 2011 in Euro millions



Source: *Spiegel*.

As Philippe Legrain, visiting senior fellow at the London School of Economics' European Institute and former economic adviser to the president of the European Commission, recently wrote, this is perhaps the best demonstration of the fact that Germany's export-led economic model (exemplified by the country's huge current account surplus), far from being an example of superior competitiveness, is actually highly 'dysfunctional':

External surpluses are in fact symptomatic of an ailing economy. Stagnant wages boost corporate surpluses, while subdued spending, a stifled service sector, and stunted start-ups suppress domestic investment, with the resulting surplus savings often squandered overseas. The Berlin-based DIW institute calculates that from 2006 to 2012, the value of Germany's foreign portfolio holdings fell by €600 billion, or 22 per cent of GDP. Worse, rather than being an 'anchor of stability' for the eurozone, as Schäuble claims, Germany spreads instability. Its banks' poor approach to lending their

surplus savings inflated asset-price bubbles in the run-up to the financial crisis, and have imposed debt deflation since then. Nor is Germany a 'growth engine' for the Eurozone. In fact, its weak domestic demand has dampened growth elsewhere. As a result, German banks and taxpayers are less likely to recover their bad loans to southern Europe. Given how bad wage compression has been for Germany's economy, foisting wage cuts on the rest of the Eurozone would be disastrous. Slashing incomes depresses domestic spending and makes debts even less manageable. With global demand weak, the Eurozone as a whole cannot rely on exports to grow out of its debts.[22]

And yet the European political establishment seems to be bent on transforming the monetary union into huge German-style, export-led economic machine characterised by stagnant wages, low demand and massive capital outflows. This is exemplified by the 'free trade agreement' currently being negotiated between the EU and the US, the Trade and Investment Partnership (TTIP). As Werner Raza, director of ÖFSE – Austrian Foundation for Development Research, writes:

The TTIP is an essential part of the Global Europe strategy, the latter linking EU trade policy explicitly with the 'competitiveness agenda' of the Europe 2020 strategy. In this sense, the new trade agenda is an essential element of an EU crisis policy that emphasises the need to increase external competitiveness in order to install an export-led growth model all over the EU, particularly in the Eurozone.[23]

According to Raza, there is a causal link between such a model and the regressive policies imposed on the peoples of Europe in recent years:

This export-led growth model is linked to the flexibilisation of labour markets, low corporate taxation and wage deflation as key elements of so-called 'structural reforms' – and thus to the wider dismantling of the welfare state which we have witnessed in recent years. The TTIP contributes to this by further shifting the balance of social forces in favour of the corporate sector, and by locking-in the neoliberal reforms of the last two decades, in particular the privatisation of public services.[24]

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[22] Legrain, 'Germany's Economic Mirage'.

[23] Interview to the author.

[24] Interview to the author.

The 'Germanisation' of Europe which the TTIP implies will not only pit the countries and workers of Europe against each other in a self-destructive race to the bottom – it will also pit Europe against the rest of the world, with potentially very destabilising consequences. As Adam Posen, president of the Peterson Institute for International Economics, wrote in the *Financial Times*: 'Low wages are not the basis on which a rich nation should compete.... If Germany's economic model is the future of Europe, we should all be quite troubled. But that is where we seem to be going'.[25]

[25] Adam Posen, 'Germany is being crushed by its export obsession', *Financial Times,* 3 September 2013

4. Public Capital Investment and Public Private Partnerships in Ireland 2000-2014: A Review of the Issues and Performance

Eoin Reeves

Introduction

Public capital spending in Ireland has followed the bust-boom-bust cycle of the wider economy over the last 20 years. Ireland's last period of prolonged economic stagnation in the 1980s coincided with severe reductions in public investment in infrastructure. This was followed by a period of record levels of expenditure (2000-2008) and a return to significant reductions in the current period of fiscal consolidation. While large-scale investment, especially during the boom years resulted in real improvements in the stock and quality of Ireland's physical infrastructure, major infrastructure gaps remain in areas such as water, broadband, energy and housing infrastructure. This raises a number of issues and questions for our policy makers including:

- What level of overall public capital spending will be necessary to meet Ireland's future infrastructure requirements?
- What sectors and projects should be prioritised?
- How should investment be financed and funded?

This paper seeks to address these issues and is structured as follows:

- First, it reviews the history of public capital expenditure in Ireland since 2000. It examines the investment levels that will be necessary to meet the needs of the economy going forward and whether such investment is economically justifiable.
- Second it examines the areas where investment needs appear most urgent;

- Third is explores how investment may be financed and funded. Specifically, it addresses the question of private sector participation in infrastructure deliver and public-private partnerships (PPP) in particular.

Background: Trends in Public Capital Expenditure and Requirements Going Forward

Rapid economic growth in the mid-1990s revealed an acute deficit of quality physical infrastructure in sectors such as transport (roads and public transport), environment (water and waste management), housing and education (schools and third-level facilities). The turnaround in Ireland's public finances in the mid 1990's however, enabled the implementation of the *National Development Plan 2000-2006,* which led to unprecedented levels of public capital investment that continued until 2008. It is widely recognised that major increases in investment under the NDP led to significant improvements in sectors including motorways, public transport, and airports.[26] Nonetheless, when the economy crashed in late 2008 significant infrastructure gaps remained in sectors such as water services, high-speed broadband, schools and social housing. The ensuing period of fiscal consolidation has meant that these infrastructural shortcomings have not been addressed. Ireland therefore faces stern challenges if its stock of infrastructure is to support the prospects for economic growth in the coming years.[27]

Figure 1 shows that public capital investment (exchequer and non-exchequer expenditure)[28] peaked in absolute terms in 2008 (expenditure of €12.5 billion). Relative to national income (GNP and GDP) public capital expenditure also peaked in 2008 (at 7.82 per cent GNP and 6.69 per cent of GDP). Severe cutbacks which commenced in 2009 led to marked reductions in expenditure in absolute terms and also relative to national income. In 2013, total (estimated) exchequer capital spending amounted to €5.67 billion (3.84 per cent of GNP and 3.24 per cent of GDP).

[26] It should be noted that a number of commentators expressed concerns about the scale of the public investment programme during the boom years and how it was prioritised (Fitzgerald, 2012).

[27] The biggest single element of private investment infrastructure was the expenditure on new housing (Fitzgerald, 2012).

[28] Exchequer Public Capital Expenditure is defined as comprising both voted capital and certain non-voted capital. Non-Exchequer Expenditure includes spending from EU Funds and from the internal resources of bodies such as public enterprises and other state agencies.

Figure 1: Public Capital Expenditure 1997-2014

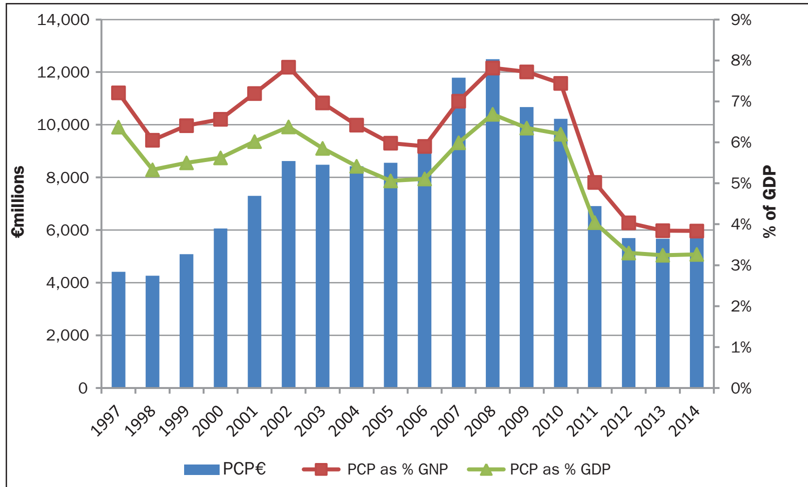

Figure 2 shows that reductions in public capital have been recorded across all sectors since 2008. These were highest in the transport and housing sectors where spending, in proportionate terms, fell by approximately three quarters (see table 1).

Reductions in public capital investment coincided with an even more severe contraction in private sector investment. This was largely driven by the decline in investment in 'private dwellings' which fell from a peak of 41 per cent of overall investment in 2005 to 12 per cent in 2013.[29] As a consequence, the overall rate of investment in the domestic economy has been at an all-time low for the last three years. According to the ESRI's *Medium Term Review* (2013) the long-run average rate of investment in the Irish economy was over 26 per cent of GDP. In 2013 this rate had fallen to approximately 15 per cent. It should be of particular concern that this overall investment rate is also low in comparative terms. Duggan (2013) conducted a comparative analysis of investment in OECD countries and found that Ireland's investment rate in 2011 was less than half the OECD average, half the Eurozone average, and lower than rates recorded for Greece, Portugal, Italy and Spain.

[29] Source: CSO - Measured as Investment in Private Dwellings as percentage of Gross Domestic Fixed Capital Formation.

Figure 2: PCP by Sector 1999-2014

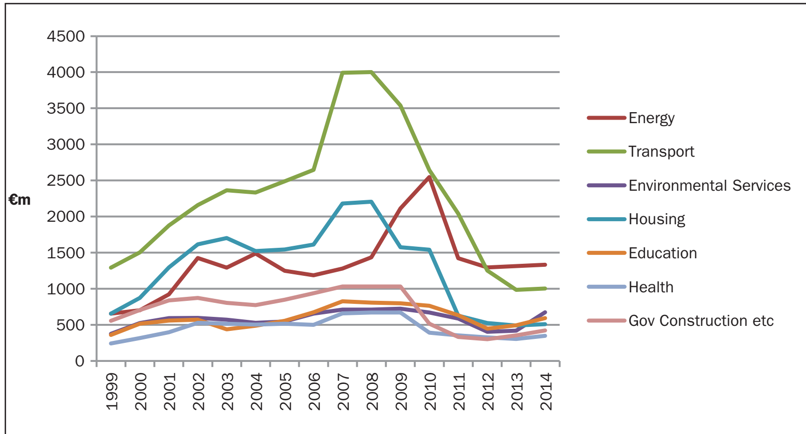

Table 1: Percentage Changes in Public Capital Programme By Sector 1999-2014 and Expenditure 2014

	1999-2008 - % Change	**2008-2014 – % Change**	**Expenditure 2014 (€m)**
Energy	+119.08	-7.11	1,333
Transport	+209.83	-74.89	1,005
Environmental Services	+88.59	-5.06	675
Housing	+236.28	-76.84	511
Education	+123.48	-26.70	593
Health	+175.82	-48.14	349
Gov Construction etc	+85.13	-59.05	423
Change in All Sectors above	+162.31	-55.02	
Change in Total PCP	**+145.58**	**-51.82**	

The recorded reductions in public investment provide grounds for real concern, especially when viewed in the context of overall investment levels that are low in historic and comparative terms. Nevertheless, it should be noted that there were sound justifications for a significant proportion of the observed reductions in nominal expenditure. For example, the fall in tendering prices that was precipitated by the collapse of the construction industry meant that reductions in investment were not as dramatic when measured in real terms. Construction tender prices fell by approximately 30 per cent between early 2007 and late 2011. As construction costs account for the lion's share of capital spending, it is clear that a significant proportion of reductions in nominal public capital spending is price-related so the impact on the volume of infrastructure output was significantly ameliorated.

Another important factor to be considered is that the demands of the shrinking economy were not nearly as great as that of the economy that was experiencing strong growth before the crisis. Reduced economic activity means there are fewer demands on physical infrastructure. This point was explicitly made by the Department of Finance when it presented its first major revision of the *National Development Plan 2007-2013*. In its *Infrastructure Investment Priorities 2010-2016* the Department points to lower numbers in employment, reduced commuter numbers and lower numbers of car registrations and trunk traffic, all of which reduced the medium-term demands on the country's transport infrastructure.

To a large degree therefore, the reductions in planned investment levels that commenced in 2009 were justifiable especially in the context of the overall fiscal constraints that have prevailed since the crisis. Today however, with the prospects for increased growth in the economy improving, a number of important infrastructural challenges must be met in the short to medium term. These include:

1. setting an appropriate level of public capital expenditure that meets the needs of the economy;

2. prioritising sectors and projects for investment,

3. adopting optimal funding and financing models for capital projects.

Setting an Appropriate Level of Public Capital Expenditure

Although reductions in public capital expenditure were a necessary part of the overall need for fiscal consolidation there are now a number of justifications for reversing the downward trend observed since 2009. Unexpected rates of growth in national income in 2014 (and improved prospects for 2015) provide significant scope for increasing public capital expenditure levels beyond the levels planned for in the multi-annual capital investment framework (MACIF) 2012-2016.[30] Moreover, with long-term borrowing costs currently running at 2 per cent, there does appear to be real potential for investment in infrastructure that will yield a return in excess of this level. Investment that is justified on this economic basis will have a stronger positive impact on Ireland's balance sheet than reducing the size of the annual deficit (Aherne, 2014).

Arguments in favour of fiscal stimulus via public investment are typically dismissed on the grounds that relevant fiscal multipliers are not high enough to justify this approach. Recent evidence however indicates that multiplier effects are stronger than previously thought and the case against stimulus via public capital investment has been revised.

Duggan (2013) reviews some recent evidence on this question. He quotes Blanchard and Leigh (2012) who estimated that short-term fiscal multipliers are close to 1.7 which is markedly higher than the 0.5 level that was previously assumed. This means that an injection of €1 billion results in an increase in GDP of €1.7 billion. More recently the IMF (2014) has advocated public infrastructure investment in economies where unemployment is high and resources need not be allocated at the expense of economic activities. In these cases, the positive stimulus effect is found to be greater if investment is financed by borrowing rather than cutting other spending and raising taxes.

Although the Irish economy is characterised by such spare capacity its openness means that that fiscal multipliers are expected to be smaller due

[30] At the time of writing the ESRI forecasts real growth in GDP of 5.0 and 5.3 per cent in 2014 and 2015 respectively. Forecasts for GNP in both years are 4.9 and 5.2 per cent respectively.

to leakages attributable to imports. Nevertheless, the available evidence indicates that fiscal multipliers for investment are as high as 1.6. This was measured by O'Farrell (2012) who used the *Hermin* model to examine the effects of an investment stimulus on GDP and employment. In addition he finds that €1 billion of stimulus by public investment would yield 16,750 short-term jobs and between 675 and 850 long-term sustainable jobs. The latter is attributable to the long term supply-side effects of productive investment that improves productivity and competitiveness. As former US Secretary of the Treasury, Lawrence Summers (2014) points out, these investments in public infrastructure can potentially pay for themselves as long term increases in tax revenues offset the interest repayment on initial capital outlays.

If the case for increased public capital expenditure is accepted two subsequent questions arise: (1) At what level should expenditure be set and (2) where should the incremental investment be invested?

On the question of setting an appropriate level of capital expenditure it is worth emphasising that levels of Exchequer spending planned under the current MACIF (2014-16) are historically low when measured in terms of national income. The average annual Exchequer provision for 2014-2016 is €3.3 billion or 2.3 per cent of annual GNP which is markedly lower than average provisions of 4 per cent which prevailed over the period 1999-2014. Given the ongoing deficits of infrastructure in some key sectors and the strong case of a fiscal stimulus via capital spending (discussed below) a 4 per cent target appears reasonable notwithstanding fiscal constraints that continue to apply.[31]

Even if the ratio of public capital spending to national income is held at levels set at the end of 2013, the recent upward revisions in forecast economic growth indicate that public capital investment is set to increase in absolute terms. This gives rise to the question of where increased levels of capital spending should be allocated.

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31 It is noteworthy that in their recent review of global infrastructure needs, the McKinsey Global Institute (2013) also recommend that countries set capital spending at 4 per cent of national income.

Prioritising Sectors for Investment

The allocation of Exchequer funding to public investment should be determined by a number of considerations including the current stock and quality of infrastructure in different sectors, demographic forecasts and the future demand for infrastructure, and the potential for individual projects to deliver net social benefits.

The priorities for future investment were last identified in the *Infrastructure and Capital Investment Framework 2012-16* which was published in November 2011. As most capital investment within this framework has been directed towards maintenance and upkeep of existing infrastructure there is now a visible need to address infrastructure gaps in a number of sectors.

Clearly identifiable priorities include:

(i) *Water services* - focusing on reducing leakage levels, improving drinking water quality, ensuring secure supply and statutory compliance in relation to wastewater discharges;

(ii) *Broadband* - particularly the delivery of high-speed broadband to the regions;

(iii) *Public transport* – including the long term integration agenda for the Greater Dublin Area and smarter travel initiatives;

(iv) *Roads* – completion of the motorway network between major cities (e.g. N17/N18 Gort – Tuam link which is under construction) and linkages between major and secondary network routes (Society of Chartered Surveyors Ireland, 2014);

(v) *Energy* – especially energy conservation measures such as improved insulation of buildings;

(vi) *Education* – Demographic change means that between 2010 and 2020, approximately 104,000 additional students will enter primary schools with 37,000 of these students entering in the period 2015-2020 (SCSI, 2014:42). A major school building and refurbishment programme is therefore required to meet these needs in the medium term.

(vii) *Health* – The requirements for health care infrastructure in the current MACIF include priority projects such as the National Children's Hospital, Central Mental Hospital and the National Project for Radiation Oncology. These projects are still in development. Other priorities in the medium term will include primary care facilities, long-term care facilities as well as maintenance and refurbishment of existing facilities.

(viii) *Social Housing* –Public investment in social housing was reduced by 77 per cent over the period 2008-13. The legacy of these reductions is a major shortage in social housing with nearly 100,000 households on waiting lists and in need of social housing supports. Major investment in housing infrastructure will be required over the next few years if a new housing crisis is to be avoided.

Funding and financing investment in these priority sectors will be a major challenge for policy makers over the next 5-10 years. The *Stimulus Package* announced in July 2012 clearly demonstrates that the government will look beyond the Exchequer for sources of funding and adopt alternative procurement models such as public-private partnerships (PPP) that are based on private finance. The following sections examine issues around financing and funding infrastructure and the experience with the PPP model of procurement.

Choosing a Procurement Model - Optimal Funding and Financing

Large-scale capital investment involves a number of challenges which, if not met successfully can lead to significant economic and social costs. In international terms, the history of public procurement of major infrastructure is characterised by a high frequency of time and cost-overruns that have prompted policy makers to experiment with new and different forms of procurement. Over the last 20-25 years, governments (including Ireland) seeking to address the shortcomings of traditional procurement approaches have increased the involvement of the private sector in the delivery of public infrastructure. The adoption of alternative procurement models such as public-private partnerships (PPPs) significantly alters the roles of the public and private sectors across different stages of the project

life-cycle. Moreover it has implications for the financing and funding of public capital investment. These include the initial financing of investment, which under some models of PPP is based on privately owned entities sourcing finance from private capital markets. As governments are likely to incur lower borrowing costs, the use of private (instead of public) finance is likely to have implications for the overall cost and efficiency of infrastructure investment.

The use of private finance also has implications for how infrastructure is funded. Funding (as opposed to financing) infrastructure refers to how the asset is paid for over time. Under traditional procurement methods investments are mainly (although not necessarily) funded from tax revenues. On the other hand, privately-financed PPPs tend to rely on a mix of funding sources including tax revenues and user charges (e.g. toll-roads). Greater reliance on the latter has potential equity consequences in terms of limiting citizen's access to public infrastructure.[32]

In international terms, Ireland is ranked among the countries with the most extensive use of the PPP model for procuring infrastructure. Moreover, since the announcement of its 'Stimulus Package' in July 2012 the Irish government has clearly signalled that PPP will continue to account for a significant proportion of public infrastructure investment. In this context it is worth examining how the PPP procurement model has performed since it was first adopted in Ireland in the early 2000's.

Public Private Partnerships – A Brief Review of the Irish Experience

PPPs for infrastructure are long term contracts under which the private sector undertakes to design, build, operate and (in many cases) finance the investment in physical assets such as schools, roads and public transport. Collaborations between public and private sectors are nothing new but the form of PPP described above has become internationally popular since the UK launched the Private Finance Initiative (later re-branded as PPP) in 1992. The scale of global PPP activity grew consistently until the global financial

[32] Concerns around the equity issue are currently illustrated in the case of the Irish water sector and introduction of household water charges.

crisis. Although accurate estimates of global PPP investment are difficult to establish, Burger and Hawkesworth (2011) provide one indication of the scale of global PPP activity when it peaked before the global financial crisis. Using the database compiled by *Public Works Finance* (2009) they find that the total value of all PPPs exceeded $600 billion. Europe accounted for half the total value of PPP activity and one third of the number of projects. The same authors ranked Ireland with countries such as Greece, South Africa and the United Kingdom where PPP accounts for between 5-10 per cent of the total investment in public infrastructure.

PPP was 'officially' adopted in Ireland in June 1999 when the Minister for Finance announced a pilot programme of eight PPP projects. Since then, PPP has been utilised as the procurement method for important infrastructure such as roads, school buildings, courts buildings and the National Convention Centre. Procurement under PPP ground to a halt with the onset of the economic crisis in 2008 but it received a major boost in July 2012 when the government announced a new 'Stimulus Package' which is largely based on PPP.

As almost fourteen years have elapsed since PPP was first adopted there is scope for a sober assessment of how it has performed in terms of 'official' policy objectives. These objectives can be discerned from the *Framework for PPPs* (2001) which set out the scope, principles, goals, guiding structures and processes of Ireland's PPP programme. According to the Framework the main PPP objectives include:

1. speedy, efficient and cost-effective delivery of projects and alleviation of capacity constraints and bottlenecks in the economy;

2. value for money for the taxpayer, *inter alia*, through optimal risk transfer and risk management;

3. accountability for the provision and delivery of quality public services through an incentivised performance management/ regulatory regime.

Objective (1) –
Speedy Delivery of Infrastructure and Alleviation of Bottlenecks

Procurement under PPP has accounted for a significant proportion of investment in public infrastructure since the early 2000's. The data in table 2 shows that in April 2013 there were 63 PPP projects in operation and the contracted capital value of these projects accounted for 7.6 per cent of spending under the Public Capital Programme over the period 2002-2013. The procurement of water and wastewater treatment plants – which are not privately financed - account for the vast majority (71 per cent) of projects to date. However, the motorway sector accounts for 80 per cent of the total contracted capital value of PPPs to date.

Given the urgency of Ireland's infrastructure deficit in the late 1990s, PPP was viewed as a means of securing speedy delivery of projects in addition to what was provided for by Exchequer capital spending. Given the historically elevated levels of expenditure under the public capital programme in the 2000's it is reasonable to conclude that PPP did not substitute for Exchequer-financed investment and did provide *additional* investment in important infrastructure such as schools and motorways. In this sense PPP has made an appreciable contribution to addressing infrastructure bottlenecks in such sectors.

It cannot however be concluded that PPP has fast-tracked the delivery infrastructure. By late 2009 the total number of PPP projects in operation remained low with just 23 projects (including 17 DBO projects for water infrastructure) included in the data on PPP activity provided by government departments. This slow rate of project completion was attributable to a number of factors including the relatively complex procurement process that applies under PPP. Reeves et al (2013) estimated that the average tendering period for Irish PPPs has been 34 months with durations ranging from 22 months (social housing) to 58 months (waste to energy). These lengthy tendering periods, which are similar to those observed in the UK, highlight some of the challenges that arise in implementing an extensive PPP programme. Lengthy tendering periods increase transaction costs and reduce the scope for achieving value for money under PPP.

Table 2: Number of PPP projects and stage of project cycle by sector, April 2013

Sector	In Procurement	In Construction	In Operation	Contracted Capital Cost (€m)	Total
Motorways	0	1	10	4,345	11
Courts	0	0	1	130	1
Education	0	1	5	404	6
Arts/Tourism	0	0	1	170	1
Waste to Energy	0	1	0	N/A	1
Water	9	1	3	-	13
Wastewater	16	5	42	373	63
Social Housing			1	N/A	1
Total	25	9	63	5,422	97

Notes (1) Data for non-water projects is derived from the PPP website housed by the Department of Finance. This data was last updated in September 2012. (2) The Department of Finance website does not keep a complete record of water and wastewater projects. Data for these projects was provided following request by the Department of the Environment, Community and Local Government in April 2013 (3) Data for roads projects provided following request by the National Roads Authority in April 2013 (4) Contracted Capital Values were provided by Department of Finance, January 2013. (4) Capital value for wastewater projects includes also covers PPP for water treatment plants.

Objective 2 – Value for Money

PPP is commonly justified on the grounds that it is more cost-effective compared to traditional procurement methods. In other words it has the potential to achieve greater value for money (VFM) in asset delivery and service provision. This is achieved when PPP produces "a flow of services of at least equivalent quality to that provided by the public sector, but at lower overall cost (taking everything into account, particularly the transfer of risk)" (Ball and King 2006: 37).

The achievement of VFM is a clearly articulated objective of PPP policy in Ireland but there are a host of methodological difficulties involved in establishing whether or not VFM has been achieved in any given case. These include the fact that a complete assessment of VFM (if any) is not possible until the end of the lengthy contract period that applies in the case of PPP.

Hence, most studies of VFM are based on *ex-ante* tests that are normally conducted as part of the process used to decide on the procurement method adopted in individual cases. In basic terms, an *ex-ante* VFM assessment can be reduced to a comparison between two numbers: (1) the contractual value of the providing the asset and related service by PPP and (2) the hypothetical whole life cost of constructing and operating an asset using conventional procurement methods. The calculation of the latter (referred to as the public sector benchmark (PSB)) is an exercise that has proved to be controversial. A number of commentators have highlighted the subjective nature of some elements of the calculation (e.g. probabilities of risks occurring) and the potential for manipulation of figures for the purpose of justifying politically driven agendas in favour of PPP (Shaoul, 2005; Quiggan, 2004).

It must be stressed that detailed evidence on the question of PPP and VFM in Ireland is difficult to access since procuring agencies are not required to put VFM details into the public domain. In order to gain insights into the performance of PPP in VFM terms it is therefore necessary to rely on independent research and the limited amount of information made available by 'official' sources such as the Comptroller and Auditor General (C&AG)

The data provided in table 2 provides a summary of *ex ante* VFM estimates that are sourced from reports published by the C&AG and information provided in Dail debates. The data covers fifteen PPP projects (including twelve water service PPPs) and indicates that PPP promises to deliver VFM in all cases with estimates ranging from 0.1 to 47.0 percent of the hypothetical cost using traditional procurement methods.

The data covers just three privately financed PPPs. In these cases the magnitude of VFM ranges from 0.01 per cent (the National Convention Centre) to 6 per cent (for the Grouped Schools Pilot Project and Courts Buildings). These VFM levels are modest and it is worth noting that the estimate for the Grouped Schools PPP was revised by the C&AG (2004). In its audit of the original VFM assessment the C&AG found a number of significant errors. The principal errors were in relation to the timing and discounting of payments and the calculation of the residual value of the school buildings at the end of the contract. Having corrected for these errors the C&AG estimated that the PPP would be between 13 per cent and 19 per cent more expensive. The C&AG also accounted for elements of the deal that changed after the VFM exercise (namely, changes in interest rates

and treatment of VAT). Including these elements ultimately led the C&AG to conclude that the final PPP deal was in the range of 8 to 13 per cent more expensive than under traditional procurement.

Table 3: Reported Value for Money on Irish PPP Projects

No.	Project	Date of Contract Award	Final Overall VFM
1	Courts (Note 2)	Nov. 2001	6% (€22m)
2	National Convention Centre (Note 3)	April 2007	0.01% (€6m)
3	Schools (Pilot) (Note 4)	April 2007	6% (€7.2m)
	Water Treatment (Note 5)		
4	Barrow	April 2011	21.3%
5	Clareville – Limerick	Dec. 2006	12%
	Wastewater:		
6	Castlebar	Sept. 2008	23%
7	Dublin Bay	March 2001	18.8%
8	Mullingar	April 2008	2.3%
9	Letterkenny	Feb 2011	3.5%
10	Fingal	Feb. 2010	46.7%
11	Shanganagh	Sept. 2008	13.3%
12	Tullamore	April 2010	8.1%
13	South Tipperary	March 2007	9.4%
14	Wicklow	Sept. 2007	30%
15	Waterford City	Sept. 2006	19.3%

Notes: (1) VFM measured by comparing whole-life cost of delivery under PPP compared to traditional procurement. The difference in costs is expressed as a percentage of cost using traditional under procurement. (2) Source – C&AG Annual Report (2008). The cost of transferred risk was estimated as €76m when the Business Case Analysis was conducted. The magnitude of VFM (6%) equals €22m in NPV terms. (3) Source - C&AG Annual Report (2009). The magnitude of VFM (0.1%) equals €6m in NPV terms. (4) Source: C&AG (2004). The magnitude of VFM equals €7.2m in NPV terms. (5) Data for all water and wastewater PPPs provided by Minister for the Environment in Dail (Parliamentary) Debates July 13th 2013.

The estimates of VFM for water service PPPs were provided by the Minister for the Environment, Community and Local Government in answer to a parliamentary question in 2013. The data is not supported by publicly available information on the calculation of VFM. However it is noteworthy Reeves (2011) sheds light into the practice of VFM assessment in a number of water service PPPs. He provides case-based evidence from two PPPs where procuring authorities engaged in a process of stakeholder consultation around VFM assessments. In one case, the initially estimated VFM under PPP was revised downwards from 9.5 per cent to 0.8 per cent (of whole-life cost under traditional procurement) following consultation. In another case Reeves (2013) shows that after consultation, estimated VFM was revised from 2.3 per cent in favour of PPP to 2.25 per cent in favour of traditional procurement. These revisions were attributable to a number of shortcomings in the original VFM analyses. These included the omission of relevant costs including: (i) costs incurred following the re-deployment of existing labour if PPP was adopted; (ii) transaction costs; (iii) the costs of monitoring and supervising the PPP contract over the 20 year period and (iv) the omission of sensitivity analysis.

Subjecting these *ex ante* estimates of VFM to scrutiny has raised doubt over original estimates. On the basis of the available evidence therefore, it is not possible to conclude that PPP has delivered VFM compared to traditional procurement methods. The evidence is however scarce and incomplete which highlights some of the principal governance issues that arise under PPP including the accountability of PPP actors and the transparency of the PPP process and outcomes.

Objective 3 – Accountability for the Provision of Public Services under PPP

The adoption of PPP raises a number of issues around accountability, transparency and governance. By delegating direct responsibility for public service delivery to private sector agents there is a potential weakening of the thread of accountability between citizens, parliament and those with overall responsibility for service delivery (i.e. executive government). Accountability is therefore part of the wider governance challenge that arises under PPP. The term governance is widely used yet seldom defined. In the context of PPP however, Skelcher (2010) provides a useful description of governance "as the rules that prescribe who should be accountable for the conduct of a PPP, and in what way that conduct should be exercised, for

example through consultation with interested parties, transparency in decision making and so on" (2010: 293).

The adoption of PPP involves a new set of accountability mechanisms compared to those that apply under traditional procurement methods. These include written contracts that specify long-term performance and the allocation of risk. Other tools of accountability include stakeholder consultation processes, VFM assessments that are used to judge the suitability of the PPP model and performance measurement systems that may be put in place for monitoring purposes.

Since PPP was originally adopted in Ireland a detailed and formal institutional framework covering a number of accountability mechanisms has evolved. As in other jurisdictions with relatively mature PPP markets (e.g. UK, Canada, Australia) these institutional requirements place much emphasis on the demonstration of VFM and calculation of the public sector benchmark (PSB).

It is difficult to make a thorough assessment of how PPP-appraisal is governed in the Irish case as government bodies and other state agencies are notoriously cautious about releasing detailed financial information in relation to PPP contracts, mainly on the grounds that such information is commercially sensitive. This raises immediate concerns about transparency and accountability which are part of the overall governance challenge under PPP. As noted earlier, where evidence is available it is mainly in the form of reports by the C&AG. But since PPP was first adopted there has been just one in-depth analysis of VFM assessment by the C&AG. In that case (the first PPP for the procurement of schools) the original forecast of VFM was reversed. In addition, Reeves (2011) found that in the case of the water services sector the sponsoring government department explicitly describes PPP as the 'preferred method of procurement' and has rejected VFM assessments that indicate better VFM under traditional procurement. Such practice does little to improve accountability under PPP.

Difficulties with gaining access to financial information about PPP are not confined to independent researchers or citizens. In 2007, the Public Accounts Committee of Dail Eireann expressed frustration over PPP:

The PAC in recent years has held several plenary sessions relating to significant PPP projects. [...] While the circumstances applying to each of

these projects vary widely, and the history of each differs, some common threads have appeared. The largest common factor has been the frustration expressed at the Committee of either not having appropriate access to information relating to these projects, or being publicly unable to refer to information deemed to be commercially sensitive. This committee believes that this obstacle needs to be overcome. Public accountability and value for money are very important issues (2007:7-8).

The Dublin Waste to Energy (Poolbeg) PPP provides a salient example of a PPP where efforts at public scrutiny have been thwarted by vested interests. In this case the contract was formally awarded in 2007 but construction remained suspended until September 2014. One of the complex array of factors that bedevilled this contract was a stand-off between the contracting authority (Dublin City Council) and the overseeing minister for the environment who opposed the project on environmental grounds. In this case the opaque world of PPP was exemplified by the fact that the overseeing minster encountered well-documented difficulties in accessing information about the precise terms of the contract.

Such examples provide fertile grounds for suspicion and concern about the governance of PPP in Ireland where it appears the experience is resonant with Skelcher's (2010) conclusion that "in general, the governance of PPP has predominantly been used to remove them from public scrutiny and informed debate, justified on the grounds of commercial confidentiality or managerial discretion" (2010:303). These point to the difficulties that policymakers in Ireland and elsewhere have faced in developing appropriate governance mechanisms under PPP that strike the delicate balance between protecting the public interest under delegated authority and encouraging private sector innovation and risk-taking in the provision of infrastructure and related public services.

Overall the available evidence indicates that PPP has made an important contribution to the delivery of infrastructure in Ireland. However, the actual delivery of projects is just one measure of success and there are strong grounds for doubting that PPP has succeeded in terms of meeting other objectives such as achieving value for money and improved accountability for public service delivery.

Conclusions

It is widely recognised that investment in physical infrastructure in sectors such as transport, energy, and telecommunications is positively associated with productivity gains and economic growth. It also brings direct benefits to citizens by providing the basis for delivering important public services that improve quality of life and serve important public policy goals around inequality and deprivation. Advanced economies, including Ireland however, face major challenges in maintaining and upgrading the stock and quality of public infrastructure. The McKinsey Global Institute (2013) estimates that in global terms, $57 trillion in infrastructure investment will be required between now and 2030 – simply to keep up with projected GDP growth.

With economies such as Ireland continuing to operate below their potential level there is growing evidence that supports the case for increasing public capital investment. When consideration is taken of features of the Irish economy such as high unemployment and mortgage arrears the potential benefits of a fiscal stimulus via capital investment become more attractive.

If public investment is to receive a major boost however, it is vital that the allocation of resources is supported by rigorous appraisal that justifies investments on welfare grounds. Unfortunately there is ample evidence of wasteful spending on projects that would not have gained approval if they had been subject to proper appraisal. Recent examples include motorways, airport facilities and electricity generation (wind energy) where charges of over-investment appear to have merit.

Investment in infrastructure need not be confined to spending on costly new projects. Significant gains can often be made from getting more from existing capacity. A clear example in the Irish case is the benefit that can be accrued from repairing leakages in the water supply network. There is also scope for exploiting technological developments and making more of user charges (e.g. congestion pricing) to achieve greater benefits from past investments.

Looking forward, a key question will be how the precise roles and responsibilities of the public and private sectors should be established. The private sector has a potentially bigger role to play if infrastructure is to be

delivered efficiently and effectively. It is however imperative that the adoption of relatively new models such as PPPs is evidence-based. At this stage Ireland has over a decade of experience with PPP procurement. However, citizens and policy makers cannot be expected to have faith in this approach unless solid evidence in support of PPP is publicly available. A well-resourced independent review of Ireland's PPP experience is long overdue especially since the government is basing most of its plans for stimulus on the PPP model.

The issues discussed in this paper merely scratch the surface of the many issues around infrastructure policy that challenge our policy makers now and will continue to do so into the future. How these challenges are met will have an enormous impact on the lives of citizens as it will determine whether or not they will have access to vital resources like water, health and education and public transport. There is much to be learned from past experience both at home and abroad. Learning from these experiences is an urgent national priority.

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5. Welfare, Regulation and Democracy

Colin Scott[33]

1. Introduction

Changes in the delivery of public services in the industrialised countries over the last forty years have profoundly changed the ways for delivering and thinking about welfare state provision. For some the shift from welfare state to regulatory state indicates that priority is being given to markets and market failure over traditional welfare concerns with redistribution. Such an analysis leads to concerns about a loss of democratic control. For others, the sharpening of public policy institutions and instruments associated with regulatory governance offers the opportunity to deliver public services in a manner which is both more transparent and more efficient, enhancing outcomes, but without deviating from traditional goals. Central trends internationally have included the separation of delivery units from policy functions and the establishment of free standing regulatory agencies.

Examining the experience in Ireland, the story is distinctive in a number of ways. First, the apparatus of the welfare state developed less fully in Ireland than in many European states. Second, and relatedly, dependence on non-state providers has been and remains a central feature of public service provision. An analysis of the changing shape of state institutions since 1922 shows that distinctive delivery units and regulatory bodies pre-dated independence and have been developed since that date. Changes to

[33] This paper draws extensively on a collaborative research, 'Mapping the Irish State', led by Professor Niamh Hardiman, UCD School of Politics and International Relations which involved myself, Dr Muiris MacCarthaigh, Queens University Belfast, Mr Mark Hagarden, UCD Geary Institute and Ms Mary Shayne-Brophy and was funded by the Irish Research Council for Humanities and Social Sciences (whose merger with IRCSET to form the Irish Research Council is recorded in the Irish State Administration Database (www.isad.ie), which resulted from the project). I am grateful to Muiris MacCarthaigh and Niamh Hardiman for comments on an earlier draft and to Joe McGrath for some valuable discussions.

provision and oversight of welfare state services in the past thirty years have included a degree of fragmentation, but also some consolidation, particularly in the health area. The changes in delivery have sustained a pattern of providing services through distinct units, both public and private. The changes in regulatory apparatus are more distinctive. Arguably the assignment of regulatory functions to free standing agencies has supported clearer specification of the expectations of service providers, systemised monitoring, and created at least the possibility of more stringent enforcement. Both public and private providers are likely to find regulation more demanding than it once was. I conclude by evaluating these changes from the perspective of democratic governance, identifying risks, but also indicating how fragmented arrangements for delivering and regulating public services may be interpreted as enhancing democratic engagement.

2. From Welfare State to Regulatory State

A central characteristic of modern government in Europe has been the emergence of the welfare state during the middle years of the 20th century. Welfare states may be characterised as involving comprehensive and direct provision of key public services including education , health, housing and public utilities and the establishment of transfer payments for those in need through unemployment, ill health or on retirement (Cranston, 1985). Welfare state delivery has frequently occurred through the development of central government departments with broad discretion to achieve welfare objectives, although governance models have varied across countries (Esping-Andersen, 1990). A central focus has been on using the redistributive potential of the state to advance social and economic well-being through progressive taxation, and through expenditure targeted at those most in need. Social rights, supported by redistributive policies, are often linked to the wider democratic aspiration to engage all citizens alongside the longer established civil and political rights (Marshall, 1950).

In the 1970s and 1980s welfare states faced an apparently perfect storm arising from the fiscal crises which engulfed many governments following the 1973 oil shock and changing ideological approaches to the state, associated in particular with the Reagan and Thatcher governments of the 1980s. Thus there was both a degree of necessity and also ideology around challenges to the monolithic government structures associated with the welfare state in many countries in Europe. These challenges spawned

significant governance reforms. Referring to the modalities of governance, some choose to speak in terms of a 'new public management' (NPM). NPM reforms see significant changes to the ways in which public tasks are undertaken with a degree of decentralization, and loosening of centralized controls over such matters as pay and conditions for staff, sometimes linked to performance measurement. In some cases we see also the creation of performance league tables, a degree of exposure to market forces through processes of contracting out, market-testing and privatization, and an emphasis of consumer rights and redress over collective citizen expectations in public services (Hood, 1991). Loosening of controls has been accompanied by newer forms of external control, emphasising, in particular outcomes and performance (Hood and Scott, 1996).

Within the broader category of new public management reforms, a more specific but related set of claims argues that the welfare state has been displaced by the regulatory state (Majone, 1994, Majone, 1996). The regulatory state mode of governance, though symbolised by widespread delegation to independent agencies, involves a wider range of changes including the separation of policy making from operations, establishment of free standing agencies (not just for regulation but also for service delivery), and greater use of rules (legislative, contractual and quasi-contractual) in specifying and enforcing public service objectives (Braithwaite, 2000, Levi-Faur, 2013, Loughlin and Scott, 1997). Regulatory state models emphasise the development of expert and non-majoritarian governance. In the case of the network utility sectors a core rationale of delegating to independent regulatory agencies is to insulate decision making from politics and to draw in specialist and expert capacity, as to bolster the commitment of the state to sustained and economically driven regulatory policies, relatively free of political interference (Thatcher, 2002). This aspect has been particularly important in the context of EU policies which require states to withdraw from favouring public enterprises and national champions over other market entrants in liberalizing markets for energy and communications services.

For some the shift from welfare state to regulatory state indicates that priority is being given more generally to markets and addressing market failure over traditional welfare concerns with redistribution (Majone, 1994). The regulatory mode of governance assigns and prioritises technical qualities to decisions such as pricing of network utilities, quantities of

services to provide and so on, which would once have been subject to significant degrees of political decision making. For others, the sharpening of public policy institutions and instruments associated with regulatory governance offers the opportunity to deliver public services in a manner which is both more transparent and more efficient, enhancing outcomes, albeit at the expense of suppressing more solidaristic concerns (Scott, 2014a, Morgan, 2003, Mabbett, 2011, Levi-Faur, 2014). Such distinct claims can be assessed in light of the experience of particular countries. Arguably, for Ireland, there has been significant weakness in state capacity to deliver welfare state regimes, and extensive dependence on voluntary provision. At the same time there have been persistent concerns that clientelism in Irish politics has made the delivery of public services vulnerable to political preference and patronage (Komito, 1984). Aspects of regulatory state governance have the potential to address both these concerns through reassertion of state authority in regulatory form, and through providing a degree of insulation of regulatory decision making from narrow political concerns. I address next the experience of welfare state administration and the regulatory turn in Ireland and conclude with an evaluation of the implications for democratic governance.

3. Welfare Provision and the Early Regulatory State in Ireland

Examining the experience in Ireland, the story is distinctive in a number of ways. The apparatus of the welfare state developed less fully in Ireland than in many European states. The Irish government substantially adopted the apparatus of government which it inherited from the British. Lacking the resources of longer established states Ireland did not develop a fully centralised welfare state in the middle years of the twentieth century, but rather depended on voluntary provision in key policy domains such as education and health. Sustained practices of delivering health and education services through voluntary provision cast the emergent state as funder rather than provider as such services were extended. Arguably there was a general problem of capacity which has only gradually been addressed, in large measure through asserting or reasserting state authority through forms of regulation rather than enhancing the state's direct capacity for delivery. Thus in healthcare, in particular, the development of regulatory state models has the potential to plug significant gaps in oversight. In other

areas, such as transfer payments, Ireland has been relatively immune to regulatory state trends, such the establishment of separate delivery units.

A quantitative analysis of the shape of the Irish state shows that the hiving off of both delivery and regulatory functions to separate agencies was a significant feature of public management from the earliest days of independence. Thus, on one view, the acceleration of this agencification, seen as a hall mark of regulatory state or new public management doctrines in some states, might be seen as business as usual in Ireland, and with a trend for growing rather than diminishing state authority. While the Ireland's welfare state characteristics were, in comparative terms, relatively undeveloped, it is clear that the emergent Irish state was not as centralised in government departments as might be thought.

The Irish State Administration Database (www.isad.ie) shows that, even by 1930, alongside the establishment of ministerial government departments there was developing a significant cohort of specialist agencies. The Database classifies agencies by reference both to policy domains and primary function (such as taxing, delivery, trading, regulation, etc). What is striking is that amongst the newly established agencies there are remarkably large numbers devoted both to delivery and to regulation. Whilst the establishment of state agencies is sometimes criticised, correctly, as creating opportunities for patronage, it also provided a mechanism to draw in expertise to the oversight of state functions which would not otherwise be available to government.

On the regulatory side, the 23 agencies established from the creation of the state prior to 1945 included regulatory bodies over the health care professions and moral regulators, such as the Irish Film Censors Office and Censorship of Publications Board. Among the first regulatory agencies was the Comptroller and Auditor General, established to regulate for probity in public expenditure originally, but latterly with an extended remit to examine value for money also (in line with new public management thinking) (Hardiman and Scott, 2010). These bodies for which regulation was a primary function supplemented existing bodies, inherited from the British, such as the Charity Commissioners, the (private) professional regulators for the legal profession and pharmaceuticals providers, the Inspector of Mental Hospitals, the Registration Council for Secondary Teachers, and the Railway and Canal Commission (replaced by the Railway

Tribunal in 1924). Thus in the period up to 1945 there were regulatory agencies addressing aspects of such central aspects of welfare activity as healthcare, education and transportation.

On the delivery side the new state assumed responsibility for 22 agencies for which a chief responsibility was service delivery, including the General Prisons Board and the Irish Prison Service, the Commissioners of Education, the Commissioners of Irish Lights, the Dublin United Tramways Company, the main cultural institutions (including the National Gallery, the National Library and the National Museum of Science and Art) and the National University of Ireland. Thus the state had a presence in delivery of transport and education, but no visible presence at central state level in delivery of healthcare through agencies. The establishment of new delivery agencies between 1922 and 1945 was quite limited, with a primary focus being on mining, agriculture and related areas. Looking at the sectors involved it becomes clear that the focus of the state's institutional innovations was oriented more towards economic development rather than welfare (Hardiman and Scott, 2010).

A central point here is, that when understood in terms of contemporary public management, the relatively large numbers of agencies responsible for delivery and for regulation are each aspects of an Irish regulatory state *avant la lettre*. With delivery agencies, their distinct existence in many instances in legally separate organisations, creates a distinct problem for government in specifying and understanding what is being delivered. In Ireland this delegation issue is compounded by the significant role played by voluntary bodies in delivering education and healthcare. Addressing this issue historically one possibility is that central government neglected such matters leaving both public and private delivery agencies substantially to their own devices. If this hypothesis is more or less accurate, at least for some sectors, then the subsequent history, and in particular more recent public management reforms, may be seen as a ratcheting of regulatory control, both through setting of legislative standards and through the use of contractual instruments, in many cases linked to the provision of state funding. It is intriguing that even in those sectors where such funder-regulator mechanisms are present, such as education and health, the more recent rise of the regulatory state has seen the establishment of independent regulatory agencies, distinct from the funding bodies. But at this earlier stage the state was already operating through modes that might be

characterised as having at least regulatory potential, though the area of welfare was not, in the early years of the state, a significant area of institutional focus.

4. Re-Shaping a Hollow State?

This data suggests that delegation to agencies in respect of both regulatory and delivery functions was well established in the early years of the state across many though not all aspects of welfare state provision. By the time we reach the 1980s and the period when the new public management reforms and the development of regulatory state apparatus was in vogue, welfare state provision had developed significantly through both voluntary and state provision and was continuing to evolve in new directions, particularly during the economic boom of the 1990s and early 2000s. At the commencement of this period a primary focus for oversight lay with ministerial government departments, frequently distracted with other matters than ensuring the delivery of services. The further fragmentation of state capacity contained within it the potential to address weaknesses in oversight and accountability through development of the regulatory mode. A central criticism of NPM and regulatory state reforms is that through processes of delegation to delivery units and regulatory agencies, including privatization and contracting out, the state has been hollowed out, and key aspects of public services have been detached from democratic governance.

Has the Irish state been hollowed out? To address this question we must think about state capacity. Arguably the Irish state has been rather weak, historically, in respect of all the main sources of capacity – direct organisation, legal authority, expenditure and gathering and disseminating information (Hood, 1984). Seen in these terms, a possible answer to the question is to suggest that that Irish state has always had a somewhat skeletal or hollow character. If that is correct then the establishment of further delivery units at one remove from central government departments (some of them centralising in character, such as the establishment of the HSE in 2005) is just a continuation of a long trend. A recent evaluation suggests that although policies and practices in public management have increasingly been talked about using NPM language' beneath the surface, relatively little changed fundamentally' (Hardiman and MacCarthaigh, 2011: 57). Hardiman and MacCarthaigh suggest the key trends in institutional reforms, as shown by growth trends in state agencies, pre-date

the NPM reforms, and follow a pattern of building new institutions 'to bypass existing' deficiencies rather than a quest for efficiency per se. Establishment of new agencies also permitted ministers to subvert limits on core civil service staffing numbers, and have seen growth in public service numbers overall and also in pay (at least up until the austerity measures commenced after 2008). NPM measures would anticipate a decline in public sector staffing and downward pressures on public pay (Hardiman and MacCarthaigh, 2011: 60-62).

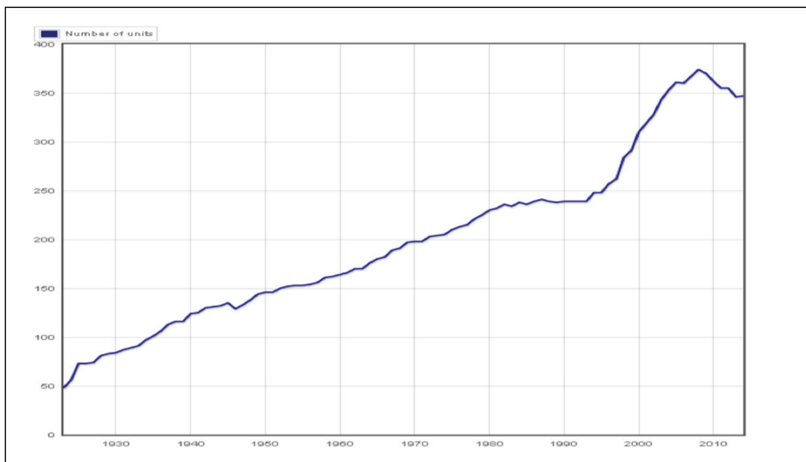
Perhaps more significantly, the establishment of central agencies concerned with regulation has arguably constituted an assertion or reassertion of state authority over public services for which public control and accountability was historically rather loose. Health and education each provide examples. Intriguingly the reassertion of state authority has not only been sectoral and in respect of publicly owned service providers, but also in respect of voluntary and commercial organisations. Thus NGOs engaged in delivery of healthcare have been subjected both to new sectoral regulation and, most recently, a new framework of regulation of charities more generally (a 'double whammy', perhaps) . Recent difficulties in the charities sector have suggested that a lack of confidence in governance in a small number of high profile charities has adversely affected capacities for fundraising and action by all – they are in these sense, just like the US nuclear power companies, 'hostages of each other' (Rees, 1994) and have consequently welcomed the tightening of regulation as to restore public confidence. Cross-sectoral regulation in respect of occupational health and safety, environment, consumer affairs and competition, increasingly applies to all kinds of service providers, irrespective of their ownership and control arrangements. Small organisations of all kinds are likely to struggle with the compliance costs associated with the ratcheting of regulatory oversight.

The strongest example of hollowing out, as commonly understood, has been in the area of network utilities, where state trading undertakings have been corporatized and, in some instances, privatized, but also subjected to oversight by new central regulatory agencies. The current difficulties over water, which remains in public ownership, demonstrate weaknesses both in technical capacity and political oversight. A driving force in the special case of the network industries has been to secure non-exchequer funding for urgent infrastructure upgrading which could not have been secured through public funds. A second factor has been the need to promote

competition in communications and energy sectors to comply with EU policies of liberalization.

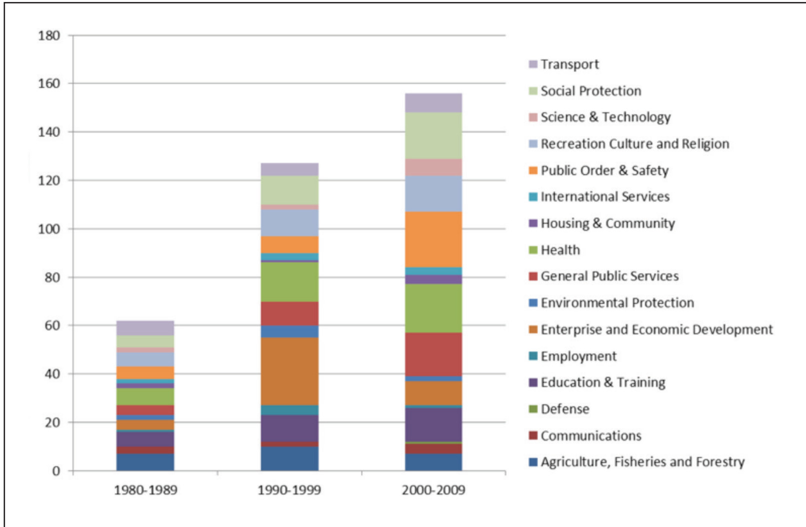
Turning to the quantitative date which underlies these arguments, the period since the establishment of the state saw a steady growth in central state agency numbers, from around 50 in 1922 to a peak of more than 350 in 2009. Since 2009 government commitments to retrenchment of agencies, though they have not been fully met, have resulted in a modest reduction in central state agency numbers (MacCarthaigh, forthcoming). The period between 1990 and 2009 was a particular boom time for new agencies, reflecting growth in numbers of both delivery and regulatory agencies, and partially vindicating claims about the rise of the regulatory state in Ireland. Ireland was particularly enthusiastic about the establishment of regulatory agencies. This was in part a response to requirements of EU instruments, for example relating to telecommunications and energy, but extended into many other aspects of social and economic activity.

Figure 1 Overall Growth in Central State Agencies Since Establishment of State, Source: www.isad.ie



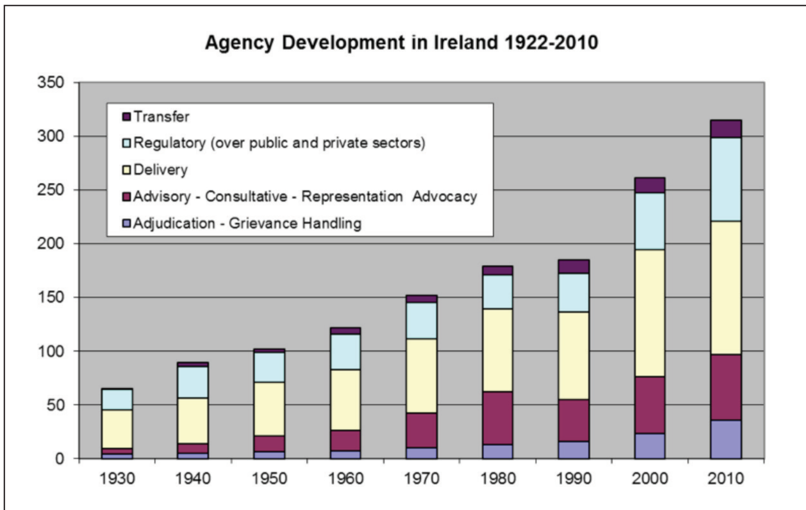
Some sense of the growing emphasis on welfare can be gleaned from data in figure 2 showing the number of new agencies by policy domain in each decade from 1980 as we see numbers of central state agencies with a primary focus on health and social protection continuing to grow. (It should be noted that new agencies are often replaced older bodies).

Figure 2 Policy Domains of New Agencies by Decade since 1980



Source: www.isad.ie

Figure 3: Cumulative Numbers of Agencies by Decade since 1930



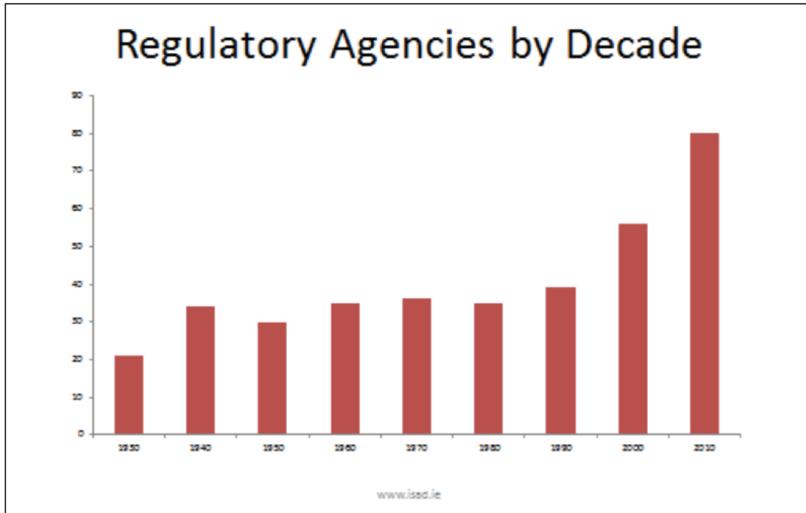
Source www.isad.ie

More significant for the overall argument of this paper is the data showing the growth in agency numbers by reference to primary functions. Figure three shows that the primary functions of delivery and regulation dominate the functions of the relatively small number of agencies in 1930 and, with agency numbers multiplied by a factor of seven by 2010, regulation and delivery still account for nearly two thirds of all agencies between them. This is so notwithstanding the very important functions carried out in other categories including taxation, trading, transfer payments, and information.

Further insight into claims about the rise of the regulatory state can be gleaned from data showing the growth in numbers of agencies for which a primary function is regulation (Figure 4). We see modest but not dramatic increases in numbers from a surprisingly high base in 1930 (accounted for in part by the moral and developmental regulators, but also by the existence of private regulators for the legal professions, and state sponsored regulators of the health professions). The two decades from 1990 see a more than doubling of regulatory agency numbers. This is accounted for by a number of trends. First, there was the emergence of free standing cross-sectoral agencies addressing such matters as consumer protection, environment, competition, equality and human rights, and occupational health and safety (though the first of these, for consumer protection, predates 1990). In international terms this trend pre-dates the neo-liberal arguments , since such agencies started appearing in the early 1970s in a change identified in United States as constituting a 'rights revolution' (Sunstein, 1990) . A second strand to the proliferation of regulatory agencies emerges from top down requirements, legislation from the EU governing the liberalization and re-regulation of communications, energy and certain other sectors. In these cases the establishment of regulatory agencies was fundamental and such agencies were to be independent of operating firms and, where government retained interests in the operators, also the government (Gilardi, 2005). The philosophy lying behind this wave of agencification was that regulators should be insulated to a substantial degree from political decision making so that they could credibly commit to the kind of stable regulatory arrangements which would promote investment in new infrastructure and the development of competitive markets (Gilardi, 2002, Thatcher, 2002, Thatcher and Sweet, 2002, Levy and Spiller, 1996). This logic does not fully apply to certain other areas where new regulators have emerged, also as part of an international wave, for example in respect of food, financial services and medical products. The rationale here was for the development of a

sustained, technical expertise and the agency model was thought to be good one to achieve this in light of the experience of others (Gilardi, 2005).

Figure 4: Cumulative Numbers of Regulatory Agencies by Decade



Source, www.isad.ie

Behind the quantitative analysis of growth in agency numbers lie stories of change in both delivery and regulation of core public services. I focus here briefly on three sectors, education, health and network utility industries. What is striking and instructive about the comparison is the very different degrees of change across the three sectors, suggesting that, in terms of what we might call the new public management or regulatory state agenda there is no single logic at play. Rather than being driven by a single logic of reform, change has been driven as much by differences in perceived needs in the sectors. A common factor in the most recent history has been the effects of austerity policies which have led governments to develop new and renewed controls designed to minimise public expenditure (notably with new controls over both pay and hiring).

With education models of delivery have been relatively stable and with only a gradual evolution in regulatory mechanisms. The healthcare sector has seen significant changes with a degree of centralization of healthcare within a distinctive delivery agency (which also has some purchasing functions)

and with the development of significant new external regulatory capacity. The network utilities sector has seen the most radical changes with a degree of privatization of delivery units, the introduction of competition across a number of the sub-sectors, and the creation of independent regulatory agencies in each sub-sector.

Models for delivery of education in 2014 would be recognisable to someone familiar with the models which operated fifty years earlier. Funded Voluntary provision continues to dominate both primary and secondary education with a degree of centralised steering of expectations tied to a model of funding which applies both to free provision and fee-paying schools. It is striking that Ireland has never adopted a centralised delivery model for education, and the funded voluntary model is quite regulatory in character, but arguably with historical weaknesses in the capacity of the state to understand how well schools were delivering on expectations. There is no free-standing independent regulator over schools, but rather an inspectorate service within the Department of Education and Skills. The publication of inspection reports since 2006 significantly increased the transparency of evaluations of schools performance in measures which arguably empower parents to make more informed choices about education for their children. Such claims about empowerment of parents are, of course, controversial, since they raise general questions about quality of information and the ability of parents to interpret it. There has, to date, been little enthusiasm for the development of the kind of indicators of educational achievement within schools which permit the production of league tables of school performance, though there are privately published tables showing performance of schools in supporting students into higher education. The higher education sector itself has similarly seen only modest changes in delivery models and oversight, with the most recent change being the merger of state and self-regulatory qualifications and quality assurance mechanisms into a free-standing agency, Quality and Qualifications Ireland (QQI), in 2013. Across primary, secondary and higher education there has been little evidence of the kind of hyper-regulation seen in the UK, (with the exception of the controls exerted over pay and recruitment introduced during the financial crisis, and which contradict new public management doctrines on decentralization).

The healthcare sector has seen a gradual transition from voluntary provision through a model of regional state provision and oversight towards the more

centralized model introduced with the establishment of the Health Service Executive through merging regional health boards with a number of national health agencies in 2005. On the one hand the establishment of an executive agency for delivery of healthcare services might be regarded as an aspect of new public management reform, but such a reform would typically come from hiving off functions from central government departments rather than centralization of regionally provided functions and merging of other bodies. Accordingly we might conclude that this centralization of provision is an opposite direction move from what we would expect within NPM reforms, and a (post-NPM) move towards greater centralization and standardization in provision. Whatever the logic of reform may have been it reasonable to conclude that the governance model and performance of the healthcare sector, both in respect of overall performance, and financially, has been a consistent matter of controversy and political difficulty for consecutive governments. Such concerns have lain behind the ratcheting up of independent regulatory oversight, and in particular, the establishment of the Health Information and Quality Authority (HIQA) in 2007. Arguably HIQA has been the most successful element of recent healthcare reforms, with significant achievements in standard-setting and inspection regimes in respect of the previously highly problematic regimes of care homes and a reputation for both professional independence and engagement with key communities in both setting and enforcing standards (National Economic and Social Council, 2012).

The most radical changes have been seen in the network utilities sectors. The reasons for these changes have come at least as much and perhaps more from the external requirements of membership of the EU than from any reform commitments within Ireland itself. Thus the corporatization and privatization of the main telecommunications service provider, accompanied by the introduction of competition and an independent regulator (ODTR in 1994 – later ComReg in 2002), in the 1990s was driven by obligations established by a regime of liberalization and re-regulation established progressively by the EU legislature from the 1980s. Similarly measures of liberalization and new regulation in the energy sector (albeit with more limited privatization) occurred largely as a response to EU measures. Postal services have followed (though again without privatization of the dominant incumbent provider, but with transfer of regulatory functions from a government department to the Commission for Communications Regulation, COMREG). Current controversies over

water are driven only in part by EU environmental requirements, and as much by a reform agenda which has sought to centralise water services into a public corporation as a means to address historic inefficiencies in local provision and to charge for water services as an environmental and revenue-raising measure. The adoption of the independent agency model (in this case the assignment of the regulatory function to the existing Commission for Energy Regulation, CER), in this case not demanded by needs for independent regulation of competitive provision, exemplifies the policy trend towards independent regulation. It is in these sectors that the models of delivery and regulation have most in common with those of other EU states, with the adoption of both delivery and regulation models and rules which fulfil EU commitments.

5. Regulation, Welfare and Democracy

In light of the particular history of welfare provision and regulation in Ireland how are to understand and evaluate claims concerning the displacement of the welfare state by the regulatory state? Certainly there have been significant changes, with continuing growth in delivery agencies at one remove from elected government and a remarkable proliferation of free standing regulatory agencies. Such a transformation might be cast as transferring oversight from elected government to independent and (weakly accountable) agencies, with more emphasis on technical rather than political considerations. Up to a point this is correct and, indeed, constitutes a core rationale for the growth of independent regulatory agencies. In Ireland the establishment of independent agencies has cut both ways since, on the one hand it provides opportunities for long established patterns of political patronage (reducing political independence and expertise in such agencies) (Hardiman and MacCarthaigh, 2011: 61), whilst on the other hand creating statutory independence in decision making, relatively insulated from electoral politics. Anecdotal evidence suggests regulatory regimes have both sets of characteristics, to varying degrees.

However, a less frequently observed point is that the establishment of independent agencies not only makes service providers more accountable through more stringent standard setting, monitoring and enforcement, it also offers a new form of accountability for government departments who now share both expertise and involvement in understanding the objectives and performance of public service delivery (Scott, 2014b). Furthermore

regulatory agencies empower a wide range of other actors through enhancing transparency, including employees, unions, civil society organisations, potential alternative providers. Taken these aspects together, the incorporation of the independent regulatory agency model has the potential to constitute part of newer form of 'monitory democracy' which sees power as widely distributed, rather than centrally focused, and in which a wide range of processes and actors contribute to shaping and overseeing public policy activity (Scott, 2014c). The core argument is that the mechanism of representative democracy are, at best, partial and incomplete and are insufficient to assure accountability over such matters as public service provision and regulation (Keane, 2009). Keane notes amongst the potential mechanisms of 'monitory democracy': citizen juries, advisory boards, focus groups, think-tanks, community consultation schemes, professional networks, democratic audits, public inquiries, online petitions, blogs which focus on watching public bodies, global watchdog organisations, consumer testing agencies, consumer councils, public vigils, boycotts and buycotts, deliberative polls, independent public reports and scorecards, social forums, and public interest litigation (Keane, 2008: 9-11).

Seen in this way the activities of regulatory agencies in gathering and publicising information and in challenging governments over policy are part of a wider set of supports for diffusing not only the capacity to monitor and hold governments to account, but also to make policy through more representative processes. Keane is not saying that we are at a point where such monitory democracy is providing a sufficient supplement to the insufficient representative democracy. Rather he is suggesting that the seeds of such a model are evident across many countries and internationally and that with careful tending they might emerge into a rich and networked form of governance, with a wider array of representative centres of knowledge and authority engaging in public policy processes of all kinds.

6. Tentative Conclusions

How are we to evaluate the diverse pathways of reform in delivery and regulation of public services? This paper offers a set of hypotheses with a wider sweep across both time and diverse sectors. The conclusions are necessarily tentative. There does not appear to be a single logic of reform nor a slavish adherence to new public management or regulatory state agendas. Significant parts of the education sector have seen only very

limited reforms, while centralising measures in respect of healthcare (and water) have moved in the opposite direction from the reforming measures we might expect. The most significant aspects of reform focusing on the establishment of independent regulators have been far from universal.

In the absence of such a clear central trend in reform of delivery and regulation, we might then evaluate reforms by reference to evidence around the outcomes of delivery and regulation in the various sectors and a consideration of the extent to which democratic governance has been enhanced or challenged by the reforms. Evidence around outcomes is inevitably both partial and complex. The clearest data around service quality and price in the network utilities sectors offers reasonably positive stories about services, especially in communications, but outcomes may be have been driven as much by technological as by regulatory reform. In education evidence is mixed, with continuing challenges around not uncontroversial international measures of literacy and numeracy, but reasonable confidence around evaluations at school level. International evaluations of higher education have shown challenges arising from the funding squeeze arising from the financial crisis. In healthcare it is clear that huge challenges exist in demonstrating appropriate performance outcomes.

As regards democratic governance we must acknowledge that in respect of many public services we were not starting from a point of clear and effective central government control and accountability and that representative governance has many deficiencies. Delegation to agencies has not necessarily been a move away from strong democratic governance. Agency autonomy has been in many respects limited by central regulations over personnel and financial controls. Regulatory reforms, in particular, have promoted a degree of transparency in provision of public services through the introduction of written standards and inspection against those standards and publication of evaluations, both in education and in healthcare. These trends are more pronounced still in the network utilities sectors.

Alongside these trends, the independent regulators in healthcare and network utilities sectors have emerged, in some cases, as authoritative public voices around standards and performance. On one view these trends prioritise the technical dimension of standard setting and enforcement of regulation, challenging democratic control and political decision making. An alternative thesis sees the establishment of regulatory agencies as

creating independent sources of authority which give confidence to the wider public as to the stewardship of public services. Such an approach recognises the limits to representative democracy and creates a more direct form of engagement in understanding and recalibrating the delivery of public services. However, we should not be complacent. Regulatory governance modes can lose contact with democratic concerns and be stultifying and self-serving. There is much work to be done to review and understand the best examples of engaging and transparent regulatory practice as the basis for learning for all actors across policy domains as the environment (National Economic and Social Council, 2010). As the OECD notes, this requires a degree of political commitment to ensuring that regulation is up to the tasks it is set (OECD, 2012). It requires also thought to be given as to how to link regulatory governance to wider modes of monitory or post-representative capacity to engage with public policy.

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Ireland is facing major choices. They are the same choices that faced the country in the early 2000s. They weren't addressed directly then and there is little evidence that they are being addressed directly now. The failure to address these choices directly in the early years of this century led to them being answered on an ad-hoc basis. Vested interests constantly prevailed over the common good. In the 'years of plenty' there was a dramatic increase in investment in infrastructure which produced major progress in areas such as motorways, airports and public transport. At the same time the failure to address other major deficits in areas such as water, broadband, energy, social housing, waste management, healthcare facilities and schools was an indictment of the decisions made and of the processes through which these decisions were made.

It is time Ireland answered some key questions. Among these are:

- *What vision should guide Ireland's development?*
- *Where does Ireland wish to be ten years from now?*
- *What infrastructure is required?*
- *What services are required?*
- *How are such infrastructure and service requirements to be delivered?*
- *How are they to be financed?*
- *How are decisions on these issues to be made?*
- *How and on what basis is progress on these issues to be measured?*
- *What policy framework will ensure these questions are answered?*

The chapters in this book, which were first presented at a policy conference on the topic of *'Planning and Delivering a Fairer Future - Values, Democracy and Service Provision'*, seek to address these key questions and related issues.

SOCIAL JUSTICE IRELAND

working to build a just society

Social Justice Ireland, Arena House,
Arena Road, Sandyford, Dublin 18, Ireland
Tel: + 353 (0) 1 213 0724

Web: www.socialjustice.ie

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