Social Justice Ireland

Ireland and the crisis– A Narrative

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IRELAND TODAY – A NARRATIVE

This was originally published in April 2013 as chapter 2 in Social Justice Ireland's Socio-Economic Review 2013 entitled 'What would real recovery look like[1]. Much of the material had been published in other publications from Social Justice Ireland in the period 2010-2013. The other chapters of the publication referred to in this document are the other chapters of this 2013 publication.

In this paper, we outline what happened over recent decades to bring Ireland to where it is today, where exactly Ireland finds itself now, where Ireland should go in the future and what it needs to do to get there. The remainder of this review will address key policy areas, present a detailed analysis and highlight the key policy initiatives that are required if Ireland is to emerge from the current series of crises.

Given the space constraints, it has not been possible in this review to address every issue that should be tackled or to present extensive detail in respect of every policy area. Our focus in this paper is on the broad socio-economic reality that has emerged. We do not accept many of the assumptions that have informed much of the commentary in public and policy-making arenas in recent times. The analysis of the past that seems to have underpinned decision-making is flawed and inaccurate. While some of the policy decisions that have been adopted did move in the right direction, many initiatives since the current crisis emerged:

- have been deeply flawed and are producing growing inequality;
- are built on a vision of the future that is unsustainable;
- fail to put human dignity and the common good at the core of the policy-making process; and
- appear to be guided by a questionable vision of Ireland's future.

The scale and severity of the crises Ireland is currently facing raise obvious questions about how they came about. This chapter provides a commentary on the background to these events. It also asks how Ireland can recover from these crises and, more importantly, how we can shape a future Ireland that cares for the well-being of its entire people and protects the environment.

The paper is structured in four parts:

2.1 How Ireland got here: the background to the crises
2.2 Ireland in 2013: the context
2.3 The need for vision: where is Irish society going?
2.4 Priorities for a New Ireland

2.1 How Ireland got here: the background to the crises

There are international, European and national roots to the current crises. This understanding has not always been recognised or acknowledged. All three dimensions are significant.

2.1.1 The international background

The origin of the global financial crisis can be traced to policy responses to the economic crises of the 1970s. During that decade the existing international monetary regime collapsed and economies suffered high inflation and high unemployment. During the Second World War, the victorious allies had agreed at Bretton

[1] Healy et al (2013 pp. 10-81

Woods to establish new international economic institutions to avoid another Great Depression. The Bretton Woods system was heavily influenced by John Maynard Keynes and the New Dealers in the United States. A fixed currency regime based upon a ‘dollar standard’ – meaning the dollar was convertible into a fixed quantity of gold – was established, with capital controls employed to maintain the stability of the system. One prominent scholar has identified this system as a type of ‘embedded liberalism’, in which international economic institutions were constructed to encourage the creation of welfare states and achievement of full employment through demand management (Ruggie, 1982). The period 1950-1973 – the ‘Golden Age’ of capitalism – was characterised by rapid growth, rising living standards and wages and full employment, facilitated by strong state intervention and demand management. The aims of monetary and fiscal policy were the maintenance of the stability of the Bretton Wood system and full employment. It was the era of the Keynesian state.

However, during the 1970s a hitherto unseen problem emerged: the combination of inflation and high unemployment, known colloquially as ‘stagflation’. During the 1960s economic policy had come to be guided by the Phillips curve, which posited an inverse relationship between unemployment and inflation (Gordon, 2011: 12-14). The unexpected simultaneous occurrence of both was exacerbated by the 1973 Oil Shock, which caused a massive shift in the cost of production of industrial and, to a lesser extent, agricultural goods and the collapse of the Bretton Woods system. In the case of the latter, the US was faced with the ‘Triffin dilemma’; its domestic economic policy conflicted with the dollar’s role as an international reserve currency (Triffin, 1960). This had been anticipated by Keynes at Bretton Woods in 1944, who had advocated a separate international reserve currency instead of the dollar (Skidelsky, 2000). However, the American delegation, led by Harry Dexter White, had overruled him and so in the early 1970s the US was faced with a dollar under huge external pressure.

American private investment and public investment through the Marshall Plan had built up large quantities of dollars outside the regulation of the Federal Reserve. Lax regulation allowed such ‘Eurodollars’ to be deposited in international branches of US banks – particularly in the City of London – at higher rates than those allowable by the Federal Reserve (Helleiner, 1994). The Eurodollars, in turn, could circumvent capital controls on the host country’s currency and be used to hedge currency risk. Massive US military expenditure in South-East Asia led to an increasing trade deficit and currency speculators could use freely tradable Eurodollars to put pressure on the US dollar. The US, the anchor of the Bretton Woods system, was unwilling to reduce public expenditure to maintain the international monetary system and instead presided over the dissolution of Bretton Woods.

In 1971 Richard Nixon suspended the link between the dollar and gold, effectively ending the Bretton Woods monetary system, and imposed emergency import tariffs and price and wage controls (Kirschner, 2003: 651). The oil crisis of 1973 vastly increased the quantity of dollars outside the United States. These ‘petrodollars’ were recycled through private financial markets as OPEC residents placed their dollars with investment banks and were used to purchase developing countries’ government debt or invested in the money markets.

Efforts at creating a new international monetary system failed, though the collapse of Bretton Woods spurred the European Community to attempt to create its own regional monetary system. To manage a chaotic international economic environment, high inflation and unemployment, different states adopted new strategies. Incomes policies were introduced to control inflation through wage and price controls; in the Nordic countries the public sector was expanded to reduce unemployment and expand services; and Keynesian demand management was used to mitigate unemployment by stimulating the economy. However, in the early 1970s Keynesian deficit spending was often blamed for further increasing unemployment, though incomes policy had some effect in mitigating the inflationary effects of government spending and oil price rises. Moreover, the collapse of the Bretton Woods system confronted policymakers with an uncertain international economic environment.

A school of economic theorists, the 'monetarists', blamed lax monetary policy and fiscal policy for increasing inflation and unemployment. They argued in favour of strict controls of the money supply through monetary policy, balancing of the budget deficit, reducing the state's role in the economy, reducing taxes on capital and income and expansion of free trade. In the UK the Thatcher government briefly flirted with the monetarists' prescriptions for monetary policy but abandoned them in its second term in office (Smith, 1986). However, the other policies recommended by the monetarists were pursued by the Thatcher and Reagan governments in the 1980s and soon spread to influence, to varying degrees, governments throughout the world. Since the late 1970s, the 'embedded liberalism' of the Keynesian state and Bretton Woods system – whose origins lay in the New Deal and post-war welfare states of Europe – has been replaced by the 'neo-liberalism' currently in place (Glyn, 2006). Two broad approaches have been pursued by governments in the neo-liberal era – neoliberal restructuring and financialisation. The problems produced by financialisation are the immediate cause of the crisis in the financial system in recent years.

Neo-Liberal Restructuring: During the 1980s governments, particularly in the United States and Britain, claimed that they could control inflation, increase employment and raise the standard of living. They attempted to do this through:

- removing state constraints on the growth, use and flow of capital and wealth;
- privatising state assets and contracting out core state services to the private sector;
- using high interest rates and wage squeezes to control inflation;
- redistributing income from the poor and middle classes to the rich by shifting the burden of taxation from capital and income taxes to consumption taxes and user charges, in the belief that the wealthy and high income earners would then be motivated to reinvest their additional income and reignite economic growth.

This theory was incorrect. Global growth, which had averaged 3.5 per cent a year in the 1960s and 2.4 per cent in the 1970s, when state interventionist policies were the accepted norm, only averaged 1.4 per cent in the 1980s and 1.1 per cent in the 1990s. This neo-liberal approach redistributed income to the rich and seriously damaged the incomes of the poor and the middle classes. In his study of global economic growth, Angus Maddison (2005: 6) noted that GDP per capita grew at a faster rate during the 'Golden Age' (1950-1973) than at any other time in human history (see Table 2.1).

Table 2.1 Annual average compound growth rate of GDP per capita, 1950-2001

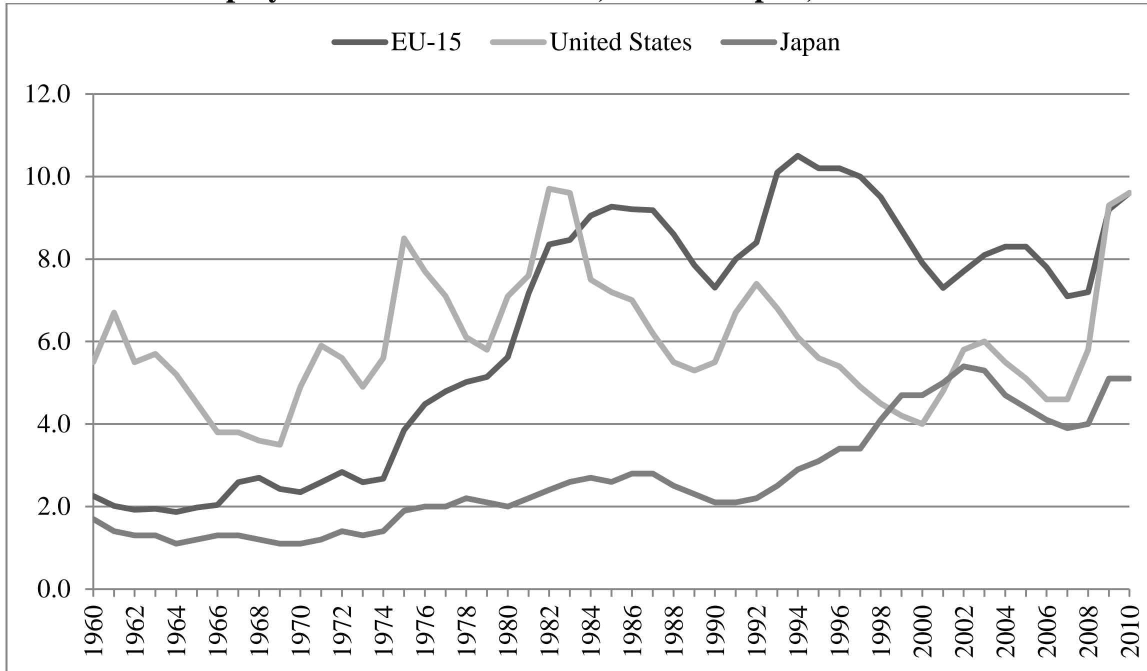
	1950-1973	1973-2001
Western Europe	4.05	1.88
Western offshoots (e.g. USA)	2.45	1.84
Japan	8.06	2.14
West	**3.72**	**1.95**
Asia (excluding Japan)	2.91	3.55
Latin America	2.58	0.91
E. Europe and f. USSR	3.49	-0.05
Africa	2	0.19
Rest	**2.83**	**1.75**
World	**2.92**	**1.41**

Source: Maddisson, 2005: 10.

Moreover, the implicit abandonment of full employment as a policy objective, to be replaced by the control of inflation, led to persistent unemployment in many communities, particularly those that had traditionally worked in industry. Western European nations have been particularly blighted by persistent unemployment

in the neo-liberal era (see Chart 2.1). John Kenneth Galbraith pithily summed up ‘the doctrine of the eighties, namely that the rich were not working because they had too little money, the poor because they had too much’. However, despite the failure of many neo-liberal policies, neo-liberal ideas gained great prestige within academia, business and political parties.

Chart 2.1 Unemployment rate in the EU-15, US and Japan, 1960-2010



Source: AMECO, 2013.

The efforts to control inflation led to the use of extremely high interest rates in Britain and the US. One knock-on effect of the Federal Reserve’s ‘Volcker Shock’ – a massive hike in the US interest rate – was to increase the interest rate of developing countries’ dollar denominated debts. This forced many to turn to the IMF in the 1980s and 1990s for emergency funding to service their dollar deb.; In return they were forced to accept IMF mandated ‘structural adjustment programmes’, which were based on neo-liberal policy prescriptions of privatisation, the liberalisation of private capital markets and labour market flexibility. These programmes reduced economic growth in those countries, exposed them to economic volatility and increased the precariousness of their workers. By the late 1990s there was increasing scepticism about the efficacy of the policy measures proscribed by the IMF, the US Treasury Department and the World Bank (the ‘Washington Consensus’) among economists and senior policymakers in both the Fund and the Bank (Florio, 2002).

Financialisation:

The other great economic process that has characterised the era has been ‘financialisation’. In 2001 US economist Gerald Epstein defined the term as referring ‘to the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international level’ (Epstein 2001, p.1) At an international level countries have removed capital controls and other restrictions on the flow of capital internationally, often with the imprimatur of international economic institutions such as the OECD, IMF and European Commission which came to embrace the idea of the freedom of movement of capital (Abdelal, 2007).[2] At the same time, the regulation of the financial sector was transformed by the removal of the legal barriers between different financial functions. For example, the ‘Big Bang’ of 1987 removed traditional distinctions within the City of London’s stockbroking community while repeal of the Glass-Steagall Act in 1999

[2] The IMF has recently reconsidered its position on capital controls.

removed the New Deal-era legal separation of investment and retail banks. Financialisation originated in the late 1970s and became almost universally applied in the 1990s.

The liberalisation of capital markets and the creation of a global capital market encouraged firms – particularly in the Anglo-American countries – to rely for financing on bond markets and stock markets rather than their traditional banks. This provided a large market in which pension funds and other types of savings vehicles could invest and equity markets became increasingly important outlets for global savings. This led firms to increasingly view their share price as their key indicator of performance – particularly as executive remuneration is often tied to share price. However, this form of 'shareholder capitalism' has induced a short-termism in the behaviour of firms reliant on the stock-market, with a short-term fixation on share price and boosting short-term profitability leading to long-term problems (Hutton, 2003). This has been a particular problem in the financial sector, where assets mature over long periods of time.

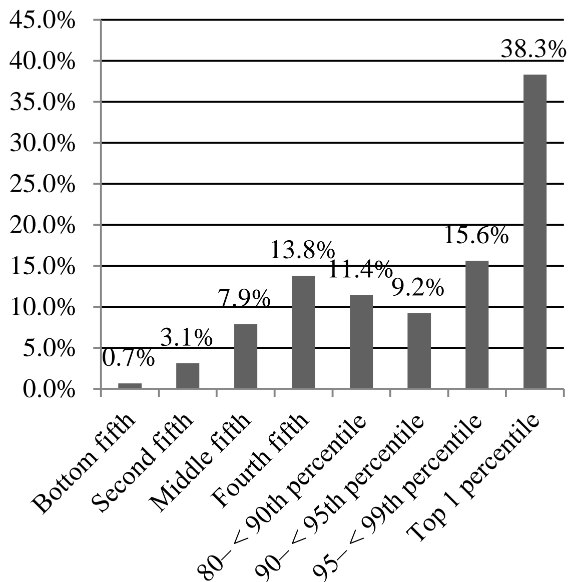
A crisis of financialisation

With the changes in regulation, removal of capital controls, reduction in capital taxes and the creation of global capital market, debt rapidly expanded. Financial markets integrated more participants and offered a wider range of financial 'products'. This led to more liquidity within the market and financial firms assumed that they could access money easily and at rates of interest close to central bank rates. Many of these new financial products were 'derivatives'– financial products without an intrinsic value of their own and whose value is based on the performance of underlying market factors, such as exchange rates or stock market indices. Such products were originally designed to help manage the risk of investing in a particular type of asset, such as residential property, for example.

However, in practice this led to 'compounding bubbles'– first in equities and later in residential and commercial property – as capital, freed from constraints, moved into asset classes whose prices were rising rapidly (Blyth, 2008). This had particularly deleterious effects on developing countries that had liberalised their capital controls and their financial sectors. The Asian Financial Crisis of 1997 was partly caused by investors borrowing in foreign currencies and gambling on domestic equities and property prices. The lack of control over their capital accounts meant that Asian policymakers could not control the inflows of 'hot money' taking advantage of liberalisation and high domestic interest rates (Stiglitz, 2002). Those countries in East Asia that employed capital controls and had less financialised economies were the least affected.

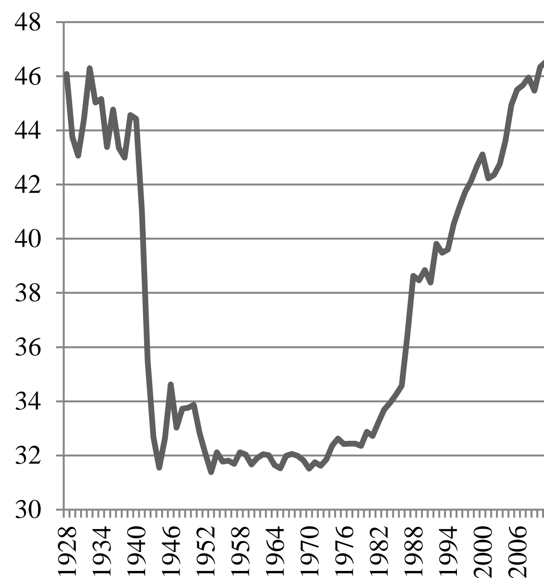
However, it was not only developing countries that were affected by a crisis of financialisation. As the state retreated from key sectors of the economy, such as housing, and as incomes for middle and lower-income groups in many developed countries – particularly in the United States – stagnated, consumers increasingly came to rely on debt to fund the purchase of houses, cars and consumer durables (see Charts 2.2 and 2.3). The liberalisation of finance increased the capacity and willingness of banks to extend credit. This led to increases in house prices, which in turn encouraged further lending as homeowner's collateral rose. Those countries with the most liberalised banking sectors and housing markets witnessed the greatest increase in house prices and mortgage debt (Schwartz, 2009). Prudential standards fell, particularly in those countries with liberal mortgage markets, loan to income ratios and deposit requirements were both reduced and new mortgage products, including 100 per cent mortgages, were advanced.

Chart 2.2 - Share of total household income growth attributable to various income groups in the US, 1979-2007



Source: State of Working America, 12th Edition.

Chart 2.3 - Percentage of Income Accruing to the top 10%% in the United States, 1928-2011

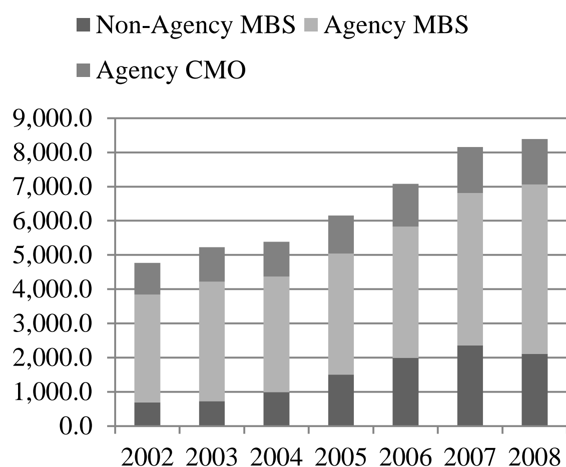


Source: Piketty and Saez (2007), updated by authors.

The expansion in debt was only possible due to the emergence of 'securitisation'. Securitisation emerged as a legal possibility in eighteenth-century Prussia and the 'Pfandbriefe' market remains an important aspect of European finance today, particularly in Denmark and Germany. However, in contrast to the Pfandbriefe model, the securitisation instruments most commonly used in the US and liberal economies – Residential Mortgage-Backed Securities (RMBS) and Collateralised Mortgage Obligations (CMO) – are do not appear in the issuer's balance sheet. This allowed US mortgage originators to issue mortgages of questionable debt quality and to bundle them together as 'collateralised debt obligations'. These were then sold on to international financial institutions that were unaware of the dubious quality of some of the underlying mortgages. Following the New Deal of the 1930s the US mortgage securitisation market had been controlled by the Federal National Mortgage Association (Fannie Mae), which pooled mortgages, securitised them, and then sold those RMBS on in an attempt to increase liquidity in the US mortgage market and ultimately expand home ownership in the US.

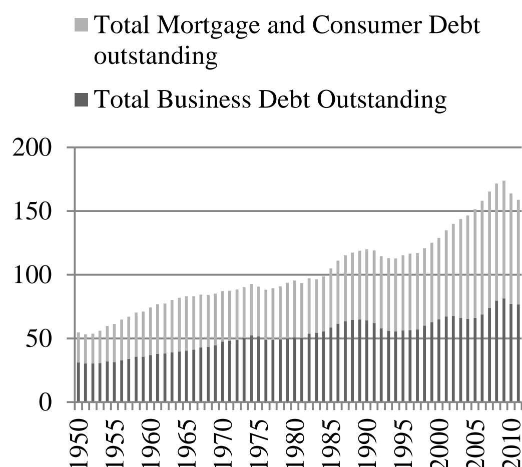
However, during the 1990s private mortgage securitisation – those not insured by agencies such as Fannie Mae – had become increasingly important in the US due to deregulation of the finance and mortgage market and changes in status to US government-owned companies that had previously dominated the market (see Chart 2.4). This facilitated the creation of a 'sub-prime market' – the extension of mortgages to people who might previously have been deemed credit risks, often on extremely onerous terms that only became clear to borrowers following two years of paying interest on 'teaser rates'. This market was dominated by 'non agency' issuers, including prestigious US investment banks such as Lehman Brothers and Goldman Sachs.

Chart 2.4 Total Outstanding RMBS and CMO debt by issuer in $bn, 2002-2008



Source: Securities Industry and Financial Markets Association (2013).

Chart 2.5 – Total Debt Outstanding in non-financial sectors of the US Economy as a % of US GDP, 1950-2011



Source: US Federal Reserve (2013).

An essential part of financialisation was the belief that markets could correctly price risk. There was a firm belief that markets in financial derivatives (which were merely bets about the future) would bring in all the necessary information and thus could accurately predict the future. This in turn led to the belief that there was no uncertainty about the future. But uncertainty about the future was a central message of Keynes and was one of the reasons for financial regulation. Thus while financial markets were deregulated, the agencies in charge of monitoring and regulating banks and other financial institutions stopped doing their jobs. In the US for example Alan Greenspan, chair of the Federal Reserve, argued that fraud on Wall Street should not be the responsibility of government regulators. He and most of the other regulators and central bankers felt that the market and self-regulation was enough.

This lack of government oversight and regulation led to the major financial institutions being turned into enterprises where fraud was at the heart of their business model. Securitisation of the home mortgage market made the market more liquid and thus volatile, but the fraud that resulted in so many home mortgages being falsely presented as repayable is what caused the market crash. (It is estimated that in 2006, 40% of home mortgages in USA and 45% in UK were loans based on false information concerning their viability.)

The massive growth in the derivative markets (over $500 trillion by some estimates) made the capital markets more volatile, but the underlying questionability in how derivative contracts were constructed and in fixing the triggers is what cause the international financial system to freeze after Lehman Brothers failed as no bank wanted to lend to the other banks because they all feared that the other banks were acting as they were. Similar problems concerning the fraudulent basis for so many of its mortgage calculations played a key role in the financial crashes in Ireland and Iceland.

The interaction of two pervasive trends – the stagnation of the incomes of lower and middle-income groups and financialisation – precipitated the financial crisis of 2008. Rising interest rates, both from central banks

and from the terms of many sub-prime mortgages themselves, led to increasing defaults amongst homeowners in the US. This led to the realisation that the true values of many MBS were significantly lower than their face values. Financial institutions, however, were already highly leveraged and many simply did not have the reserves to meet the losses they were now facing. From the summer of 2007 onwards growing mistrust between financial institutions – many of whom suspected others of holding assets worth less than their face value – led to a 'liquidity crisis', as banks and financial institutions became wary of lending to each other.

Believing that lack of liquidity was the underlying problem, central banks attempted to boost liquidity. However, by September 2008 it became clear that many banks were simply insolvent. The collapse of the US investment bank Lehman Brothers threatened a cascade of defaults and bank failures. The crisis was compounded when one large insurance company, the American Insurance Group (AIG), had to be rescued through nationalisation when it emerged that it was unable to meet its obligations in respect of a derivative known as a credit default swap (CDS). This was a peculiar paradox as the instrument had – ostensibly been created to hedge against the risk of default of a particular security or company and AIG had played a leading role in its creation. The US government reacted to the crisis by nationalising large segments of the US banking and financial system – particularly those relating to mortgage finance – and the US Federal Reserve engaged in massive intervention in the US financial system, significantly expanding its balance sheet in an effort to reduce long-term interest rates and encourage US financial institutions to lend again.

The financial crisis has led to a widespread belief that the capitalism itself – or at least the neo-liberal variant – is in a serious crisis. This is not confined to a radical fringe, but rather is a subject of debate amongst academics, policymakers and businesspeople. Some – particularly senior European policymakers – see the solution to the crisis in a combination of additional financial regulation, fiscal austerity and the imposition of further neo-liberal reforms in public services and labour markets (see e.g. Rehn, 2013). Yet others, such as prominent Keynesian economists in the United States and Europe, have argued that some combinations of fiscal stimulus and greater income redistribution are required (Krugman, 2012; Eichengreen & O'Rourke: 2012; De Grauwe and Ji: 2013; Stiglitz, 2012; Holland and Portes, 2012). Even those wary of outright Keynesian arguments and explanations have become extremely worried about income inequality, viewing it as lying at the core of the crisis as credit was used to maintain consumption in lieu of broad-based income growth in the United States (Rajan: 2010).

Mark Blythe (2002: 6) has referred to the transition to neo-liberal institutions, practices and ideas in the late 1970s and early 1980s as a 'Great Transformation' which brought back many of the nostrums discredited in the 1930s:

> '… both classical liberalism and neoliberalism are characterized by high capital mobility, large private capital flows, market-conforming tools of macroeconomic management, a willingness to ride out balance of payments and other disequilibria by deflation, and a view of the rate of re-employment as dependent upon the market-clearing price of labour.'

At present, throughout the European Union the 'austerity-focused' neo-liberal perspective is dominant. However, as in the late 1970s, intellectual trends and practices in economic policy can shift rapidly in response to economic crises. Another 'Great Transformation' in economic ideas and practices is required.

2.1.2 The European background

In September 2008 there was a perception amongst some senior European policy makers that, in the words of German finance minister Peer Steinbrück, 'the financial crisis is above all an American problem'. This reflected a belief amongst continental policymakers and commentators that Western and Central Europe had a less liberalised financial sector and that continental economies were thus more stable than 'Anglo-Saxon' economies. However, in the following months European governments were forced into limited recapitalisation of their banking sectors, while systemic weaknesses in the Euro became apparent between 2009 and the present. The response of European policymakers to the financial crisis has reflected both

national traditions – particularly the often-quoted German attachment to *ordoliberalism* – but also a pervasive neo-liberalism, albeit one more cautiously applied than it has been in the US and Britain. The response has also been entirely counterproductive, condemning peripheral European economies to conditions of mass unemployment and transferring private financial sector debt to the public sector and, in some cases, to the European Central Bank's balance sheet. This section will examine the specifically European origins of the financial crisis, explain how many of the reactions of many European policymakers have compounded the crisis and explore the role of the European single currency in the crisis.

While some of the champions of early European integration, including Jean Monet, anticipated a European single currency, the Treaty of Rome in 1957 only contained references to an eventual abolition of capital controls within the Community (Padoa-Schioppa, 2000: 26-44). The political desire for a common European currency only received an impetus when the Bretton Woods system began to slowly disintegrate in the late 1960s. The placatory pay settlement following May 1968 in France led to devaluation of the Franc and revaluation of the Deutschemark. This, in turn, led to fears that intra-European trade could contract due to monetary instability and that the Common Agricultural Policy, based on common prices, could be endangered. The Council of Ministers accepted the Werner Report of 1971, which advocated fixed currencies with free movement of capital (Swann, 2000: 205). However, the 'Nixon Shock' of 1971 led to an effort to stabilise the international monetary system and instead the 'snake in the tunnel' was adopted. European currencies were fixed to the DM within a common band and a common band between European currencies and the dollar was maintained. This proceeded under the rubric of the Smithsonian Agreement, which devalued the dollar by 9%, allowing the US room to drop emergency import surtaxes.

The 'snake in the tunnel' could not survive the divergent reactions of European governments to the economic conditions of the 1970s. These reactions were heavily conditioned by domestic institutions. The German government was heavily constrained by the German Central Bank, which was completely independent from government under the Bundesbank Law of 1957 (Heisenberg, 1999). Only exchange rate policy remained under the remit of the Chancellor of Germany. The Bundesbank was a firm believer in 'sound money' policies, and prized price stability above all else. In contrast, the French government believed that if unemployment rose above a certain point, France would become ungovernable. Even the French liberal President Valery Giscard d'Estaing refused to allow the Banque de France shadow the DM, which would have required unacceptably high interest rates. Instead, protected by capital controls, French monetary policy was geared towards maintaining full employment (Levy, 1999).

German and French policymakers in the 1970s continued to believe that stagflation was exacerbated by currency fluctuations. So a renewed attempt at co-operation was initiated in 1979, the European Monetary System (EMS), which fixed participating currencies within a margin of +/- 2.25%, and established a European Currency Unit (ECU), based on a basket of European currencies. However, this was likely made possible by the German Chancellor Helmut Schmidt's decision to reluctantly agree to President Carter's request that Germany, with its balance of payments surplus and low inflation and budget deficits, play a part in reflating the world economy through an expansionary fiscal programme. However, when the rate of inflation rose to 5.8% in Germany, the Bundesbank raised interest rates rapidly. By 1981 Germany, the US, and Britain were all pursuing strategies of disinflation through – in the cases of Germany and Britain – budgetary cutbacks and high interest rates. In contrast, the newly elected government of Francois Mitterrand attempted to reflate the French economy through a programme of nationalisations and increased public spending. Given the timing, with France's main trading partners in austerity programmes, much of the increased French demand leaked abroad. The franc was subject to speculative attacks and the French were forced to disguise devaluations of the franc as DM revaluations to sustain the EMS. The French cabinet split on what path to pursue: to use temporary import surtaxes and draconian capital controls, effectively abandoning the EMS and many tenets of European integration; or to attempt to direct European integration in a manner that would protect the French social and economic model. President Mitterrand and finance minister Jacques Delors choose the latter option and France liberalised its financial sector and capital

account while maintaining a strong franc to shadow the DM and reduce domestic inflation. This reduced the strains that had developed in the relationship with Germany's conservative chancellor Helmut Kohl, who had been unwilling to allow the French continually devalue against the DM, particularly as it strained his relationship with the Bundesbank,

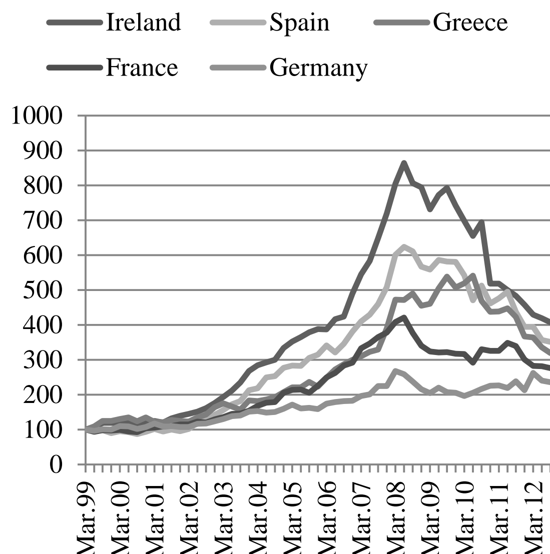
Following the French U-turn in 1983, European economic and political integration was given a new impetus. Jacques Delors, appointed President of the EU Commission in 1985, stated that he wanted Europe to become a regional economic bloc capable 'of perpetuating a European model of society' (Ross, 1995: 4). The Single European Act completed the Common Market – the largest free trade area in the world – and enforced the liberalisation of all capital controls by 1990 at the latest. The acceptance of the Single European Market and removal of capital controls had an inexorable logic that was recognised by Delors and senior policymakers at the time. One of those policymakers, Tommaso Padoa-Schioppio, argued that capital liberalisation within the Community inevitably led to monetary union. The 'inconsistent quartet' of free trade, free capital mobility, fixed exchange rates and autonomous national monetary policies could not exist at the same time for any one country (Padoa-Schioppa, 2000: 183).

Under the EMS participating countries had forgone their right to pursue autonomous monetary policies, being forced instead to shadow the Bundesbank in order to maintain fixed exchange rates. France and Italy faced a particular dilemma: they could maintain the EMS or they could attempt to achieve additional monetary sovereignty by creating a common currency, which they could at least influence. A compromise position was first flagged in the Delors Report, a document written by central bankers that recommended an independent European central bank on the Bundesbank model with price stability as its primary objective. The Maastricht Treaty gave legal effect to the agreed institutions, and the agreed convergence criteria, which reflected the Bundesbank's belief in fiscal conservatism.

The institutions that underpinned European Monetary Union (EMU) thus reflected a compromise between the trio at the heart of monetary integration; the German and French governments and the Bundesbank. Domestic fiscal policy was heavily constrained by the Growth & Stability Pact agreed in 1995, monetary policy was vested in an independent European Central Bank, which was solely committed to price stability, and national regulators were to remain responsible for regulating resident financial institutions. The central bankers who designed the Euro feared that member states' would run up large deficits. Following the adoption of the Euro, therefore, European policymakers, particularly in the European Commission and European Central Bank, were focused on imposing fiscal rigour and implementing neo-liberal labour market and social security reforms which they believed would increase employment and growth.

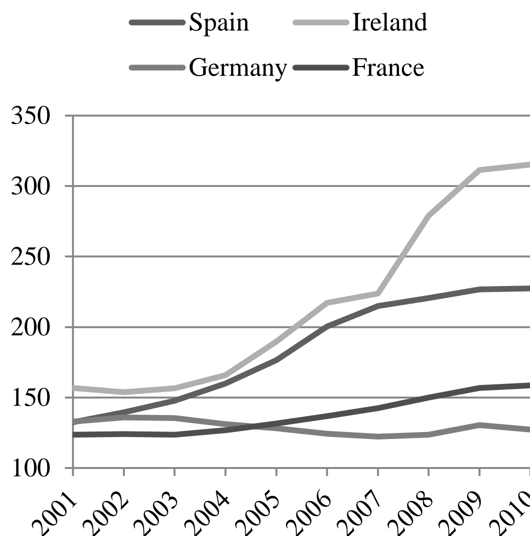
However, European policymakers – particularly politicians active in domestic politics – also prided themselves on the distinctiveness of their economic models. They frequently championed neo-liberal measures as means by which domestic welfare states and institutions could be protected. The liberalisation of the financial sector was pursued as a good in itself and cross-border European financial flows were viewed as a benign result of monetary integration and capital liberalisation (See Chart 2.6). Following the adoption of the Euro, financial institutions in the 'core' – with their large balance of payments surpluses – had lent large sums to banks in the periphery, particularly in Spain and Ireland, which were experiencing housing booms (see Chart 2.7). It was in precisely this sector that the financial crisis of 2008 emerged.

Chart 2.6 - External claims (loans and deposits) of BIS Reporting Banks (March 1999 = 100)



Source: BIS Locational Statistics Table 7A

Chart 2.7 - Private debt in % of GDP - non consolidated in select Eurozone countries, 2001-2010



Source: Eurostat (2013).

The European response to the crisis: Socialising debt, austerity and structural reform: Many European banks had invested heavily in US RMBS and other financial products that plummeted in value after August 2007. Many of these were effectively bailed-out by the US government through its extensive nationalisations of European banks' counter-parties and were heavily supported by the US Federal Reserve through its asset purchase programmes. These measures either preserved the value of the assets the US government had agreed to pay at face value or ensured dollars could be swapped for dollar denominated MBS with a minimal write-down.[3] European governments reluctantly nationalised some of their more egregiously exposed financial institutions in September 2008. However, many governments, particularly in France and Germany, simply refused to acknowledge the solvency crisis their banking sectors faced. Lacking a European policy and legal framework on banking resolution which would have provided for the winding up of a collapsed financial institution (some countries, such as Ireland, did not have any domestic framework at all for banking resolution), the European Central Bank argued that no bank should be allowed to default.

The structure of inter-European lending – with 'core' banks and financial institutions holding bonds issued by 'peripheral' banks, particularly Spanish and Irish ones – meant that peripheral governments and citizens were required to re-capitalise domestic banks in the interest of protecting the position of foreign bondholders. The ECB feared a 'contagion' resulting from a defaulting bank could collapse the European financial system. However, a concomitant commitment from 'core' countries to buttress their own financial institutions was not required. Essentially, this 'no bondholder left behind' policy was a massive socialisation of the debt accumulated by private banks – arguably representing the largest transfer of wealth, from citizens to private creditors in Europe's history.

[3] http://www.bloomberg.com/data-visualization/federal-reserve-emergency-lending/#/overview/?sort=nomPeakValue&group=none&view=peak&position=0&comparelist=&search

There has been one exception to the 'no bondholder left behind' policy – Greece. The crisis in Greece is unique in some respects as it is a genuine fiscal crisis whose origins lie in both a failure of Greek institutions and the Greek political elite. However, instead of recognising and addressing Greece's difficulties the European response has compounded them and contributed to a severe social crisis in Greece. At the same time it has drawn incorrect conclusions which it has sought to apply elsewhere. The Greek fiscal crisis emerged in 2009 when it emerged that the Greek state had falsified its level of national debt with the aid, of US investment banks and others. When the true debt and deficit levels became known Greek bond yields rose precipitously. European policymakers viewed the crisis as entirely a result of Greek profligacy and Greece became the first country to enter an IMF/EU/ECB 'troika' financial aid programme.

In return, the troika demanded that Greece embark on an austerity programme, entailing fiscal consolidation and 'structural reforms' of the Greek state. Some of these were understandable, such as reform of the statistics agency. But others, such as a labour market reform, merely increased job insecurity and unemployment. Two key characteristics of the Greece's institutional problems were ignored: the high level of tax evasion amongst the country's elite and its high level of economic inequality, which is the greatest in the EU. Despite repeated warnings *from some prominent economists* that the austerity programme would precipitate a deep depression and a profound social crisis, European policymakers and the IMF forged ahead. However, the latter at least recognised the impossibility of Greek recovery given the size of its debt burden. Eventually, the European Central Bank and German government came to an agreement and private sector involvement in a write-down of Greek public sector debt was secured.

The nature of the Greek crisis has led to a common conception that the problems arising throughout the Eurozone have been fundamentally problems of public debt. However, this is misleading, as Ireland and Spain ran low deficits, and even surpluses, throughout early 2000s. The current large budget deficits are a result of the economic collapse in the peripheral countries, which is related to the overhang of private debt. Efforts to address rising public debt through tax rises and expenditure cuts have not just failed; they have exacerbated the fall-out from private debt crises in the periphery. The creation of the European Financial Stability Facility (EFSF), which was used to fund the Greek, Irish and Portuguese programmes, and the European Stability Mechanism (ESM), a new permanent facility which will recapitalise the Spanish banking sector and potentially fund the Cypriot programme, has secured funding for peripheral countries. |They have been accompanied, however, by conditional austerity programmes.

The current European strategy involves a series of measures:

- reducing deficits throughout the EU through fiscal consolidation;
- lending to distressed countries and requiring they undertake programmes;
- creating a banking union to centralise regulation of European banks and provide a banking resolution scheme;
- creating supervisory structures for the European Commission and other member-states to monitor state's budgets; and
- the writing of a fiscal rule into the law of each member state.

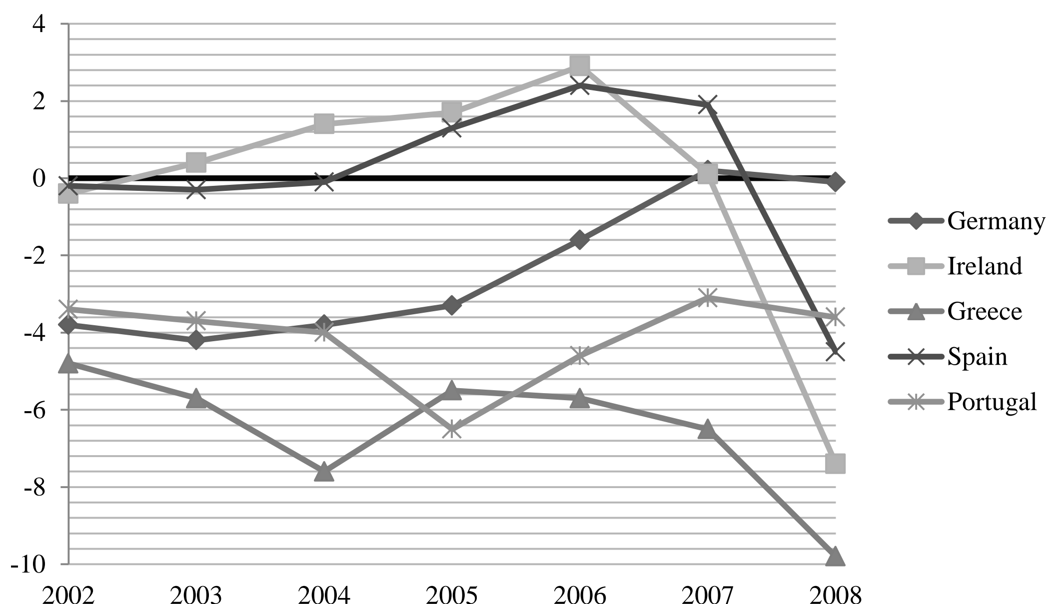
The strategy is informed by a particular analysis of the crisis which puts the blame for it on a combination of lax regulation of the banking sector and insufficient fiscal rigour. However, Greece is the only example of the latter. Based on this erroneous analysis, a disastrous imposition of austerity is leading to high unemployment and stagnation within the Eurozone, even as the ECB and European authorities insist that excessive public debt and deficits are the problem and that 'socialised' private debt must be repaid.

Box 2.1 - The 'Sixpack' and the Fiscal Compact – Solving the wrong problem

The Treaty on Stability, Coordination and Governance, otherwise known as the Fiscal Compact, entered into force on 1 January 2013. An intergovernmental treaty rather than an EU treaty, it was subject to a referendum in Ireland. Many of the provisions within the Treaty were already contained in the 'Sixpack' measures agreed by the European Parliament and Council in 2011. These measures increased budgetary surveillance of member-states within the Excessive Deficit Procedure (EDP). The Stability and Growth Pact rules require government deficits to be 3% or less; government debt to GDP ratio to be 60% or less; Government structural deficits to be 0.5% or less;. They do permit the structural deficit to be up to 1% if debt to GDP is significantly below 60% and they require a 1/20th reduction in debt per year if a country has a debt to GDP ratio above 60%. However, there is an allowance that a member-state can deviate from the need to implement adjustment under 'exceptional circumstances'. The Fiscal Compact upon which the Irish people voted required countries to transpose automatic mechanisms into national law. *Social Justice Ireland* welcomed greater budgetary monitoring but expressed concern that the Treaty would not address the economic crisis, nor prevent future economic crises.

Social Justice Ireland continues to argue that this is a crisis caused by accumulations of private debt – except for the unique Greek example. The fiscal compact would not have prevented Ireland or Spain from experiencing a fiscal crisis, as both countries ran budget surpluses before the crisis (See Chart 2.1.1). The structural deficit measure, which is meant to measure the deficit as a % of potential GDP and take account of cyclical changes in the economy, is notoriously indeterminate, given disagreements on the measurement of potential GDP. Moreover, *Social Justice Ireland* is still concerned that placing fiscal policy on a statutory footing restricts the role of democratic deliberation in making economic decisions. If the Fiscal Compact is not accompanied by investment programmes and a generous interpretation of structural deficit figures it has the potential to become, in the words of Nobel prize-winning economist Joseph Stiglitz, a 'suicide pact' (Moore, 2012).

Chart 2.1.1 – General Government Deficit as % of GDP, 2002-2009



Source: AMECO (2013).

While European policymakers have agreed to reduce the interest rates on ESFS and EMS loans to

programme countries, there has been little debt relief agreed with Ireland and Portugal. In June 2012 the Euro Area Group and European Council, though reaffirming a European commitment to structural reforms and fiscal consolidation, agreed to recapitalise banks directly through the ESM. They also agreed that the link between bank debt and national debt should be broken, raising the possibility of relief for Spain and Ireland. Recognising that banking debt is a European problem and that Spanish citizens should not bear sole responsibility for the actions of their private banks, Spanish banks may be recapitalised directly by the ESM. However, senior national politicians in Europe have questioned whether the agreement could or should apply retrospectively to the recapitalisation of Irish banks.

The European strategy has also raised serious questions about the democratic nature of EU institutions. In particular, the crisis has placed the ECB – an unelected institution – in an extremely powerful position *vis-à-vis* Euro area member-states and other European institutions. Guaranteed independence by the European treaties, the ECB has played a dominant role in dictating the European response. It has chosen to support private bank borrowing – and arguably in the Greek debt write-down to support private banks' prerogatives over those of the Greek state and people – rather than state borrowing up to 2012. Debates within the ECB about the appropriate role of monetary policy have remained opaque and citizens and parliamentarians rely on interviews given by executives and Board members. The ECB announced plans in August 2012 for unlimited purchases in secondary bond markets of selected government bonds in the event of yields rising above a certain level through an Outright Monetary Transactions (OMT) mechanism. This announcement has produced a reduction in the bond yields of non-programme peripheral countries. However, the ECBs commitment to purchasing government debt on secondary markets has yet to be tested. Furthermore, the inclusion of a conditionality clause puts additional question marks over the legitimacy of the ECB interfering in domestic policy and its role in furthering European integration in this way.

During the early 1990s some commentators – particularly economist historians – expressed doubts about the viability of creating a common currency union along the model of the Eurozone (see e.g. Krugman, 1994: 182-187; von Hagen and Eichengreen, 1996). Economists argued that the Euro area was not and is still not an 'optimal currency union' (OCU). In practice, language and cultural barriers still restrict labour mobility and each member-state still retains distinctive economic institutions (see Mundell, 1961 for the original concept). Therefore, while economic recessions may remain local phenomena, countries are deprived of monetary policy tools, such as devaluation, which have traditionally been used to combat such recessions. Using the conceptual framework of an OCU, it is arguable that a fiscal union can smooth exogenous shocks, possibly negating the problems of factor immobility (Cooper & Hempf, 2004). Yet efforts to introduce redistribution between Eurozone members through the use of commonly issued Eurobonds have been rejected. Some leaders believed that this would lead to a 'transfer union', with stronger members permanently subsidising weaker ones – although this view ignores the cyclical nature of market economies.

The President of the ECB has argued that what is required is 'the collective commitment of all governments to reform the governance of the euro area'. This means completing economic and monetary union along four key pillars: (i) a financial union, with a single supervisor at its heart, to re-unify the banking system; (ii) a fiscal union with enforceable rules to restore fiscal capacity; (iii) an economic union that fosters sustained growth and employment; and (iv) a political union, in which the exercise of shared sovereignty is rooted in political legitimacy' (James, 2013). As Professor Harold James noted in the 2013 T.K Whitaker lecture in Dublin, this is an extraordinarily uncomfortable proposal for many Europeans. Yet European institutions – at least for those within the EMU – are currently unable to face the crisis. The monetary union is now somewhat akin to the 19th century gold standard (even though that was more flexible than popularly imagined), with the burden of economic adjustment falling entirely on the populations of countries with budget deficits. As Dr Draghi and European policymakers recognise, this is unsustainable. It is also unsustainable that such decisions are taken without consulting European citizens. Ireland needs to debate publicly the trajectory of the European Union. Such a debate must reach beyond even the immediate and pressing concerns surrounding the link between Ireland's private bank and national debt burdens and focus

instead on what type of European Union Irish citizens seek for the future.

Whenever he was challenged about the role of the ECB and the dangers of monetary union in the early 1990s, Jacque Delors used to reply that 'social Europe is coming'. Unfortunately, the response to the crisis has ignored 'social Europe'. Indeed, the European response has been to dismantle many of the social protections that Delors considers to constitute the pinnacle of European achievement. The role of a 'social Europe' in the coming debate on Ireland's place in Europe must be central. This will require Irish politicians to take a hard look at their own role in promoting or dismantling 'social Europe' over the last 20 years.

International and European developments since the crisis have given rise to a number of important questions:

- What is needed to ensure effective and efficient regulation – at both national and international level – of the world's financial systems and how can the current situation of moral hazard be eliminated?
- Will the June 2012 agreement on breaking the link between banking debt and sovereign debt be honoured?
- How is democracy to be protected within the European Union when the unaccountable European Central Bank has taken a leading role in questions of fiscal and social policy? What role will the ECB play in a member state's political affairs if that state requires the implementation of the Outright Monetary Transactions mechanism?
- What kinds of institutions are required in the European Union to preserve and expand a 'Social Europe', and ensure the stability of EMU?
- How is rising income inequality in the developed world to be addressed?
- What needs to be done to ensure that economic development and social development are given equal priority in countries across the world?
- How is the environment to be protected and sustainability secured?

2.1.3 The Irish background

Ireland is a small open economy, one of the most open in the world, and an international recession was bound to have implications for this country's economic growth, jobs and trade. Consequently, the severity of the recent international recession would of itself have had serious implications for Ireland and ensured that this country experienced a contraction in economic activity. However, the recession experienced since 2008 has been far more severe and protracted than it might have been otherwise due to an array of national policies and decisions over recent decades. Ireland may have been unfortunate to have experienced national and international recession at the same time but domestic economic problems would have led a substantial economic slowdown, notwithstanding international developments. This section examines the economic and social background to Ireland's economic crisis.

The early years of the independent Irish state were characterised by a stagnant economy and a government committed to low taxes, low spending, a balanced budget, a minimal state, retention of the link with sterling and sustaining cattle exports to the Britain. The election of new government in 1932 saw more interventionist economic policies, a limited commitment to increase social security spending and an attempt to industrialise Ireland by encouraging native capitalists behind tariff barriers. However, despite this change policymakers were focused on maintaining a balance of payments surplus, which tended to dictate fiscal policy. Even after the adoption of the Keynesian distinction between capital and current spending in 1948, a balance of payments surplus remained the key policy goal, leading to a series of severely contractionary budgets, such as that of 1952.

The 1950s were a particularly dark time in Ireland's economic history. Persistent emigration, reflecting the lack of employment opportunities, meant that Ireland's population reached its lowest level since the pre-Famine high in 1958. Ireland did not share in the Golden Age economic growth of Western Europe. In the following years Ireland's economic policy was significantly re-orientated along the lines outlined in *Economic Development*, a tentative document written by a T.K. Whitaker, secretary of the Department of Finance. As a result, Ireland in the 1960s pursued a policy of indicative planning, removing protectionist barriers, investment in public education and public services and an industrial policy which gave tax concessions to induce foreign owned firms to set up industries in Ireland. Emigration halted during this decade and it seemed as if Ireland could eventually converge with other Western European nations.

The economic environment in the 1970s was as difficult for Ireland as for other countries and governments engaged in deficit spending to sustain employment and economic expansion. Despite a difficult global environment, Ireland seemed well-placed to achieve sustained economic growth by joining the European Union, despite concerns about protected industry; pursuing well-focused industrial policies; reaping the benefits of strong investment in education since the mid-1960s and by having a favourable geographic location for European markets and an English speaking labour force. In an attempt to restart growth, the new government elected in 1977 pursued a strongly expansionary fiscal policy. The programme was strongly influenced by electoral considerations rather than strategic priorities, however, and expected growth and employment targets were missed. Ireland's largest trading partner remained Britain and when that country embarked on a heavily deflationary fiscal and monetary contraction in 1979 Ireland was badly affected. As happened in France in the early 1980s, the effectiveness of fiscal measures in Ireland were severely constrained by external economic conditions.

In 1979 Ireland joined the EMS, breaking the link with sterling. Successive devaluations within the exchange rate mechanism (ERM) of the EMS provided some respite. During the 1980s governments were committed to fiscal contraction, with increased income and consumption taxes between 1982 and 1984. A declining economy, however, led to increased social spending, which threw this effort off course. In 1987 a particularly sharp contraction was attempted, with a large part of the effect felt in government capital spending (See Box 1). In many respects Ireland was fortunate that the Lawson Boom in Britain mitigated some of the deleterious effects of this policy, but key services were badly affected and emigration between 1987 and 1989 reached levels not seen again until 2009. The Social Partnership process begun in 1987 – a stronger, more cohesive effort than previous attempts at an Irish incomes policy – provided a framework to secure stability and industrial peace.

Box 2.2 - Learning the wrong lessons from the 1980s – The Myth of an 'Expansionary Fiscal Contraction'

Some policymakers, including former ECB President Jean-Claude Trichet, have argued that Ireland's fiscal contraction in the late 1980s constituted a so-called 'expansionary fiscal contraction' (EFC) (Trichet, 2004). A paper published by Giavazzi and Pagano (1990) declared that Ireland's 1987-1989 contraction was expansionary – in other words, it caused the economy to grow – because they assumed that households and firms increased consumption in response to a credible fiscal policy that promised deficit reduction and thus lower future taxation. This is based on the theory of rational expectations – that individuals and firms all seek to maximise utility and profits – and the associated 'Ricardian equivalence', which assumes that higher spending will not change individual behaviour because citizens will assume the tax burden will increase in the future. Barry and Devereux (2003: 2) have noted that this view was characteristic of the German 'Treasury' position in the early 1980s. Alesina and Ardagna (2010) updated the thesis, arguing that fiscal contractions that concentrated on the spending side could be expansionary. While this idea gained some credence in the 1990s it has been disproved by the events of the last five years, and policymakers – albeit not in the ECB – have moved away from it. However, it did prove very influential in European policymakers' initial response to the crisis and it has unfortunately created a pervasive myth in Irish public life. This led some policymakers to believe that if they are just 'tough' enough with public spending the economy will eventually rebound. It has also led to persistent underestimation of the effect of fiscal contractions by some Irish policymakers. This 'just one more austerity budget and we will turn the corner' attitude leads to short-term policy decisions based on a profoundly mistaken view of the recent past.

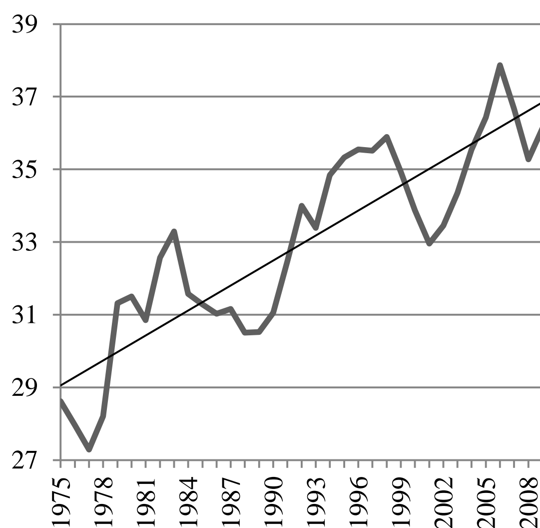
In fact, while many Irish economists agree that the fiscal contraction of the 1980s was desireable, they have generally observed that no expansionary fiscal contraction actually occurred. Using similar theoretical assumptions to Giavazza and Pagano (1990), Bradley and Whelan (1997), for example, argued that the contractionary fiscal policy of the late 1980s was contractionary, and that expansionary fiscal policy in Britain – the 'Lawson Boom' – mitigated the effects of Irish fiscal policy. Honohan and Walsh (2002: 15) noted that the idea of 'the confidence story underlying the simplified version of the EFC hypothesis has an uphill struggle to find empirical support in Ireland'. Kinsella (2012: 234) has recently argued that the combined effects of a devaluation in August 1986 following a depreciation of sterling, growth in the international economy from 1987, low corporate taxes, fiscal transfers from the EU, high emigration (which reduced the social security bill), real wage increases,and a bumper tax yield produced by the tax amnesty all point to a 'proto-Keynesian' story of convergence. O'Gráda's (2011) analysis is broadly similar: 'The Irish economy had failed to grow at all between 1980 and 1986; then, spurred on by well-executed currency devaluations, a booming UK economy, a successful tax amnesty and the beginnings of social partnership, in the following decade it would grow by more than five per cent annually'. Internationally, a former advocate of EFC has argued that he was mistaken, and that all the countries he had studied – apart from Denmark –owed their expansions to a combination of currency devaluations and an incomes policy (Perotti, 2011).

As O'Gráda (2011) has pointed out, Ireland lacks many of the policy options it had in the late 1980s. Irish policymakers must acknowledge this and recognise the increased risks of 'front-loading' austerity. Irish advocates of increasing the pace of fiscal consolidation tend to argue that it will increase debt sustainability and/or creditworthiness, rather than that it would expand the economy (Irish Fiscal Advisory Council, 2012: 60).

Neo-liberal policies have often been adopted unevenly, with distinct varieties conditioned by domestic institutions but all influenced by common trends, such as intellectual shifts within the discipline of economics, and by the effects of the liberalisation of trade and capital markets and globalisation of production. Ireland adapted to these processes – the policy framework adopted since 1987 can be termed 'neo-liberal'. The income accruing to the top 10% has moved accordingly (Chart 2.8). A low corporate tax regime and a highly educated workforce encouraged the siting of multinational manufacturing facilities in Ireland, contributing to employment growth and tax revenue (perhaps more through additional income tax receipts than corporate income *per se*). The liberalisation of capital enabled the development of an Irish Financial Services Centre in the Dublin Docklands. However, these developments were not without disadvantages, some of which have become particularly obvious during the last five years.

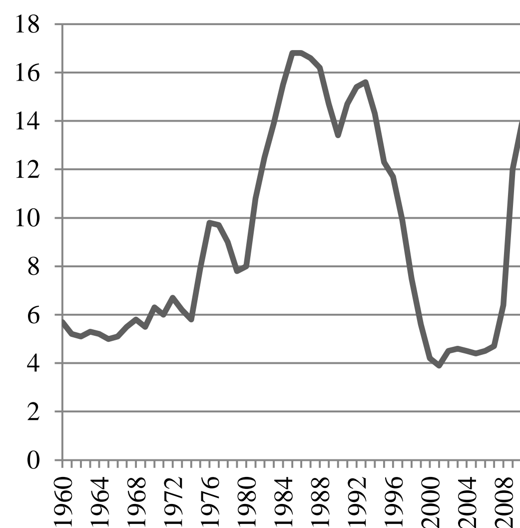
In terms of domestic institutions, Ireland moved towards private sector, mortgage finance driven provision of housing, while social and affordable housing was side-lined. In a process familiar internationally, income taxes and capital taxes were reduced while user charges were increasingly relied upon to fund specific services. Public services were increasingly moved into the private sector and semi-state corporations were privatised. While these processes were indicative of neo-liberal trends globally, Ireland also included quite specific institutions. Social Partnership provided a framework in which otherwise excluded groups gained an input into public policy and industrial peace was secured through negotiated pay rounds.

Chart 2.8 – Share of total income earned by the top 10% of income-earners, 1975-2009[4]



Source: Nolan, (2007), updated by author.

Chart 2.9 – Irish Unemployment, 1960-2011

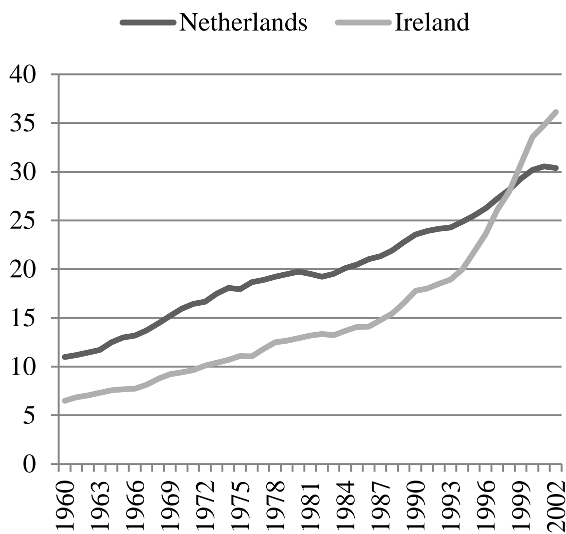


Source: AMECO, 2013

Ireland's extremely high unemployment in the 1980s slowly began to fall in the mid to late 1990s (see Chart 2.9). Ireland's employment patterns and GDP per capita rapidly converged towards developed country norms. Honohan and Walsh (2002) have persuasively argued that the rapid growth rates of the mid to late 1990s were a sign of Ireland belatedly enjoying the growth rates of the 'Golden Age' of European capitalism (Chart 2.10 and Chart 2.11). During the late 1980s and early 1990s growth had been export-led and, although employment in the export manufacturing sector grew, unemployment remained stubbornly high. Moreover, the tight fiscal policy of the late 1980s was not conducive to employment growth. The collapse of the ERM of the EMS in 1993 led to the punt being placed on a managed float, which in turn led to lower real interest rates than there would have been in the ERM.

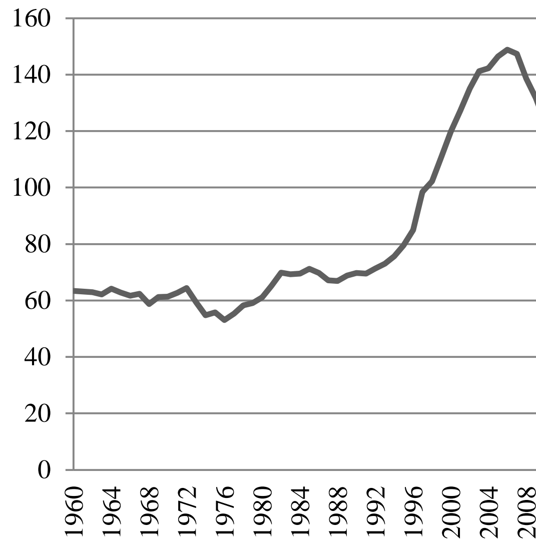
[4]The methodology used in Nolan's calculations differs from that used in our chapter on income distribution.

Chart 2.10 – Convergence: Ireland and the Netherlands GDP per capita at constant prices (2005) in '000, 1960-2002



Source: AMECO (2013).

Chart 2.11 – Irish Growth in GDP per capita, 1960-2010 in relation to the EU-15 (EU-15 = 100)



Source: AMECO (2013).

From the mid-1990s Ireland's employment patterns were transformed in three ways. Firstly, the proportion of Ireland's population that was employed converged with the levels experienced elsewhere in Europe and the OECD. In 1989 only 31 per cent of Ireland's population was in employment. This proportion climbed to over 45 per cent by the end of the following decade. Secondly, the proportion of the labour force that was employed grew dramatically in the decade and a half from the early 1990s while the proportion unemployed fell dramatically after a period of jobless growth in the early 1990s. Thirdly, the labour force itself grew dramatically, increasing by over 900,000 during the 1990s. A key change in all of this was the increase in female participation in the labour force. Between 1990 and 2000 the number of females in the Irish labour force increased by almost 250,000 and the female labour force participation rate rose from 44 per cent to 56 per cent (OECD Labour Force Database, 2010).

This labour force driven growth was complemented by a very strong growth in productivity, as measured by average output, during the 1990s. Though some of this was illusory, produced by the practice of transfer pricing by multinational corporations, productivity growth was a reality. Productivity growth is the main determinant of long-term, sustained economic growth and contributed heavily to Ireland's rapid economic expansion in the 1990s. However, as Ireland's productivity levels converged towards that of world-leading countries the underlying pace of such growth slowed.

From 2000/2001, growth was driven by population growth and an extraordinary credit boom, which financed speculation and construction activity in the residential and commercial property sectors. This population growth and the consequent increase in labour supply and economic activity was supported by a huge increase in immigration and it was unlikely that it would be sustainable over a long period. By 2000/2001 Ireland had lost focus on productivity growth as the key to improving living standards and focussed simply on economic growth.

Three false conclusions

In effect, Ireland had reached three false conclusions: that economic growth was a good in itself and could be pursued through the construction sector; that deregulated finance was both more efficient and more stable; and that lower taxation was conducive to long-term growth and could still be used to finance social security and public investment. Each of these played a role in exacerbating the severity of the financial

crisis.

Government became fixated with economic growth. It became convinced that economic growth was good in itself and that the higher the rate of economic growth, therefore, the greater the benefits that would accrue to the Irish people as a whole. It followed that whatever was believed to support economic growth was to be facilitated and whatever restricted economic growth was to be resisted. Consequently, Ireland followed a very questionable pathway, putting considerable faith in the ability of a highly incentivised property and construction sector to maintain the high growth levels enjoyed in previous years.

For several years, commencing in 2000/2001, growth in housing activity masked Ireland's deteriorating 'fundamentals'.[5] As Ireland's per-capita income grew, so too did the demand for housing. As we detail in chapter 7 of this review, Ireland's housing construction rose from 19,000 completions in 1990 to a peak of over 93,000 completions in 2006. While there were 48,413 households on local authority waiting lists for social housing in 2002, this level of housing construction was unsustainable. Most of the new construction was for private housing. Of the 57,695 houses completed in 2002, 51,932 were private housing. Of the 93,419 completed in 2006, 88,211 were private housing. Overall, the number of houses in Ireland rose from 1.2 million homes in 1991 to 1.4 million in 2000 and then exploded to 1.9 million in 2008. By 2007, construction accounted for 13.3 per cent of all employment, the highest share in the OECD (OECD, 2010). The property bubble produced over-priced housing, the product of foolish lending, irrational borrowing and unrealistic profit expectations.[6] The legacy of this policy disaster was empty housing units, many of them in inappropriate locations, negative equity and high numbers of unemployed construction workers.

This level of construction was encouraged and supported by many factors. Three key factors were:

- Very low interest rates. Ireland's entry into the Euro area eliminated currency risks. Moreover, low inflation and growth rates in the Euro – particularly in the 'core' – led to the ECB to set low interest rates. This allowed Irish banks to borrow heavily from 'core' banks at relatively low rates, and lend to Irish firms and households.
- Large tax incentives for construction provided by the Irish Government and lax planning regulations.
- Unsustainable house price and commercial property price inflation and profiteering. Ireland's largest developers and senior bankers formed strong alliances, and their perceived successes were highly praised by the media and prized by politicians.

The fixation on economic growth was combined with a second false conclusion – a deep faith in the capability of deregulated finance to provide credit for investment in housing and business. Since Irish independence there had been, and remained, a certain deference towards Irish banking institutions. Moreover, global trends in the liberalisation of finance influenced the intellectual culture amongst policy makers so that there was a particular predisposition to less regulation of finance. This deference and the intellectual adherence to neo-liberal ideas contributed to the idea that finance should not be regulated and that market solutions to questions such as the supply of housing maximised human welfare.

Irish policymakers had entered the Euro with the knowledge that interest rates would be determined by inflation figures in the largest Eurozone economies. As such, they should have put in place tax policies, regulatory policies and housing policies that would have had the effect of restricting the growth of credit in the property sector. House price inflation could have been ameliorated by public provision of housing and commercial property growth could have been controlled through planning regulations.

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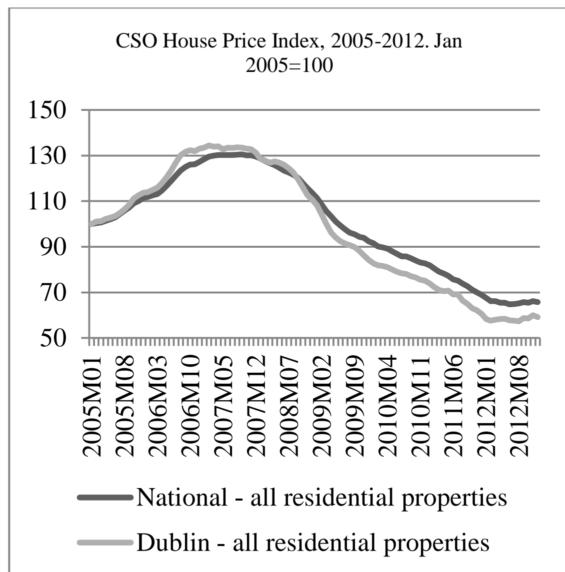
[5] We examine Housing and Accommodation issues in more detail in chapter 7 of this review.

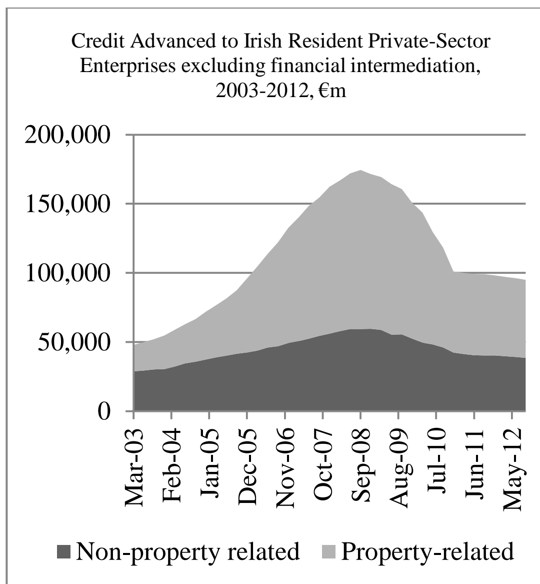
[6] See Drudy, Healy, Reynolds and Collins (2011) who discuss this further.

Box 2 – The Construction and Property Bubble – A Failure of Housing policy.

Countries whose housing policies were orientated towards expanding home-ownership through the private financing and construction of housing witnessed a rapid appreciation of house prices up to 2007 (See Graph).



Source: CSO (2013).



Source: Central Bank of Ireland (2013).

In the European Union, Ireland and Spain were at the forefront of this development. This led to a rapid expansion of property related debt as a % of GDP and concomitantly the expansion of construction activity and employment. It is now widely accepted – by a series of banking reports – that the banking sector was subject to 'light-touch' regulation and that the directors and management of banks behaved recklessly (Regling &Watson, 2010; Commission of Investigation into the Banking Sector in Ireland, 2011; Honohan, 2010). Credit was increasingly directed at construction-related Irish firms (see Graph), towards households forced to secure a home on the private market and towards individuals seeking to speculate in the housing market. Despite the high level of activity, housing policy actually led to lower levels of owner-occupancy, while leaving an excess of vacant houses. While speculative activity was also focused on the commercial sector, particularly on the construction of buildings whose functions attracted extensive tax reliefs, such as hotels and hospitals, the failure of housing policy was particularly egregious and it has left many people who sought only to purchase their own homes in negative equity, or far more seriously, in unable to make full repayments on their mortgages.

Similarly, the International Financial Services Centre (IFSC) came to play an increasingly important role in the eyes of policymakers. Here, too, the regulation of branches of international banks was minimal. The perceived benefit accruing to professional services firms, namely the legal and accounting professions, and subsequent employment growth in those sectors was one factor influencing on lax regulation of the IFSC and the creation of an accommodating tax code. This has led to the IFSC having a disproportionate influence on policymaking in Ireland, which has had a negative influence on Ireland's relations with the major Euro area nations. Ireland came to be regarded as the 'Financial Wild West' of Europe and its policymakers' reactive defence of the IFSC and opposition to such measures as the Financial Transactions Tax (FTT) has often antagonised key allies (Lavery & O'Brien, 2005). Moreover, the long-term effect of maintaining what a US Congressional report classes as a 'tax-haven' has been to facilitate the growth of the global shadow-banking industry which deprives both developed and developing countries' of tax revenue and contributes to global financial instability (Gravelle, 2013).

During this period Ireland had reached a third false conclusion in relation to taxation.[7] It had come to believe that low taxation was good in itself and that reducing tax rates would lead inevitably to an increase in tax revenues. The theory was that 'giving people back their own money', through the reduction of capital and income taxes, was far better than investing that money in developing and improving infrastructure and services. The reduction of capital taxes and provision of pension tax relief in particular benefited the wealthiest in society. The result of these beliefs was that by the end of the Celtic Tiger years Ireland had one of the lowest total tax-takes in the EU. At the same time, while there had been some improvements in areas such as housing, public transport and social welfare during those years, many aspects of Ireland's infrastructure and social services remained far below EU-average levels. A strong assumption persisted that infrastructure and social services could be improved to EU-average levels at the same time as one of the lowest total tax-takes in the EU was maintained. This belief endured despite the very strong efforts of some policy analysts to convince Government and policy-makers otherwise.

By 2007 Ireland had 'run out of road', with no scope for any further substantial improvement in the population/labour force/employment situation. The labour market had become over-heated and was relying on inward migration to sustain supply. At the same time, productivity was weakening, the tax-base was narrowing and economic activity was concentrated on the construction and property sector, while government had become reliant on revenue from property-related transactions. Yet, even with a serious slowdown inevitable, the General Election of 2007 was still fought on the generally accepted assumption that growth would average 4.5 per cent per year over the 2007-2012 period. All political parties, with just one exception, drew up their manifestos on this basis. Those who challenged this assumption of continued growth were rejected, often with derision.

Eight false assumptions

Overall, Ireland's policy-making during this period was underpinned by a series of false assumptions and conclusions. These included:

- Economic growth was good in itself and the higher the rate of economic growth the better it would be for Ireland.
- Everyone would enjoy the benefits of economic growth, which would trickle down automatically.
- Infrastructure and social services at an EU-average level could be delivered with one of the lowest total tax-takes in the EU.
- The growing inequality and the widening gaps between the better-off and the poor that followed from this approach to policy-development were not important because 'a rising tide lifts all boats'.
- Low taxation was an unqualified good.

[7] We review these issues in greater detail in chapter 4 of this review.

- Reducing tax rates would lead inevitably to an increase in tax revenues.
- 'Giving people back their own money', through reducing taxes was far better than investing that money in developing and improving infrastructure and services. The sum of individual decisions would produce greater and more lasting prosperity than the collective decisions of the Irish people.
- Ireland had a great deal to teach the rest of the world, particularly about how it could reach full employment, generate rapid and sustained economic growth and provide for all the society's needs while having one of the lowest total tax-takes in the Western world.

Eight policy failures
Arising from this series of false policy conclusions and false assumptions, there were many resulting policy failures. Among these were:

- Failure to take action to broaden the tax base by, for example:
    - introducing a property tax;
    - removing existing tax exemptions which have no demonstrated benefit-cost advantage;
- Failure to promote tax equity by, for example, introducing Refundable Tax Credits.
- Failure to overcome infrastructure deficiencies, such as in broadband, public transport, primary health care, water, energy, social housing and waste.
- Failure to adequately address high energy costs.
- Failure to create a universal health service based on need.
- Failure to address income inequality.
- Failure to appropriately regulate the banking, financial and professional services sector.
- Failure to manage the growth of personnel numbers in the public service.

2.2 Ireland in 2013: the context

In this section we analyse where Ireland stands today. We assess various dimensions of the current crisis and subsequently explore the present context in economic, social, political and cultural terms.

2.2.1 The Emergence of the Crisis

Irish policymakers were initially slow to realise the consequences of the liquidity problems that emerged in global financial markets in August 2007. This was largely due to the false assumptions of the bubble years and intellectual dominance of neo-liberalism. As a result, there was a widespread belief that 'light-touch' regulation ensured that bank runs and insolvencies were unthinkable. Moreover, Irish bank's exposure was not to international capital markets but to the domestic and British commercial and residential property markets. Despite preparation following the bank run on Northern Rock in the UK, senior policymakers were taken by surprise when informed by the Irish banks that they required funds to meet the obligations to pay for maturing liabilities because international money markets were unwilling to lend to Irish banks. This led to the decision to guarantee all domestic bank liabilities in September 2008, which pledged the taxpayer to pay all bank liabilities in full at face value, whether they were deposits – ordinarily guaranteed up to a certain limit by governments – or bonds.

This precipitous and unwise decision to socialise the banking debt accumulated throughout the bubble years surprised many of Ireland's trading partners; though the 'no bondholder left behind' was later affirmed as a

Euro area policy by the European Central Bank.[8] By January 2009 the government was forced to nationalise one of the guaranteed banks, Anglo-Irish Bank, given the sheer scale of its insolvency, and to re-capitalise two others using the National Pension Reserve Fund. Government was loath to nationalise the remaining banks. The intellectual antipathy towards nationalisation remained too strong amongst policymakers and during 2009 and early 2010 government was willing to allow private ownership of insolvent private banks whose liabilities had been guaranteed in full.

The rapid downturn in the construction sector and credit freeze precipitated by the crisis led to a rapid fall in tax revenues. As unemployment rose – initially job losses focused in the construction sector – social expenditure rose. Policymakers had come to view the economic crisis of the 1980s as a public finance crisis. Consequently, it was believed that a rapid fiscal consolidation enacted in Budget 2009 would prevent a repeat of the experience of the 1980s. However, policymakers failed to appreciate that, as with the 1980s, the economic problems facing Ireland were multifaceted. The bank guarantee had joined the fate of the Irish state, economy and society to that of the Irish private banking sector.

The dangers of attempting an austerity policy in the face of a 'balance-sheet' recession – characterised by private firms and households holding debts larger than the value of the underlying assets – have been highlighting by many economic commentators and the effects of Irish austerity have borne them out. Output has contracted rapidly, partly under the pressure of austerity, reducing government's tax revenue. This has led to remarkably little reduction in Ireland's deficit to GDP figures, due to a combination of successive bank bailouts, leading to an onerous interest schedule, and the reduction of GDP due to austerity. Between 2008 and 2010 the policy of austerity failed to increase market and investor confidence and the continuing insolvency of Ireland's banks led to increasing doubts about the future solvency of the Irish state, as reflected by steadily rising bond yields on Irish government debt. Attempts were made to enforce some kind of burden sharing on those who held the debt of Irish private banks. However, the European Central Bank insisted that there could be no write-downs on any Euro area bank debt, even as unemployment rose rapidly in Ireland and the country came under severe pressure on international debt markets.

Though the Irish state had raised significant cash reserves, in September and November 2010 European leaders placed considerable pressure on Irish leaders to be placed in an IMF/EU programme. It was feared that high bond yields on Irish government debt would have a contagion effect on other vulnerable Euro area economies. Senior Irish policymakers – both elected and unelected – appeared to be publicly at odds during this period, though the government eventually accepted entry into an IMF/EU programme. However, the confusion surrounding the decision to seek a loan from the IMF and EU has yet to be dispelled. Ireland's IMF/EU programme required fiscal consolidation to bring the deficit to GDP ratio below the 3% prescribed in the Growth and Stability Pact. In addition, a structural adjustment programme comprising reforms to social security and the labour market and privatisation of public utilities was agreed as part of the programme. Ireland has now entered its third year of the programme and its sixth year of austerity.

2.2.2 Ireland's Five-part Crisis

Today, Ireland remains in crisis. At the beginning of this period the National Economic and Social Council (NESC, 2009) summarised this crisis as having five closely related dimensions, summarised below. These provide an important analytical framework for addressing the Irish crisis. Although it has been nearly five years since NESC formulated its analysis, these crises have persisted, with some becoming more severe than others.

A banking crisis in which the taxpayer has responsibility for rescuing all the major banks and financial institutions from the consequences of the dishonesty and incompetence of individuals and institutions which

[8] There remains considerable confusion about the events leading up to and immediately after the bank guarantee was issued on the night of the 29th September. No definitive account of the events has yet emerged.

were responsible for managing and regulating our financial system. So far, the socialisation of debt has been unrelenting, though a significant breakthrough was achieved in June 2012 at the Euro area meeting, holding out the prospect of the ESM purchasing the Irish governments shares in private banks.

However, the only result of that meeting so far has been a decision, taken in early February 2013, to liquidate Irish Resolution Bank Corporation (IRBC), redistribute its assets and liabilities and convert the promissory note used to fund the bank to long-term government debt, which will yield some Exchequer savings. This arrangement needs to go further in terms of interest rates and maturities. The June 2012 decision on bank debt should be full respected so that additional relief is granted in relation to the IRBC promissory note.

Some of the questions addressed by NESC (2009) have become even more pressing:

- The need to ensure that policy measures provide protection to the increasing number of households with mortgage arrears. In September 2012, 86,146 (11.3 per cent) private residential mortgage accounts for principal dwelling houses were in arrears of over 90 days (Central Bank of Ireland, 2012);
- The need to ensure that those who led Irish financial institutions into their current reliance on the state, and who were major beneficiaries of the boom, are being held accountable and are bearing their share of the adjustment burden;
- The need to persuade our EU partners, other international institutions and participants in the global financial market that a new regulatory regime and governance culture is being created in Ireland.

A public finance crisis – because we are borrowing far more than we are collecting in taxes. To bring Ireland back into line with our EU/IMF commitments, major budgetary adjustments have been required and will be required over the next few years. We discuss the nature of these changes later in this chapter. However, as the NESC has noted, these fiscal adjustments need to be considered and implemented, not just with regard to how they address the gap between taxes and spending but also with regard to the impact these adjustments may have on the other dimensions of Ireland's challenges, such as the economic crisis, the social crisis and the country's reputation. (NESC, 2009: *x*).

Social Justice Ireland also believes that the pace of fiscal consolidation has been too great, and that both government and the EU/IMF have underestimated the damaging effects of sharp budget cuts and tax rises, which have contributed sharp reductions in domestic demand and investment, and subsequently to the stagnation of Ireland's economy. Government and the EU/IMF should take account of international evidence which points to the dangers of rapid fiscal consolidation, particularly when such a strategy is in concert with major trading partners and fellow EU member-states. Greater consideration should be given to the role of economic stimulus in spurring investment, which increases the rate of economic growth and thus reduces the budget deficit as a percentage of GDP.

An economic crisis – because we have lost many jobs and, throughout much of the last decade, undermined our competitiveness. The speed, depth and nature of Ireland's economic decline demands a policy response which collectively addresses what NESC described as "a difficult set of overlapping and competing objectives and factors" (NESC, 2009: *xi*). These include:

- the employment situation – particularly the threat of further unemployment and, in particular, large levels of long-term unemployment;
- Ireland's loss of competitiveness over the past decade;
- the evolution of prices, including policy instruments that influence input costs to business, professional fees and rents;

- the level of domestic demand;
- the state of the public finances, which are directly affected by public sector pay developments and indirectly influenced by wider unemployment, economic and income developments; and
- the burden of mortgage debt, particularly on those who become unemployed, and social solidarity, encompassing the whole of Irish society, not just those whose incomes are determined through collective bargaining.

Unemployment is now the greatest challenge facing Irish society.

A social crisis – because our social services and social infrastructure are being eroded, unemployment has dramatically increased, incomes are falling, debt levels are rising and the prospect of a sustained period of high long-term unemployment levels now seems unavoidable. While the economic crisis and, in particular, the collapse of private construction provides some opportunities to address the social housing deficit, policy makers need to be keenly aware that their responses to the other crises should not further undermine the vulnerable in Irish society and the social services and infrastructure on which they depend. The nature of this social crisis is described in greater detail later in this chapter.

A reputational crisis – because our reputation around the world has been damaged for several reasons (NESC, 2009: *xii*):

- The perception that, along with a number of other countries, Ireland has had a lax and ineffective system of regulation of the financial sector;
- The perception that Ireland's response to the banking crisis may not include sufficient change in governance and personnel.

Social Justice Ireland would also add that;

- Ireland's reputation as engaging in tax haven style behaviour damages its reputation with many larger European partners;

The perception that Ireland continues to sees its interests as intimately connected with those of large financial firms – as indicated by governments opposition to the Financial Transactions Tax – perpetuates the idea of Ireland as a 'wild west' of financial deregulation.

2.2.3 The economic context

The dramatic and sudden turnaround in Ireland's economic experiences since 2007 must be considered in the context of its economic growth and expansion throughout the last decade. Clearly, as indicated earlier, there have been a number of major policy failures behind some of this growth – for example, the excessive fuelling of the construction industry and an unregulated banking sector, which represent a massive misallocation of capital. As table 2.3 shows, Ireland's Gross Domestic Product (GDP) and Gross National Income (GNI) have increased significantly since 1997.[9] The final column of the table shows the per-capita value of GNI over the last decade. In the early years it increased in real-terms (after taking account of price changes) by over 30 per cent.[10] However, the current economic slowdown has brought per capita income levels to below the levels experienced in the early years of this century.

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[9] GDP is calculated as the value of all economic activity that occurs in Ireland. GNI is calculated as GDP minus the net outflow of income from Ireland (mainly involving foreign multinationals repatriating profits), minus EU taxes and plus EU subsidies (for further information see CSO, 2008:76).

[10] We examine the distribution of this income, which was far from even, in chapter 3.

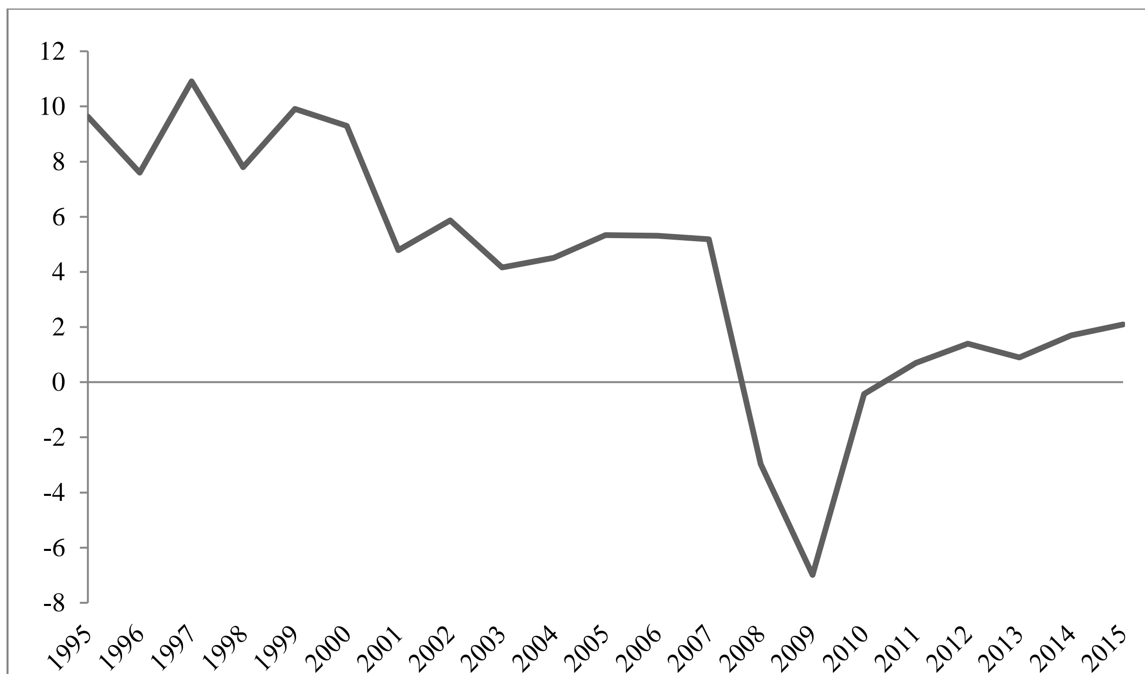
Table 2.3 – Gross Domestic Product (GDP), Gross National Income (GNI), and GNI per capita, 1997-2011

Year	GDP (€b)	GNI (€b)	GNI per capita €*
1997	68.2	60.9	n/a
1998	78.7	69.8	n/a
1999	90.7	78.1	n/a
2000	105.8	91.3	n/a
2001	117.6	99.6	30,488
2002	130.9	108.7	28,854
2003	140.8	120.5	29,755
2004	150.2	129.1	30,391
2005	163.0	141.0	31,393
2006	177.7	155.8	32,645
2007	188.7	163.4	33,136
2008	178.9	154.9	31,927
2009	161.3	134.3	29,200
2010	156.5	131.3	29,368
2011	C159.0	128.3	28,557

Source: AMECO and CSO online database
Note: * Gross National Income per capita at constant 2010 prices;

The speed and severity of Ireland's economic decline is also visible in Chart 2.12. It shows the strength of economic growth between 1995 and 2006 (a period in which most developed world countries experienced 2 to 3 per cent growth per annum) and the rapid decrease between 2007 and 2010. The IMF has forecast a modest increase in world output in 2013 – from 3.2 per cent to 3.5 per cent. But the Euro area economy is expected to continue to contract – by 0.2 per cent – under the influence of fiscal consolidation programmes and deep uncertainty within the Eurozone (IMF, 2013: 2). The IMF expects the Irish economy to expand by 1.1 per cent of GDP in 2013, while the Department of Finance believes it will grow by 1.5 per cent of GDP (IMF, 2012; Department of Finance, 2012).

Chart 2.12: Ireland's GDP Growth, 1995-2015 (%)



Source: OECD (2013); Department of Finance (2012).

The scale of the international recession had an impact on the level of exports, which fell by almost 3 per cent in 2009. During that period both the number of workers and hours worked per worker fell as production declined. Exports have subsequently increased, growing by 6 per cent in 2010, 4.6 per cent in 2011 and by 1 per cent in 2012 (CSO, 2012). The rate of export growth has fallen as growth in the Euro area has stalled. Additionally, the 'patent cliff' – a positive development from a developing country perspective – faced by pharmaceutical manufacturers has contributed to a large fall in the value pharmaceutical exports, which dropped by over 7 per cent in 2012 (CSO, 2013).

The combined effect of these changes on the public finances has been dramatic. Over the decade to 2008 the state had become heavily dependent on tax revenue derived from construction related activities. Indeed, the report by the Governor of the Central Bank estimated that cyclical taxes (Corporation Tax, Stamp Duty and Capital Gains Tax) rose from accounting for 7 per cent of the total tax take in 1987 to 30 per cent in 2006 (Honohan, 2010: 29). In addition, VAT receipts on construction related activity were a temporary boon to the Exchequer. Table 2.4 shows that as the economy declined these revenues rapidly declined. Overall, total tax receipts fell from over €59 billion in 2007 to €43.3 billion in 2010. They rose to €45.3bn in 2011, largely due to the introduction of the Universal Social Charge and a temporary levy on pension funds.[11]

[11] In these calculations we have included items such as social insurance contributions that do not appear in the usual Budget calculations on taxation.

Table 2.4 The Changing Nature of Ireland's Tax Revenue, 2007-2011 (€m)

	2007	2008	2009	2010	2011
Taxes on income and wealth					
Income tax (including surtax)	13,563	13,148	11,801	11,315	14,010
Corporation tax	6,393	5,071	3,889	3,944	3,751
Motor tax - Estimated portion paid by households etc.	526	583	582	563	556
Other taxes	5	6	5	8	5
Fees under the Petroleum and Minerals Development Acts	5	10	2	3	3
Training and Employment Levy	411	414	373	310	317
Social Insurance contribution	9,053	9,259	8,924	8,701	7,532
Total Taxes on income and wealth	29,957	28,491	25,575	24,843	26,174
Taxes on capital					
Estate, etc. duties	0	0	0	0	0
Capital gains tax	3,097	1,424	545	345	416
Capital acquisitions tax	391	343	256	237	244
Pension fund levy	0	0	0	0	463
Total Taxes on capital	3,488	1,767	801	582	1,123
Taxes on expenditure					
Custom duties	30	21	11	23	38
Excise duties including VRT	5,993	5,547	4,909	4,824	4,886
Value added tax	14,057	12,842	10,175	9,862	9,588
Residential property tax	0	0	0	0	0
Rates	1,267	1,353	1,471	1,504	1,499
Motor tax - Estimated portion paid by businesses	431	477	476	461	455
Stamps (excluding fee stamps)	3,244	1,763	1,003	962	936
Broadcasting licence fee	23	23	24	27	27
Other fees	171	219	201	259	250
Total taxes on expenditure	25,216	22,246	18,271	17,922	17,678
EU Taxes	519	484	359	400	416
Total Taxation	59,157	52,964	44,861	43,301	45,391

Source: CSO, 2012.

The policy of socialising Ireland's bank debt has imposed large costs on the Exchequer and a large opportunity cost – and potential cost – in terms of the recapitalisation of the banking sector through the National Pension Reserve Fund (NPRF). Table 2.5 details the total cost of the funding of the Irish bank rescue by source of funding. The NPRF, established to meet the future costs of the public sector and contributory state pension bill, has been used as a rescue vehicle for the state's banking sector. This has deprived the state of one of the main resources it had for introducing a counter-cyclical investment policy. The total cost of the banking rescue has been €62.8bn, €16.5bn of which was directed to the banks under the Prudential Capital Assessment Review mandated under the EU/IMF Programme.

In February 2013 a decision was taken to wind up IRBC and substitute the promissory notes for long-dated government date. While the potential to ease austerity is welcome, the transformation of the promissory notes into sovereign debt copper-fastens the transfer of wealth from low and middle-income citizens to those who profited from the decision to rescue Anglo-Irish Bank. Furthermore, the decision is contrary to the June 2012 agreement to retrospectively recognise the principle that bank bondholders should share part of the burden when banks collapse.

Table 2.5 Total Cost of Irish Banking Rescue by Source of Funding and Year (€bn)

	2009	2010	2011	Total
NPRF	7	3.7	10	20.7
Promissory Notes		30.7		30.7
Exchequer	4	0.9	6.5	11.4
Total	11	35.3	16.5	62.8

Source: http://debates.oireachtas.ie/dail/2012/04/18/00157.asp

As shown above, the interaction of falling tax revenues and rising public expenditure brought on by the recession and the cost of the bank bailout led to the EU/IMF Programme. The primary aim of the programme is to reduce the General Government Balance (GGB), a metric used by the European Union to ascertain the budget deficit. This supposes that if the GGB is reduced to a level viewed as sustainable by purchasers of government debt – broadly assumed to be the 3% of GDP outlined in the Stability and Growth Pact – then Ireland can once again fund itself independently. Under the Memorandum of Understanding, which runs till 2015, a deficit reduction programme is set out. Table 2.6 outlines the GGB targets laid out by the Memorandum of Understanding and the nominal targets the government believes necessary to achieve it.

Table 2.6 - Planned and Actual GGB reduction path, 2009-2015

	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Actual GGD (% of GDP)	-13.9	-30.9	-13.4	-8.3	-7.5	-5	-2.9
Target GGD (% of GDP)	n/a	n/a	-10.1	-8.4	-7.5	-5	-2.9
GGB €m	22,519	-48,607	-21,256	-13,470	-12,645	-8,770	-5,345

Source: AMECO; Medium Term Fiscal Statement, 2012: 26, 91

The IMF, EU and Government initially agreed – in line with both Government and the EU/IMF approach to the economic crisis before 2010 – that deficit reduction should be pursued through a rapid fiscal consolidation weighted towards expenditure cuts. Alternative arguments were initially dismissed and it appeared some policymakers continued to believe in the possibility of an 'expansionary fiscal consolidation', provided adjustment was 'frontloaded'. However, the EU, IMF and Government underestimated the effect of the domestic programme and international austerity on economic growth. The Programme projections included in the IMF's First and Second Review published in May 2011 have deteriorated significantly. Weisbrot and Jorgenson's (2013) analysis of the IMF advice to the EU-27 shows that underestimation of the effects of an austerity programme been a recurring theme in the IMF's initial response to the crisis.

Table 2.7 shows the additional fiscal consolidation required to meet the deficit targets agreed with the IMF. If the GGB target is to be met, a lower growth rate requires even greater fiscal consolidation. However, the

IMF has signalled that it is worried about the effects of 'fiscal drag' on the recovery of the Irish economy, particularly domestic demand, and has argued that additional austerity should be deferred if the economy continues to deteriorate (IMF, 2012: 11, 15).

Table 2.7 - A Changing Programme: Comparing MoU Projections, April 2011 and December 2012

	2011	2012	2013	2014	2015
MoU 2011 Real GDP Growth	0.6	1.9	2.4	2.9	3.3
MoU 2012 Real GDP Growth	1.4	0.4	1.1	2.2	2.8
MoU 2011 Unemployment (%)	14.5	13.9	13.2	12.3	11.3
MoU 2012 Unemployment (%)	14.6	14.8	14.7	14.2	13.4
MoU 2011 Fiscal Consolidation (€bn)	6	3.6	3.1	n/a	n/a
MoU 2012 Fiscal Consolidation (€bn)	6	3.8	3.5	3.1	2

Source: IMF, 2011; 2012.

Budget 2013, marked the eighth fiscal adjustment to the Irish economy since the beginning of the current economic crisis in 2008. Increases in taxes and decreases in public expenditure brought the total adjustment to date to almost €28 billion. This is equivalent to nearly 15% of the 2007 level of GDP – the highest year of output the Irish economy has experienced. Table 2.8 shows the cumulative impact of tax increases and expenditure cuts since the fiscal consolidation process began in July 2008 and includes the projected consolidation contained in the Memorandum of Understanding. Government has indicated that it intends to remove a further €8.6 billion from the economy over three Budgets from 2013-2015. If these plans are implemented, the overall sum of the adjustments from 2008-2015 will total nearly €33 billion – equivalent to 18 per cent of the GDP forecast for 2015.

Table 2.8 Budgetary Adjustments 2008-2015 (€m)

Adjustment Description	**Taxation 🡅**	**Expenditure 🡇**	**Total**	**Running Total**
Adjustment July 2008		1,000	1,000	**1,000**
Budget 2009	1,215	€747	1,962	**2,962**
Adjustments Feb/March 2009		2,090	2,090	**5,052**
Supplementary Budget 2009	3,621	1,941	5,562	**10,614**
Budget 2010	23	4,051	4,074	**14,688**
Budget 2011	1,409	4,590	5,999	**20,687**
Budget 2012	1,600	2,200	3,800	**24,487**
Budget 2013	1,432	1,940	3,372	**27,859**
Budget 2014*	1,100	2,000	3,100	**30,959**
Budget 2015*	700	1,300	2,000	**32,959**
Total of Adjustments	**11,100**	**22,859**		
% Division of Adjustments	**33.68%**	**66.32%**		

Note: * indicates projected adjustment from Medium Term Fiscal Review Nov. 2012

The implications of these large and harsh adjustments can be seen in the continued extension of the adjustment plan, the sustained high level of unemployment and the persistent doubts concerning the Irish economy's recovery. Spending cuts and tax increases have meant that households are spending less, investment is falling and it is only export growth – which is entirely driven by non-domestic demand factors

– that is pulling the economy out of recession. The effects of a balance-sheet recession compound this effect. Many households are giving priority to punishing repayment schedules on debts incurred over the past decade that mainly relate to the purchase of the family home.

How sustainable is this policy approach? Austerity has led to persistent unemployment and renewed emigration. A recent IMF working paper that found frontloading consolidations during a recession seems to aggravate the costs of fiscal adjustment in terms of output loss and to greatly delay the reduction in the debt-to-GDP ratio. This, in turn, can exacerbate market sentiment towards a country at times of low confidence, defying fiscal austerity efforts altogether (Batini, Callegari and Melina, 2012: 32). *Social Justice Ireland* believes that Government needs to adopt policies to stimulate the economy rather than induce economic stagnation. Domestic demand should be given a chance to recover through policies which promote investment on a much larger scale than that currently planned while further building domestic economic confidence through addressing the unemployment crisis. The latter can be done through such initiatives as our Part Time Job Opportunities proposal to take thousands of unemployed people off the dole queues (outlined in chapter 5).

Achieving these targets will be very challenging given the continuing decline in domestic demand and the difficulties being experienced at international level by Ireland's main trading partners. The Government's projections also assume that the on-going banking crisis does not require the exchequer to further invest in the banks and that the excessive budgetary cuts in recent years do not damage the economy to such an extent that it remains stuck in recession – a risk we have continually highlighted. Given developments locally and internationally, it remains open to question whether Ireland will reach the 3 per cent of GDP borrowing threshold, which is the cornerstone the bailout agreement, by the target date of 2015.

Table 2.9 presents a summary of projections for Ireland over the years 2013-2015. Most of this data is derived from the Department of Finance's Budget 2013 documentation and, where appropriate, we highlight those projections we consider unreliable given the economic and banking events that have occurred since the Budget was presented in December 2012.

Table 2.9:	**Ireland's Economic Position, 2013-2015**
National Income	
GDP in 2013 (€m)#	167,725
GNP in 2013 (€m) #	133,900
GDP growth in 2013#	1.5%
GNP growth in 2013#	0.9%
GDP growth 2013-2015 (average) #	2.3% per annum
GNP growth 2013-2015 (average) #	1.6% per annum
Exchequer Budgetary Position	
Current Budget Balance, 2013 (€m)##	- 9,610
Net Capital Investment, 2013 (€m)	7,810
Capital Investment paid from current resources, 2013 (€m)	Zero
Capital Investment paid from borrowing, 2013 (€m)	All
Exchequer Borrowing, 2013 (€m)	15,400
General Government Balance (%GDP)	-7.5%
Current Budget Balance 2014 (€m)	- 5,955
Current Budget Balance 2014 (€m)	- 2,320
Net Capital Investment 2013-2015 (€m)	7,280 (average)
Exchequer Borrowing 2013-2015 (€m)	11,500 (average)
National Debt 2013 % GDP*	117.6%
National Debt 2015 % GDP*	116.8%
Inflation and the Labour Market	
HICP inflation in 2012	1.7%
HICP inflation 2013-2015 (average)	1.8% per annum
Unemployment rate in 2013	14.6%
Employment growth in 2013	0.2%
Unemployment rate 2013-2015 (average)	13.9%
Employment growth 2013-2015 (average)	0.8%

Source: Department of Finance, Budget 2013 (various tables) and separate calculations where indicated.

Notes: * Adjusted upwards to account for subsequent CSO revisions to GDP and borrowing to fund capital injections into the banks.

This is a Department of Finance Budget 2013 estimate and the actual number is likely to be smaller.

Social Justice Ireland has not only been concerned by the size and speed of the adjustments, but also by their composition. As Table 2.8 shows, one-third of the total adjustment over the period 2008-2015 will be on the spending side. Apart from objections to the size of the consolidation, there are two other important questions about this decision. Are there large and discernible effects observable from the decision to opt for tax rises and new taxes over spending cuts? What type of tax system and social security system would

Ireland like to have?

Many commentators have advocated spending cuts over tax rises when attempting to reduce a budget deficit. For example, Alesina and Giavazzi (2012) have argued that there is empirical evidence to support their view that spending cuts are less recessionary than tax cuts. They base this on a belief that spending cuts lead to a permanent expectation of lower taxes in the future, that higher taxes cause entrepreneurs' confidence to fall, thereby influencing investment decisions negatively, which in turn causes output to fall. It also assumes that direct taxes distort otherwise optimal economic behaviour, causing output to fall. This position is similar to that underpinning the idea of 'expansionary fiscal contraction'. However, others have warned – along more traditional Keynesian lines – that cutting public expenditure can have deeper impacts than tax rises on economic output, particularly through drops in consumption amongst financially-constrained households (Batini, Callegari and Melina, 2012).

More importantly, the question of whether to cut the deficit through spending cuts or tax rises reflects a country's priorities. Table 2.10 shows Ireland's position relative to other EU members in terms of its total tax take. Ireland is near the bottom of the rankings.

Table 2.10: Total tax revenue as a % of GDP, for EU-27 Countries in 2010

Country	% of GDP	+/- from average	Country	% of GDP	+/- from average
Denmark	47.6	12.0	Estonia	34.2	-1.4
Sweden	45.8	10.2	**IRELAND GNP**	**33.9**	**-1.7**
Belgium	43.9	8.3	Czech Rep	33.8	-1.8
France	42.5	6.9	Malta	33.3	-2.3
Italy	42.3	6.7	Spain	31.9	-3.7
Finland	42.1	6.5	Poland	31.8	-3.8
Austria	42.0	6.4	Portugal	31.5	-4.1
Netherlands	38.8	3.2	Greece	31.0	-4.6
Germany	38.1	2.5	**IRELAND GDP**	**28.2**	**-7.4**
Slovenia	38.0	2.4	Slovakia	28.1	-7.5
Hungary	37.7	2.1	Bulgaria	27.4	-8.2
Luxembourg	37.1	1.5	Latvia	27.3	-8.3
Cyprus	35.7	0.1	Romania	27.2	-8.4
United Kingdom	35.6	0.0	Lithuania	27.1	-8.5

Source: Eurostat (2012:180) and CSO National Income and Expenditure Accounts (2012:3)
Notes: All data is for 2010. EU-27 average is 35.6 per cent.

Of the EU-27 states, the highest tax ratios can be found in Denmark, Sweden, Belgium, Italy, France and Italy while the lowest appear in Latvia, Romania, Slovakia, Bulgaria, Lithuania and Ireland. Overall, Ireland possesses the third lowest tax-take at 28.2 per cent, some 7.4 percentage points below the EU average. The increase in the overall level of taxation between 2002 and 2006 can be explained by short-term increases in construction related cyclical taxation sources (in particular stamp duty and construction related VAT) rather than any underlying structural increase in taxation levels. Ireland's economic adjustment will bring tax take as a proportion of GDP up to 31.7 per cent - still 3.9 percentage points below the 2010 EU average (Department of Finance, 2012).

In the context of the figures in Table 2.10 the question needs to be asked: If we expect our economic and social infrastructure to catch up with the rest of Europe, how can we do this while simultaneously gathering

less taxation income than it takes to run the infrastructure already in place in most of those other European countries we wish to emulate? In reality, we will never bridge the social and economic infrastructure gaps unless we gather a larger share of our national income and invest it in building a fairer and more successful Ireland.

Social Justice Ireland believes that Ireland should increase its total tax-take to 34.9 per cent of GDP by 2015 – which would still leave Ireland as a low-tax economy as defined by Eurostat).

Another important question is which countries should we choose to benchmark against? Which countries do we wish to emulate, in terms of public services, pensions, social welfare payments and private and public wage rates? Are Latvia, Lithuania, Romania, Slovakia and Bulgaria to be our new benchmark countries?

2.2.4 The social context

Ireland's social context is addressed throughout this review. This section provides a brief overview.

The ramifications for Ireland's citizens of the recent economic turmoil have been severe. Most notably, one of the great achievements of recent years has been reversed in a short period of time. Unemployment has returned as a widespread phenomenon.[12] In late 2006, 90,300 people were recorded as unemployed by the CSO's quarterly national household survey (QNHS). This figure represented 4.2 per cent of the labour force. Six years later, the number of people unemployed had more than tripled to 294,600, equal to approximately 14.2 per cent of the labour force (CSO, 2013). In a relatively short period Ireland returned to levels of unemployment not experienced since the mid-1980s. Behind each of these figures are people and families – the society-wide impact of these increases cannot be over-estimated.

The scale of this unemployment crisis and the simultaneous collapse in employment opportunities has resulted in many people becoming stranded in unemployment. Consequently long-term unemployment, defined as those unemployed for more than one year, has rapidly increased. By late 2012, 176,400 people were recorded as long-term unemployed, a rate equal to 8.2 per cent of the entire labour force (CSO, 2013). It is of considerable concern that a large proportion of the newly long-term unemployed possess skills for which there is likely to be limited demand over the next few years. In particular, large numbers of males who formerly worked in the construction sector have joined this group and they will require significant assistance and retraining before many of them can return to employment.[13]

Rhetoric that seeks to divide society and demonise the unemployed has made a return in some sections of the media. This should have no place in Irish political discourse; it demoralises those who have lost their jobs in a recession caused and compounded by both government policy and international factors outside of their control.

Another of the social ghosts of the 1980s and 1990s has also returned – emigration. Preliminary estimates from the CSO Population and Migration Estimates, April 2011, suggest that net outmigration was running at over 34,000 a year in 2011 and 2012 (CSO, 2012: 2) In 2012 preliminary estimates suggested that over 87,100 emigrated, of whom 46,500 were Irish, a sharp increase on 2009, when 19,200 of the 70,000 who emigrated were Irish. As Ireland's employment is not expected to grow until domestic demand and investment increase substantially and the international economy recovers, it is expected that emigration will remain at these high levels, with a large outflow of young and skilled Irish-born people, for a number of years to come.

As noted above, seven successive budgets have cut public spending; in 2008, twice in 2009, and in 2010,

[12]The data cited in this section comes from the CSO's QNHS, the official measure of employment and unemployment. We analyse the live register figures in chapter 5.
[13]We analyse the issues of unemployment, employment and work in chapter 5.

2011, 2012 and 2013. Throughout this review we highlight and critique many of the cuts in social spending, including the unacceptable cut in many social welfare payments delivered in the 2010, 2011 and 2012 budgets.

Cuts in both national and local social services and support initiatives are being made at a particularly difficult time, just when demand for these services is rising. All too often decisions made in times of crisis focus on short-term gains and savings with no regard for their potentially negative long-term consequences. Cutting funding for particular disability services, for example, may save money in the short term but can also effectively imprison people with a disability in their own homes and subsequently result in increased acute hospital costs. In reality, many decisions made during the current series of crises are set to have such negative effects.

Many public services are provided by community and voluntary organisations. These have come under huge pressure in recent years as the recession has forced an ever-growing number of people to seek their help on a wide range of fronts. But, just at the very moment when the demand for their services increased, Government has reduced the funding available to many of these organisations. It is noticeable that the scale of cutbacks by Government in the funding for provision of public services by the community and voluntary sector is proportionately much larger than for public services provided directly by the public sector. There has been no adequate explanation for this inequitable disparity.

The impact of these cuts and the threats of further similar ones continue to undermine the social structures within Irish society and their ability to cope in the present circumstances.

The collective implications of these actions were well summarised by Magdalena Sepulveda, the UN independent expert on Human Rights and Extreme Poverty, who visited Ireland following an invitation from Government in January 2011.[14] She stated in her report that “the current economic and financial crisis poses a disproportionate threat to those who did not benefit much from the Irish economic boom and is a serious threat to the milestones achieved in social protection”. This is further reflected in the experience of the Society of St Vincent de Paul which reported that throughout the last few years calls for its assistance increased dramatically. Many of these came from ‘first-timers’ struggling to cope with the impact of the current crisis. In some cases very vulnerable people have turned to money-lenders as a last resort, making their long-term situation worse in the process.

The proportions of the population at risk of poverty or in consistent poverty and the deprivation rate all declined despite commitments by government to increase social security payments to the most vulnerable during the mid-2000s. This progress has been reversed during the recession (see Table 2.11). This has particularly affected extremely vulnerable groups; in 2011 56% of children in lone parent households suffered two or more types of enforced deprivation, up from 44.1% in 2009. The quintile share ratio – measuring the difference between the average equivalised income of the top 20% of households from the bottom 20% - in 2011 was 4.9, up from 4.3 in 2009,

Table 2.11 Poverty and Deprivation Rates, 2008-2011

	2008	2009	2010	2011
At risk of poverty rate (%)	14.4	14.1	14.7	16.0
Deprivation Rate (%)	13.8	17.1	22.6	24.5
Consistent poverty rate (%)	4.2	5.5	6.3	6.9

Source: CSO (2013: 1).

[14]*Social Justice Ireland* held a detailed meeting with the UN delegation in January 2011.

Social Justice Ireland has strongly objected to the budgetary strategy from 2008 to 2013, though it does recognise differences in approach between those various budgets. An analysis by the ESRI (Callan et. al., 2012) examined the effects of changes in direct taxes, direct welfare payments and some indirect taxes and found that the changes in budgets between 2008 and 2009 were progressive, taking more proportionately from those higher up the income distribution. This analysis did not include the impact of cuts to service provision, which have the greatest effects on those most reliant on public services – usually the poorest.

While budgetary policy may have been progressive between 2008 and 2009, it became regressive subsequently, and this trend has continued. Callan et. al. (2012) showed that the budgetary changes in Budget 2012 took proportionately more from those on the lowest incomes than from those on the highest. It must be remembered that the ESRI analysis does not include the impact of cuts in some services. Both the ESRI and *Social Justice Ireland* concluded that Budget 2013 was also a regressive budget. This has become a particularly worrying trend in budgetary policy which will make Irish society more unequal.

As mentioned above, the CSO's EU-SILC data release only includes changes up to 2011 and has measured an increase in inequality. Given the change in budgetary stance since Budget 2010 – which came into effect in 2011 – and the increases in unemployment, we can expect to see increases in inequality when figures for 2012 and 2013 are released. Government policy, particularly in its budgetary decision-making, should also seek to reduce inequality. Inequality damages social solidarity, fractures social cohesion and contradicts the egalitarian instincts of the majority of the Irish people.

A special CSO Quarterly National Household Survey module on the impacts of the recession on households was published in February 2012. It showed that 30 per cent of households headed by a person who is unemployed had borrowed money from family or friends to pay for basic goods and services. In addition, half of such households had missed paying household bills and more than one quarter had missed loan repayments. Two thirds of households headed by a person with a job and two thirds of those headed by an unemployed person had reduced the amount they saved.

However, households headed by an unemployed person were far more likely to have spent some or all of their savings. Almost 64 per cent of these households had spent savings to pay for basic goods and services in the two years prior to the survey, compared with 46 per cent of households headed by a person who was employed.

In addition to the economic and social problems discussed above, an alarming number of people, of all ages, have literacy difficulties. We still have schools with leaking roofs and 'temporary' portacabins. Ireland's two-tier health system has persisted through the crisis and availability of many services remains related to income rather than need. Clearly, in the Ireland of 2013 the social crisis continues.

2.2.4 The Political Context

The 2011 General Election produced a new government with a large majority and a mandate to address the broad economic and social problems outlined above. The *Programme for Government* covered a wide range of issues at different levels. It contained very welcome commitments on some issues but was exceptionally vague on how it proposed to address others. It contains very few numbers or target dates. This Government has introduced two regressive budgets so far. *Social Justice Ireland* urges the Government to change its approach to budgets and to place protection of the vulnerable and promotion of the common good at the core of its decision making.

The issue of governance is of major importance for society at large. There is a substantial role for civil society in the huge task that Ireland currently faces. Social dialogue is a critically important component of effective decision-making in a modern democracy. Recently the process of consultation and society-wide

cooperation has been undermined, even demonised, and its significant positive contributions ignored. The severity of Ireland's current situation is reminiscent of the late 1980s, a time when social dialogue was seen as the key to economic and social recovery; the lessons learnt then should be remembered now.

The Europe 2020 Strategy places an onus on the Irish government to include all stakeholders in framing, developing and delivering Ireland's National Reform Programme. This programme is intended to set out how Ireland proposes to meet its commitments towards achieving the Europe 2020 Strategy targets. By including all stakeholders and civil society, it is believed that these targets will be 'owned' and that all will work for their achievement. *Social Justice Ireland* believes this is a sensible and desirable approach.

Much work has been done in recent years by the Council of Europe on how such an approach might be formalised and benefit all concerned. From that has come a new draft Charter on Shared Social Responsibilities which was finalised by the Council of Europe in late 2011. This charter argues that having a well-defined deliberative process can ensure, among other things, that individual preferences are reconciled with widespread priorities in the field of social, environmental and intergenerational justice. It can also reduce the 'imbalances of power between stakeholders and neutralise its impact on the construction of knowledge and on decision-making' (Council of Europe, 2011: 24).

It is apparent to *Social Justice Ireland* that in the on-going framing, development and implementation of policy in areas such as the National Reform Programme there is a need for Government to move towards a deliberative approach. In a deliberative process all stakeholders would address the evidence together, independent of the traditional power differentials between the stakeholders. The evidence would be presented and discussed with a view to providing the most accurate 'reading' of the issues being addressed.

Stakeholders would collaboratively identify:

- the current situation and how it emerged;
- the most desirable future that could be achieved; and
- the means by which to move towards such a future.

Were this process evidence-based it would go some way towards ensuring that the most appropriate manner in which to address issues would be identified and agreed. Such an approach requires a high level of accountability from stakeholders and encourages them to take responsibility for decisions and the subsequent implementation of the actions required.

Social Justice Ireland believes governance along these lines can be developed in Ireland. Such engagement would reflect the value of social dialogue and the need for good governance characterised by transparency, accountability and inclusion.

2.2.5 The cultural context (assumptions, values and attitudes)

At times of crisis strategic thinking and planning are often set-side. This has been quite obvious in Ireland since the current crisis began. Its most visible manifestation has been the widespread acceptance of a series of largely unchallenged assumptions that are not valid, as already outlined in this report. These include:

- that the economy should have priority over everything else;
- that preventing all the major banks from collapse is the major economic priority; and
- that cutting public expenditure is the key solution.

These assumptions fail to acknowledge that, far from being mutually exclusive, economic development and social development are complementary. Economic development is required to provide resources for social development. On the other hand, social development is essential if economic development is to be

successful. There can be no lasting economic development of substance without the provision of social services and infrastructure. For example, it will not be possible to promote a smart, green, hi-tech economy without having an education system that ensures people are capable of taking up jobs in these areas. Similarly, infrastructure in areas such as public transport and Information and Communication Technology (ICT) are essential for a successful economy in the 21st century. Thinking we can have economic development first and follow up with social development later is to ignore many of the major lessons that have been learned over the past two decades.

Other assumptions that are only half true are repeated like mantras in policy discussion and commentary. These include the admonition that 'everybody should make a contribution to the adjustment required' and that, while fairness is important, cuts are more effective than tax increases.

Social Justice Ireland agrees everyone should make a contribution –as far as they can. However, we cannot accept that some people should be driven into poverty by the contribution that is demanded of them. This would be attempting to solve one problem by creating a deeper and more long-lasting one. We reject any proposal; to solve Ireland's problems by increasing inequality or by forcing the most vulnerable members of the population into a situation where they do not have the resources to live life with dignity. It is also profoundly wrong that poor people should carry a major burden while senior bond-holders, who carry a significant part of the responsibility for Ireland's implosion, make no contribution whatsoever. Nor do we believe that Ireland's socio-economic situation can be rectified fairly if we persist in prioritising expenditure cuts at the same time as retaining one of the lowest total tax-takes in the EU.

We reject other regularly repeated mantras, too, such as the notion that the solutions lie in getting better value for public expenditure and in reforming the public sector.

The widely quoted assumptions listed in this paper have been adopted with limited consideration of their meaning or implications. Consequently, those that are not valid generate ill-considered policies which are met with widespread opposition and anger. As a society we lack a coherent set of guiding values and assumptions to shape the policies and actions for the decade to come.

But that is not all. Developments over the past decade and more and the response to the multi-faceted crises Ireland has been encountering have produced a situation which is dominated by individualism, anxiety and greed.

Individualism, in the sense of people being seen as isolated, self-sufficient, economic individuals, has grown dramatically in recent years. Increasingly the individual has come to be seen as the primary unit of social reality while community connectedness is played down.

In practice, policy has done much to undermine this community dimension. Autonomy, self-sufficiency and self-reliance have increasingly been seen as virtues. This kind of individualism is seen almost exclusively in economic terms. It resonates with the 'Celtic Tiger' rhetoric of the decade before the crisis, which favoured low taxation as a supposed stimulus to entrepreneurial activity. As noted above, this was based on the false premise that the combined spending and investment decisions of individuals would produce far better results for Ireland than allowing collective institutions determine national spending and investment priorities. This notion is demonstrably wrong. Furthermore, this focus on individualism has had another equally negative effect on Irish society, the emergence of anxiety as a constant in Ireland's core.

Anxiety accompanies the growing realisation that the individualism described above can never provide an adequate basis for either the long-term progress of society or a guarantee of the individual's well-being. The autonomous individual championed in much current economic theory becomes caught in a never satisfied quest for achievement that ultimately produces a bottomless pit of anxiety – about the markets, about

performance in all spheres of activity and even about fundamental self-worth.[15] This anxiety, in turn, leads many people to experience feelings of growing insecurity, pressure and threat. The individual experiencing anxiety often responds by seeking to have more in an effort to have control over the future. This often leads to greed, which feeds into the wider society.

Greed generates what Brueggemann (2009) calls "ravenous acquisitiveness" so that life becomes a passionate pursuit of every form of security and self-worth, especially through money. This may explain why people who have the most often think they do not have enough. The effective legitimisation of avariciousness amongst those already well off not surprisingly stimulates similar desires in those with less. With financial institutions suspending their own critical judgements in the quest for profits, it is not difficult to see why borrowers were also persuaded to suspend any normal sense of caution in respect of borrowing and investing. This situation was exacerbated by a culture of extremely large 'bonus' payments for some which stimulated envy and greed in others. Greed, at both corporate and individual levels, has been an important contributory factor in the recent crises, not just in Ireland but worldwide.

The series of developments which produced the growth of individualism, anxiety and greed is one of the core reasons why Ireland, and much of the Western world, is where it is today. A route out of this morass is needed. That pathway should be guided by a vision of Irish society, a New Ireland.

2.3 The need for vision: what does recovery look like?

The economic crisis confronting Ireland is not a result of the failure of any one political party, or of the mischief of a faction. It is the result of the failure of an economic and social philosophy that exalted private greed above the common good. The response to the crisis has been guided and underpinned by many of the mistaken assumptions of the Tiger Years. Many of the progressive social programmes introduced during the previous 20 years have been eroded or abandoned and the state remains committed to the ultra-low tax model of the early 2000s.

Alternative economic proposals are dismissed out of hand while economic decisions are imposed without consultation with citizens and with little examination of the impact of those decisions. While this is not due to any malice on the part of those who govern Ireland it is closely linked to an absence of vision and a lack of imagination. A lazy reliance on outworn neo-liberal dogmas is disguised by frequent declarations that 'there is no alternative'.

Social Justice Ireland believes that Ireland cannot continue to be guided by the failed ideologies of the past. Ireland's crisis demands both an immediate policy response – for example the investment programme advocated by *Social Justice Ireland* and a debt reduction pact with the European Union – and also the development of a vision of a New Ireland. We must ask the question: what does recovery look like? Will it be characterised by gains in wealth for the few, and stagnation for the many? Will our citizens' access to healthcare continue to be determined by the size of their bank accounts? Will one in every five Irish children continue to live in poverty? Will long-term unemployment continue for years to come, while a lucky few see their incomes soar?

Addressing these questions and challenges cannot be postponed until after the IMF/EU programme comes to end and they cannot wait for the next electoral cycle. They demand an immediate response and immediate answers. The decisions taken now will shape the recovery to come and the shape of Irish society over the next decades.

Social Justice Ireland believes that an alternative vision of Ireland's future is urgently needed. This vision

[15] For further development of these points cf. Walter Brueggemann, *From Anxiety and Greed to Milk and Honey*, Sojourners, http://www.sojo.net/

should prioritise the common good and provide economic and social security for all the people of Ireland while ensuring that all policy decisions are focused of delivering a future that is sustainable economically, environmentally and socially. Such a vision requires radically different policies to those pursued by Government and the IMF/EU/ECB; alternative policies which *Social Justice Ireland* has advocated for many years. Ireland is still a wealthy country, despite its recent challenges, and still has the resources and skills to achieve 'liberty, justice and equality for all its citizens', in the words of the Democratic Programme of the first Dail (1919). What has been missing is the resolve, the will and the vision to achieve a New Ireland.

2.3.1 A guiding vision for a New Ireland

In this section we explain *Social Justice Ireland*'s vision and later we set out the practical measures necessary to put it into effect. *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 in a New Ireland human dignity must be respected and 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, not moving in the opposite direction.

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.

There are many policy areas that are outside Ireland’s control at the present time and this has contributed to a sense of helplessness amongst Irish people. However, even within the confines of the EU/IMF/ECB programme there are real choices to be made about the amount of resources that our health service and our welfare state should receive, the distribution of wealth and power in our society and the level of taxation required to furnish the resources necessary for a compassionate and civilised society. There must be a serious debate in Irish society about our economic and social priorities. If there is not, policy will continue along the current trajectory with regressive budgets, cuts to vital services and a continued low-tax policy. *Social Justice Ireland* believes this vision of a New Ireland should guide policy development and decision-making in the period ahead.

2.4 Five priority areas to move towards our vision

To move towards our vision five key policy areas must be addressed urgently. These are in the areas of macroeconomic stability, taxation, social security, governance and sustainability.

Ensure Macroeconomic Stability	Move Towards Just Taxation	Enhance Social Protection	Reform Governance	Create a Sustainable Ireland
Reduce Ireland's debt burden	Bring tax-take to European average	Protect services by adjusting deficit reduction	Reform policy evaluation	Combat climate change
Financial and fiscal stability	Increase tax level equitably	Combat unemployment	Develop a rights-based approach	Balanced regional development
Investment programme	Reduce income inequality	Reduce poverty	Promote social dialogue	Indicators of progress and wellbeing

2.4.1 Ensuring Macroeconomic Stability

Ensuring macroeconomic stability requires a reduction in Ireland's debt burden, the launching of a substantially larger investment programme than currently envisaged and the restoration of fiscal and financial stability. All of these measures are connected. An investment programme will contribute to jobs and recovery which in turn will help lower Ireland's deficit and real debt burden. Financial stability will ensure that additional bank bailouts do not threaten Ireland's fiscal stability and provide Irish firms with greater credit facilities. A reduction in Ireland's debt burden will increase confidence in Ireland's capacity to grow and exit the EU/IMF programme, thus reducing yields on Irish government debt.

i) *Reducing Ireland's debt burden*

The Irish Fiscal Advisory Council (2012: 35-36) has forecast that debt-to-GDP levels will peak at 120 per cent of GDP during 2013, while the Department of Finance (2012: 91) has assumed it will peak at 121.4 per cent of GDP in the same year. However, the Council also warned that if Ireland's recession follows the trajectory of a 'balance sheet recession' then debt-to-GDP levels will continue to rise. This is because balance sheet recessions induce 'L-shaped' growth patterns in which GDP falls rapidly and then stagnates. Without growth, Ireland's real debt burden will continue to increase.

A large proportion of Ireland's debt was accumulated in the course of rescuing the Irish banking sector in a manner which resulted in a much lower sharing of the financial burden by investors than would have been expected if the rescue was of any other business sector. In addition, the loss of confidence in Ireland during 2009-2010 was a direct result of fixed-asset analysts and other observers of the government bond market viewing Ireland's assumption of banking debt as unsustainable. The total cost of the banking rescue has been €62.8bn, of which €11.4bn has come directly from the Exchequer, €30.7bn through promissory notes and €20.7bn from the National Pension Reserve Fund.

This part of Ireland's debt represents a direct subsidy by the Irish public of international bondholders and the European banking system. In June 2012 the Eurogroup appeared to recognise this, holding out the possibility that the European Stability Mechanism (ESM) would retrospectively recapitalise the Irish banking sector by purchasing the Irish government's bank equities. However, following this agreement key member-states appear to have withdrawn their agreement to recognise this principle.

In 2013 the Irish Government appeared to secure an agreement on the status of the promissory notes granted to Anglo-Irish Bank (the now liquidated IRBC) by the government in 2010. Unfortunately this agreement does not appear to be in the spirit of the June 2012 agreement. Instead it has transferred the promissory notes to the status of sovereign debt, confirming that Irish citizens must bear the responsibility for the mistakes of the Irish banks and for the rescue of international bondholders.

Ireland's economy will only expand again if the debt burden is reduced. . Such expansion is essential if it is to contribute to a European recovery and to ensure that all *public* funds lent to Ireland through the Troika's programme are returned in full.

To reduce Ireland's debt burden in 2013 the European authorities must uphold their agreement to retrospectively recapitalise Irish banks. If this is done through the ESM – which would take ownership of the majority of the Irish banking sector as a result – this decision must take account of Irish mortgage holders and the need to secure credit availability in the Irish economy. The ESM must also be prepared to further recapitalise the Irish banking sector if necessary. European authorities should also consider further changes to the status of the government bonds which will be issued to replace the promissory notes, including further extending the maturity and applying a lower interest rate to them. Such measures could also be applied to the loans received under the EU/IMF programme. This would lead to a less onerous repayment schedule and boost confidence in Ireland.

ii) Financial stability

The stability of Ireland's financial system remains of great concern. Credit supply is reported to be extremely tight. The Central Bank of Ireland published research by two of its economists indicating that 'the Irish rejection rate for credit applications is the second highest in the euro area, while Irish SMEs are among the most likely to have faced increased collateral requirements, increased interest rates, or lower loan quantities'. At the same time Ireland had almost double the amount of discouraged borrowers – those who do not even apply for loans – than the euro area average (Holton and McCann, 2012). A banking sector that does not supply adequate credit to those firms seeking to invest and expand inhibits economic growth.

It is recognised by Irish policymakers that the Irish banking sector is unprepared for widespread losses on distressed mortgages (e.g. Honohan, 2013). This raises the possibilities of further demands by the banks for capital on the basis of the Prudential Capital Assessment Review (PCAR) targets imposed by the Troika. *Social Justice Ireland* believes that government must ensure that additional demands for recapitalisation by banks are met by the EMS in line with the June 2012 decision and ensure a flow of credit to Irish firms.

At the same time it is crucial that Ireland pay its way and that its annual budget is brought back into balance. While this is a core feature of current government policy it is highly unlikely that such a balance will be achieved without a reduction in Ireland's debt burden and the development of a substantially larger investment programme than currently envisaged.

iii) An investment programme

Since the onset of the recession Ireland's GDP has declined by just over 16 per cent, GNP by nearly 23 per cent and domestic demand by 28 per cent (CSO, 2012). Unemployment remains at 14.2 per cent, despite a small rise in employment in the fourth quarter of 2012 (CSO, 2013). Both the Troika and Department of Finance believe that the domestic economy will remain stagnant and rely on a rise in exports to boost growth. Increased investment in the domestic economy is urgently needed to provide employment and much-needed infrastructure. This would reduce unemployment and increase the long-term productivity of the Irish economy.

It is essential to bear in mind that without investment there will be no jobs. Without jobs there will be no recovery and without recovery Ireland will be stuck in austerity for the foreseeable future. *Social Justice Ireland* believes that there must be an off-balance sheet investment programme between 2013 and 2015 of €7bn, along the lines outlined in its *Budget Choices* Policy Briefings in recent years. This would enhance growth and contribute to a reduction in the deficit by, among other things, reducing unemployment and increasing tax returns.

2.4.2 Towards a Just Taxation System

The American jurist Oliver Wendell Holmes once said that 'taxes are the price we pay for a civilized society'. *Social Justice Ireland* has long argued that Ireland's total tax-take is simply too low to pay for the services and social security provision that is necessary to ensure human dignity for all. *Social Justice Ireland* also believes that the incidence of taxation falls too much on the shoulders of the poorest in society. In chapter 4 on taxation we examine Ireland's taxation system in depth. Below are three immediate priorities.

i) Bring taxes towards the European average

Ireland's tax-take in 2010 was 28.2 per cent of GDP, some 7.4 per cent below the European average. The Department of Finance believes that taxation as a percentage of GDP will rise to 31.7 per cent of GDP by 2015. *Social Justice Ireland* believes that Ireland should raise the total tax-take (which includes all taxes and social insurance payments) to 34.9 per cent. This would still keep Ireland as a low-tax economy as defined by Eurostat, while raising significant revenue.

Table 2.12 compares the Department of Finance's targets for taxation as a percentage of GDP, as announced in the Medium Term Fiscal Statement released before Budget 2013, with the level of taxation that would be raised were Ireland to increase its tax take to 34.9 per cent of GDP.

Table 2.12 – Potential Irish Total Tax Revenues, 2011-2015

Year	GDP (€bn)	DoF GDP %	DoF Tax (€bn)	Tax@34.9% (€bn)	Difference (€bn)
2011	158,993	30.4	48,334	55,489	7,155
2012	163,150	30.4	49,598	56,939	7,342
2013	167,725	30.9	51,827	58,536	6,709
2014	174,100	31.5	54,842	60,761	5,919
2015	181,400	31.7	57,504	63,309	5,805

Source: Department of Finance (2012: 87).

The reliance on a relatively low level of taxation to fund vital public services contributed to the scale of the crisis in the public finances. Ireland can never hope to address its longer-term deficits in infrastructure and social provision if it continues to collect substantially less tax income than that required by other European countries it seeks to emulate. *Social Justice Ireland* recommends moving towards a total tax take of 34.9 per cent, which would keep Ireland as a low-tax country while remaining below the EU average. There should also be a public debate on the appropriate level of taxation required over the next 20 years to fund its public service and social security system. Future policy development may possibly involve increasing public spending and tax levels. These questions should be openly debated instead of avoided by policymakers.

ii) Increase taxes equitably

An increase in total tax-take must be done in a fair and equitable manner. As detailed later in chapter 4, *Social Justice Ireland* believes that these tax reforms should not be attained through increasing income tax rates but rather via reforming and broadening the tax base so that Ireland's taxation system becomes fairer. This would involve shifting taxation towards wealth, ensuring those who benefit the most from Ireland's economic system contribute the most, in the most efficient manner. Changes in taxation since 2010 have been regressive, with the increase in VAT impacting particularly significantly on those with the lowest incomes. In future tax changes should be progressive.

iii) Reduce income inequality

Income inequality, gender inequality and inequality of opportunity represent a key problem in Irish society. They produce a range of negative outcomes for those who are poor and/or excluded. Growing inequality, which has been the norm for some time, exacerbates the negative effects on people who are poor and/or excluded. The 'gini coefficient', a measure of income inequality, has risen from a low in 2009 of 29.3 to 31.1 in 2011 (CSO, 2013). Reducing inequality must be a core objective of Government policy.

The key mechanism through which income inequality is reduced is redistribution via the tax system. Since Budget 2010 government policy has redistributed income from those who earn less to those with more. Moreover, particular measures such as cuts in the lone-parent allowance particularly affect women. Government should proof its annual budget to ensure it reduces poverty and inequality. This should be a statutory responsibility of Government which would enlighten public debate. In the Budget 2013 documentation the Department of Finance attempt to obfuscate the effect of its measures by selectively citing research conducted by the ESRI among others (Department of Finance, 2012: B40). This should not happen.

2.4.3 Enhancing Social Protection

There have been significant cuts to social services and welfare payments since 2008. *Social Justice Ireland* believes many of these cuts have been socially destructive and counterproductive. They have reduced demand in the economy and many have been imposed without an adequate examination of their likely impact. Moreover, in reducing the budget deficit the balance between cuts and taxes has been incorrect. As *Social Justice Ireland* has consistently argued, taxation should be increased towards the European average while social services and payments should be protected. Throughout this volume we propose specific priority areas for investment. Below are three immediate priorities for government.

i) Protect services by adjusting deficit reduction

Since 2008 the government has cut spending by €18,559m while increasing taxes by €9,300m: a ratio of €2 in spending cuts for €1 in tax rates rises. By the projected end of the EU/IMF programme in 2015 taxation will have contributed €11,000m and spending cuts €21,859m to the total budgetary adjustments; the ratio of tax increases to spending cuts is set to remain unaltered. *Social Justice Ireland* believes that this ratio should be reversed. Measures must be taken to reduce the deficit but they should not fall upon the most vulnerable in society. Cuts to services and social protection payments ensure that they do. *Social Justice Ireland* recommends that the ratio of spending cuts to tax increases should be reversed. This will go some way to taking account of the excess burden placed on the spending side in the attempt to reduce the budget deficit.

ii) Combat unemployment

Unemployment has risen rapidly since 2008 and by the fourth quarter of 2012 stood at 294,600, or 14.2 per cent, of the labour force (CSO, 2013). While it fell by 19,200 in the fourth quarter, employment only grew by 1,200, reflecting the level of discouraged workers and emigration. Long-term unemployment is at 8.2 per cent of the labour force, lower than the third quarter of 2013, but this decrease may also be due to emigration and discouraged workers. The IMF (2012) estimates that unemployment will still be 13.4 per cent in 2015.

Unemployment is the gravest crisis facing Ireland at the present time. It has a corrosive effect on people and communities throughout society. The proposal for an investment programme for Ireland has been mentioned above. *Social Justice Ireland* also proposes the introduction of *Part Time Job Opportunities Programme* which would create thousands of jobs for those who are long-term unemployed. These proposals are covered at greater length in chapter 5 on work, unemployment and job creation.

iii) Reduce poverty

There is a real danger that Irish society will permit those on the lowest incomes, and in particular those dependent on social welfare, to fall behind once again, as it did in the late 1990s (see chapter 3). From 2006, Ireland's poverty levels had been slowly falling, driven by the increases in social welfare payments delivered in the Budgets of 2005-2007. These increases compensated only partly for the extent to which social welfare rates had fallen behind other incomes in society over the preceding two decades. However,

these advances have been reversed. The 'at-risk-of-poverty' rate rose from a low of 14.1 per cent in 2009 to 16 per cent in 2011, consistent poverty rose from a low of 4.2 per cent in 2008 to 6.9 per cent in 2011 and the deprivation rate rose from a low of 11.8 per cent in 2007 to 24.5 per cent in 2011 (CSO, 2013:1). In 2011 the single largest demographic group at-risk-of-poverty was children, with nearly one in five at risk of poverty (CSO, 2013).

It would be a great mistake for Irish policy makers to repeat the mistakes of the late 1990s. At that time economic growth benefited only those who were employed while others, such as those dependent on pensions and social welfare payments, slipped further and further behind. *Social Justice Ireland* believes that policy in the future should provide equity in social welfare rates across genders while providing adequate payments for children and those with a disability. These issues are examined in greater detail in chapter 3.

2.4.4 Reforming Governance

It has been widely recognised that Ireland's governance was poor in certain areas prior to the economic crisis, particularly in relation to financial regulation. Moreover, the economic crisis has led to government making rash and hasty decisions without consultation, whether in relation to financial or budgetary policy. These have been recognised as damaging or – as in the case of the bank guarantee – catastrophic. Reforming governance and widening participation are a necessity and this issue is addressed in chapter 11. Below are three immediate priorities.

i) Reform policy evaluation

Policy evaluation has been extremely poor in some cases throughout the crisis. *Social Justice Ireland* welcomes the steps taken by Government to increase its research and evaluative capacity. However, we believe that Government should also take steps to increase the transparency of budgetary and other important decisions, which are often opaque. Government should publish its analysis of the impact of budgetary measures and engage in public debate in the light of that analysis.

ii) A rights-based approach

Social Justice Ireland believes strongly in the importance of developing a rights-based approach to social, economic and cultural issues. The need to develop these rights is becoming ever more urgent for Ireland in the context of achieving recovery. Such an approach would go a long way towards addressing the growing inequality Ireland has been experiencing. Social, economic and cultural rights should be acknowledged and recognised, just as civil and political rights have been. We believe seven basic rights that are of fundamental concern to people who are socially excluded and/or living in poverty should be acknowledged and recognised. These are the rights to sufficient income to live life with dignity, meaningful work, appropriate accommodation, relevant education, essential healthcare, cultural respect and real participation in society.

iii) Social dialogue

Government must engage more extensively with all sectors of Irish society, particularly those most affected by cuts in particular areas. Government has provided a high-level forum called the IFSC Clearing House Group for the financial industry, and 23 changes were made in the Finance Act 2012 to accommodate this group (McGee, 2012). This contrasts with the treatment of bodies representing vulnerable groups in Irish society. These do not have access to the senior civil servants or ministers and have been unable to secure changes in legislation. We have already seen the damaging effects to Ireland when one sector's voice is prioritised by government in policymaking. Government should engage in wide-ranging consultation on budgetary measures, consulting with those groups which will be particularly affected by each proposed measure and sharing its own impact assessment of the proposed measure.

Of particular concern in this context is the community and voluntary sector which has seen a huge increase in the demand for its services as the crisis continues but whose funding has been reduced proportionately more than other sectors'.

2.4.5 Creating a Sustainable Ireland

Sustainable development is development which meets the needs of the present while not compromising the needs of the future. In this regard financial, environmental, economic and social sustainability are all key areas that Ireland must prioritise. In chapter 12 we outline these issues in greater depth. Here we identify three immediate priorities.

i) Combat climate change

Climate change remains the largest long-term challenge facing Ireland and the wider world today. The challenge of reducing Ireland's fossil fuel emissions should not be postponed in the face of the current recession. *Social Justice Ireland* believes that Ireland should adopt ambitious statutory targets regarding the limitation of fossil fuel emissions and introduce the taxation measures necessary to achieve this.

ii) Balanced regional development

A sustained recovery requires balanced regional development. During the recession, particular regions of Ireland have suffered worse than others. In chapter 13 we look specifically at rural development. While the numbers in employment in Dublin have grown since the first quarter of 2012 historically less developed regions continue to witness reductions in the numbers in employment (CSO, 2013). Rural areas have been severely impacted by cuts in services. *Social Justice Ireland* believes that policy must ensure balanced regional development through the provision of services and through capital spending projects.

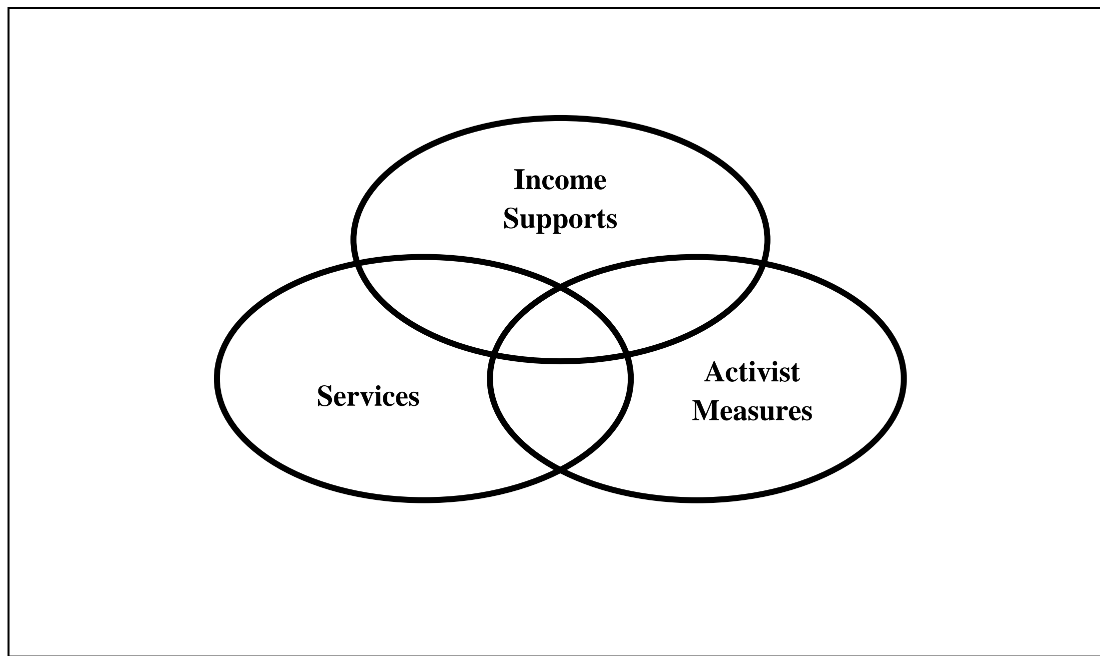
iii) New indicators

Creating a sustainable Ireland requires the adoption of new indicators to measure progress and wellbeing. We analyse these issues in chapter 12. 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, wellbeing and happiness are required. *Social Justice Ireland* believes that government should adopt such benchmarks against which Ireland can measure its substantial progress in these areas (Reynolds and Healy, 2009).

2.4.6 Keeping People at the Centre of the Policy-making Process – *The Developmental Welfare State*

Any development of policy must take place in a framework that places the needs of the person at its heart. Within the broader framework set out above, one useful approach would be to use the core structure developed by the NESC in its report on *The Developmental Welfare State* (NESC, 2005). Chart 2.13 presents the core structure of the NESC model. It proposed that every person in Ireland should have what is required to secure human dignity in three interrelated areas: (i) services, (ii) income supports and (iii) innovative measures that would secure active inclusion.

Chart 2.13: The Core Structure of the Developmental Welfare State



Services	Income Supports	Activist Measures
• Childcare • Education • Health • Eldercare • Housing • Transport • Employment services • Training	• Progressive child income support • Working age income for participation • Minimum pension guarantee • Capped tax expenditures	• Social inclusion • Area-based strategies • Particular community/group projects • Emerging new needs • Novel approaches

Source: NESC (2005:144, 156)

NESC argued that in building the developmental welfare state Irish society should take a 'life-cycle' approach to ensuring that all three dimensions were delivered. As table 2.13 shows, such an approach would focus on identifying the needs of children, young adults, people of working age, older people and people challenged in their personal autonomy, such as those in care or with a disability. The council suggested that for each group, policy should focus on securing an effective combination of income supports, services and active inclusion measures.

Table 2.13:	**NESC Life-cycle approach to delivering the Developmental Welfare State**		
Who?	**What?**	**How?**	
0-17yrs 18-29yrs 30-64yrs 65+ yrs People challenged in their personal autonomy	Integration of services, income support and activist measures	Governance and leadership	Standards and rights

Source: NESC (2005:147)

Successfully implementing this approach would underscore the ability of each of these groups to play a real and sustained role in Irish society and thereby play an important part in tackling social exclusion. This approach provides each sector involved with key challenges if the best options are to be taken and if the approach is to be successfully developed as a template for policy.

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Social Justice Ireland is an independent think-tank and justice advocacy organisation of individuals and groups throughout Ireland who are committed to working to build a just society where human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected.

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