SOCIAL JUSTICE IRELAND

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A Future Worth Living For

Sustainable Foundations and Frameworks

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Edited by
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Social Justice Ireland

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INTRODUCTION

The EU is at a major turning point in its development. In recent years the economy has been its central concern and most of its concentration and effort has been on securing economic growth. The social dimension of the EU has been neglected. Despite some rhetoric to the contrary and a few relatively small-scale initiatives, the well-being of its people has been defined in terms of economic benefits principally. Social policies in areas such as education, health, public transport and welfare have been supported principally on the basis of their contribution, or otherwise, to economic growth. The President of the European Central Bank has gone as far as to say that the European Social Model is dead.

The results of this approach are now clear. The first study of the impact of austerity on countries at risk in the EU was conducted by *Social Justice Ireland* for Caritas Europa[1] and showed that those on low and middle incomes had taken the major hits. Poverty and unemployment have grown. Long-term unemployment and youth unemployment are at record levels. Initiatives to address these problems are nowhere close to the scale required to see these trends reversed. A new approach is required if the steady move towards a deeply divided, two-tier society is not to continue and lead to eventual destruction of the European project.

One consequence of this focus was that Irish citizens have been forced to carry the 'hits' for the failures of gambling bankers and bondholders. The consequences of these failures of some in the financial sector have been visited on citizens who had no involvement in these reckless activities. The people of Ireland will carry this burden for several generations if there is no change of heart among decision-makers about how such burdens should be shared in a fair and just manner.

1 Ann Leahy, Seán Healy, and Michelle Murphy (2013), *The Impact of the European Crisis: A study of the Implications of the crisis and austerity on people with a special focus on Greece, Ireland, Italy, Portugal and Spain.* Brussels, Caritas Europa.

This publication coincides with Ireland's emergence from its 'bailout'. It is essential that the shape of the future be discussed in detail. Key questions include:

- What are the major challenges facing the EU at this time?
- What are the major challenges facing Ireland at this time?
- Is it possible to build a future that would be both desirable and sustainable?
- What would the foundations and underpinning frameworks of such a future look like?
- How might such a future be developed?
- How might it be financed?
- How could different policy areas be balanced to work towards a future that would promote the wellbeing of all?

The chapters in this book, which were first presented at a policy conference on the topic of '*A Future Worth Living For*', seek to address these key questions and related issues. They set out the challenges and identify options, frameworks and pathways towards a future that would be just, sustainable and desirable. Readers will be challenged and energised by the possibilities, problems and opportunities presented in these chapters. We hope this publication will stimulate discussion and fuel debate on the issues raised.

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

Special thanks to Prescient Investment Managers (Ireland) whose support made the publication of this volume possible.

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

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

Brigid Reynolds
Seán Healy
November 19th, 2013

A Future Worth Living For

Sustainable Foundations and Frameworks

1. Social developments in Ireland at the time of fiscal consolidation and challenges ahead[1]

István P. Székely, Miroslav Florián[2][3]

This paper is set out as follows:

1. Introduction

After more than a decade of very strong growth, the crisis hit Ireland severely. While the robust growth in the second half of the 1990s was based on healthy fundamentals, including competitive unit labour cost, the boom in the 2000s was over-reliant on the property market fuelled by easy credit. Domestic policy mistakes, as well as weaknesses of surveillance at the European level, allowed a major property and consumption bubble to emerge and burst. The flight to safety in global financial markets, accompanied by a fall in international trade and domestic demand, caused a sharp drop in GDP and subsequently in employment, also because private

[1] A version of this paper was presented at the *Social Justice Ireland* Policy Conference on 19 November 2013. The subject of the Conference was "A future Worth Living For".

[2] Authors gratefully acknowledge valuable input and comments from Q. Dupriez, D. Malvolti, J. Malzubris and G. Stull.

[3] Views expressed in this paper are those of the authors and do not necessarily reflect the official views of the European Commission. Neither the European Commission nor any person acting on its behalf may be held responsible for the use which may be made of the information contained in this note, or for any errors which, despite careful preparation and checking, may appear. This short paper is no way a substitute for a careful and thorough analysis of the social impact of the crisis and its management in Ireland; it only sketches out some of the main developments in this regard and the basic approach to this issue in the programme.

business embarked on a major productivity drive to restore profit margins. Budgetary and financial stability concerns led the government to implement austerity policies in 2008-09. Yet government bond spreads reached unsustainable levels, and banks found it increasingly difficult to access market funding and cover their losses.

The Irish authorities requested external financial assistance and agreed on policy conditionality with the European institutions and the IMF in 2010. The latter involved a comprehensive policy package for the period 2010-13. It aimed primarily to reform the banking system, restore healthy public finances and to introduce growth-enhancing structural reforms. The economic adjustment programme was backed by EUR 85 billion, which included EUR 45 billion contribution from the EU and EUR 22.5 billion from the IMF, as well as Ireland's own financial assets to the tune of EUR 17.5 billion. Ireland has since regained market access and is now on track to exit the current programme at the end of 2013.

Programme conditionality was fully based on Ireland's own economic recovery program, and all the programme documents were discussed and approved by the Irish Parliament. It was always up to the Irish authorities to formulate the actual measures, their nature, scope and size, in order to achieve the jointly agreed fiscal targets. The program's role was to ensure that these targets remain realistic. It helped the Irish government formulate a set of measures that are most conducive to growth, fair distribution of burden and financial stability. In fact, discussions with the Troika staff teams prior to budget day focused on reviewing possible measures, but the draft budget itself was shared with the Troika teams only when it was submitted to the Oireachtas on budget day.

Overall, the impact of fiscal adjustment on the population in Ireland has been progressive. Between 2008 and 2013, Ireland sought to minimise the negative impact of the deep crisis by opting for a combination of measures that not only achieved the necessary fiscal consolidation but, as the available social indicators suggest, overall also tried to protect the most vulnerable. As independent research shows, fiscal consolidation of the size carried out in Ireland unavoidably hurts people, therefore, the inevitable burden was distributed among different parts of society in a progressive manner (charts 12 and 13). As the timing of different measures depended on a number of factors, including political economy factors, the distributional impact may have changed over time. However, for an overall judgement, one should look into the cumulative impact of the programme.

The European Commission staff has consistently highlighted the importance of choosing measures which protect the most vulnerable in society and help maintain the social fabric[4]. The Commission staff's advice focused on the reduction of unemployment, as its analysis identified unemployment as the most important source of unequal distribution of adjustment burden in society. However, it also regularly analysed the effectiveness of the social support system, including whether it contributed to creating a poverty or unemployment trap. It emphasised the importance of fighting unemployment, particularly long-term and youth unemployment, also because of its strong and lasting negative impact on growth potential and social coherence. Moreover, the Troika regularly met those non-government organisations that worked in this area, including Social Justice Ireland, The Society of Saint Vincent de Paul, and the European Anti-Poverty Network in Ireland, and helped and encouraged them to convey their views to the government and the elected representatives of the Irish people. The Troika teams also regularly met TDs of the opposition parties and the technical group, and asked for their support for measures that distribute the inevitable burden of adjustment in an equitable manner.

As available indicators suggest, overall social transfers in Ireland provide notable income support to low-income households and have been largely effective in reducing poverty, particularly when compared to other crisis-hit countries (chart 10). It is important to ensure that social transfers are not only effective in protecting the most vulnerable, but also provide the right incentives to people to seek out employment possibilities and to fully benefit from active labour market measures, such as training or consultation. The fact that Ireland has so far not only reached all its fiscal targets but could at the same time maintain a rather efficient system of social transfers, shows that Ireland is on the right path.

Going forward, Ireland needs to remain focused on reducing unemployment as it is the principal determinant in poverty and deprivation. In particular, structural measures with respect to the long-term

[4] European Commission, Economic Adjustment Programme for Ireland, 2011-2013 Reviews, Occasional Economic Papers 84/2011, 88/2011, 93/2012, 96/2012, 115/2012, 127/2013, 131/2013, 154/2013. Special Box in the Winter 2012 Review on the effects of the crisis on income inequality in Ireland. István P. Székely, Troika's press conferences – see References.

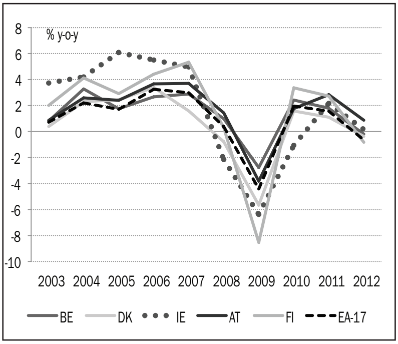
and youth unemployed are vital in their poverty-reducing potential. In addition, Ireland needs to further strengthen competitiveness in the labour and product markets. Only then will it be able to take full advantage of the adjustment and embark on a sustainable growth path, and to fight poverty and exclusion.

2. Development of the key social indicators in Ireland – an EU peer comparison

Ireland's social indicators deteriorated markedly in the aftermath of the crisis mainly as a direct consequence of the surge in unemployment. While the headline unemployment rate remained stable around 5% before the crisis, it peaked at 14.7% in 2012. The labour market situation became particularly worrying as the long-term unemployment rate reached 9.1%, a significant increase from a pre-crisis low of 1.5%. Moreover, a fall in participation rate of some 4 pps (percentage points) between 2007 and 2011 and outward migration masked the size of the unemployment challenge. An increasing share of the population found itself living in very low-work-intensity households on a long-term basis, which is reflected in deterioration of social indicators, such as the at-risk-of-poverty-or-social exclusion rate. Other indicators, such as income inequality or relative at-risk-of-poverty rate, did not deteriorate and emerged better compared to other EU countries.

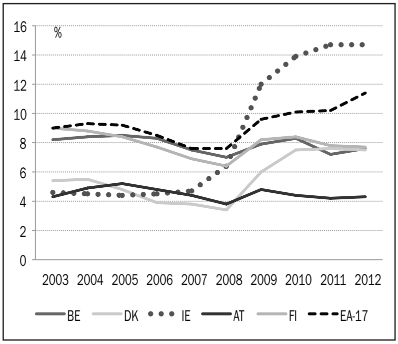
A benchmarking against economies of similar income levels and characteristics reveals that Ireland performs reasonably well in many aspects, considering the severity of the economic shock. For the purpose of this comparison, four countries with the closest level of income per capita are picked: Belgium (BE), Denmark (DK), Austria (NL) and Finland (FI). As nearly all EU Member States, these economies took a hit in 2009 and their real GDP contracted considerably (chart 1). With the economic slowdown, their unemployment rates inevitably grew, although not to the same extent as in Ireland (chart 2). The much larger increase in unemployment in Ireland than in the benchmark countries is explained by the collapse of the construction sector and the productivity drive in the rest of the economy that was necessary to restore lost cost competitiveness. Although Ireland clearly stands out as far as the impact of the crisis on the labour market is concerned, the analysis below shows that the associated social impact has been largely contained.

Chart 1: Real GDP annual growth



Source: Eurostat

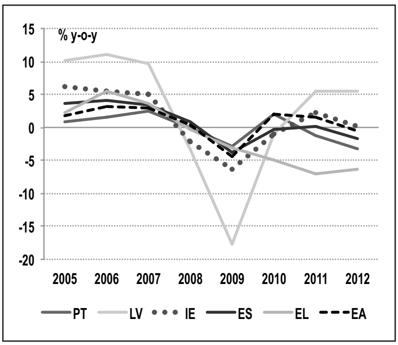
Chart 2: Unemployment (% of labour force)



Source: Eurostat

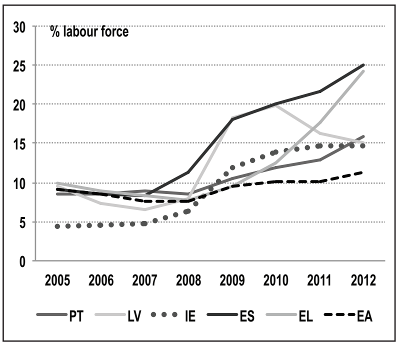
A benchmarking against other severely hit economies, which were in need of financial assistance, places Ireland among the "better" performers. Countries included in this comparison would be Portugal (PT), Latvia (LV), Spain (ES), and Greece (EL). Although this group of countries is quite heterogeneous, they face similar social challenges. Charts 3 and 4 below show the size of the economic contraction and resulting surges in unemployment. While Ireland contracted more than the other programme countries, it still managed to contain unemployment at comparably lower levels.

Chart 3: Real GDP annual growth



Source: Eurostat

Chart 4: Unemployment (% of labour force)

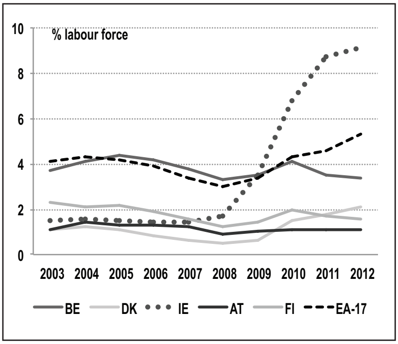


Source: Eurostat

The unemployment benefit system has helped alleviate the social impact of unemployment, mainly through the out-of-work income support scheme. While unemployment benefits have been reduced, the long duration of the benefits imply high long-term replacement rates as compared to other Member States. This acts as an unemployment trap and disincentive to work, especially for the low-skilled unemployed people with low wage potential.[5]

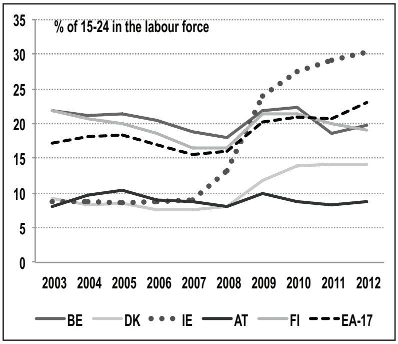
Long-term unemployment was identified as the single most important driver of absolute poverty, as long duration of unemployment often leads to social marginalisation and decreases the prospects of re-employment. In 2012, Ireland had the third highest long-term unemployment rate in the EU after Greece and Spain. Chart 5 shows that not only the level, but also the sudden increase was very marked compared to its peers.

Chart 5: Long-term unemployment rate



Source: Eurostat

Chart 6: Youth (15-24) unemployment rate



Source: Eurostat

A similar trend can be observed in the development of youth unemployment, which also increased substantially (chart 6), although not surprisingly compared to the increase in the overall unemployment rate. The evolution of these two indicators is particularly worrying as both long-term and youth unemployment increase significantly the probability of

[5] Callan, T.; Keane, C.; Savage, M.; Walsh, JR.; Timoney, K. (2012). “Work Incentives: New Evidence for Ireland”. In T. Callan (ed.), Budget Perspectives 2013. ESRI, Dublin.

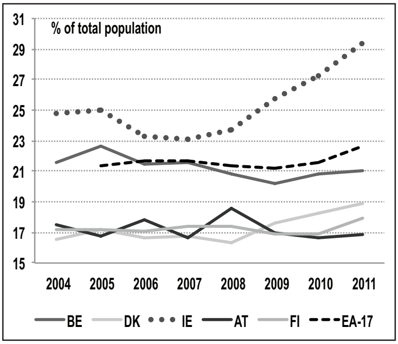
future unemployment and the likelihood of precarious employment, which may have a considerable negative impact on social indicators such as poverty or health.

The structural reform part of the adjustment programme put considerable emphasis on the need to address long-term and youth unemployment. Despite some recent improvements in this regard, long-term and youth unemployment remains the largest social threat in Ireland. The Commission also created so-called youth employment action teams, which visited the countries with the highest youth unemployment rates to reallocate and accelerate EU funding to support job opportunities for young people. Most recently, the Commission has started to help Member States set up a so-called Youth Guarantee, which is a new approach to tackling youth unemployment. It ensures that all young people below 25 years of age receive a good-quality, concrete offer within four months after leaving formal education or becoming unemployed. While these measures are expected to help fight this major social threat all across the European Union, they are no substitutes for determined policy actions at the national level.

Negative trends on the labour market translated into rising absolute level of poverty in Ireland. Reversing a long term trend, Ireland made substantial progress to reduce income inequality in the period prior to the current crisis. However, following the crisis, inequality started to increase again, largely due to deteriorating labour market conditions, which were harshest for low earners. Absolute measures of poverty, such as risk of poverty and social exclusion (AROPSE), have been trending upwards (chart 7). AROPSE is composed of three sub-indicators, which are the share of population that is either at risk of poverty, or living in a household with a very low work intensity, or severely deprived (chart 8).

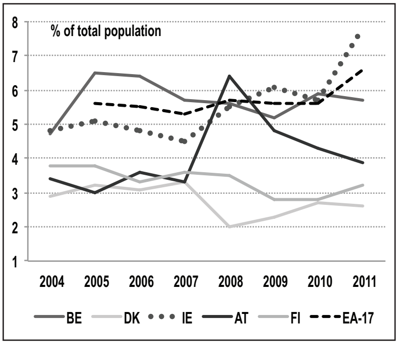
However, poverty rates measured in relative terms have not shown a substantial increase since the onset of the crisis, and compare favourably to peer countries. At-risk-of-poverty indicator (AROP) remains close to Ireland's peers and is below the EU average (chart 9). AROP measures the share of individuals whose equivalised disposable income falls below a given threshold (in this note, the standard cut-off point of 60% of the median income after social transfers is used). As such, AROP measures relative poverty and is thus a useful statistic describing the income distribution.

Chart 7: AROPSE



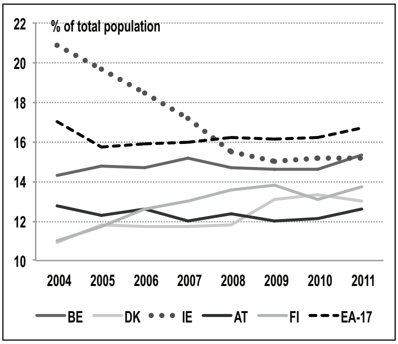
Source: Eurostat

Chart 8: Severe material deprivation



Source: Eurostat

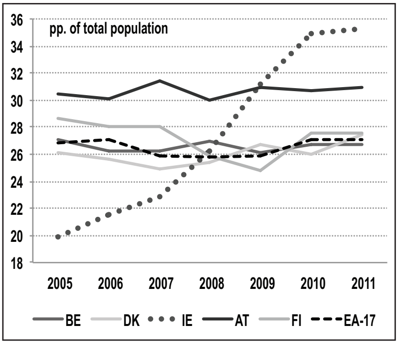
Chart 9: At risk of poverty



Source: Eurostat

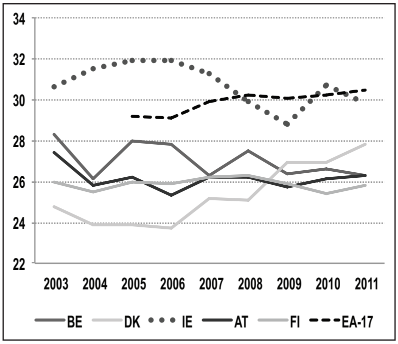
The economic adjustment programme placed an emphasis on labour activation, education and training in order to limit the negative social impact and path a way for a sustainable recovery. This is expected to pay dividends in the near future in terms of combatting poverty. In addition, headline social welfare rates and the safety net have been largely protected, and the poverty reducing effect of social transfers has been far greater than in the rest of the EU (chart 10). In this context, the programme funding has enabled a more gradual adjustment path than would have otherwise been the case.

Chart 10: Effectiveness of social transfers[6]



Source: Eurostat

Chart 11: Gini coefficient[7]



Source: Eurostat

Independent studies show that early consolidation measures in Ireland were strongly progressive. The Social Situation Observatory with input from the Economic and Social Research Institute (ESRI) shows in its study titled *The distributional effects of austerity measures: a comparison of six EU economies*[8], that the fiscal adjustment has put a relatively low burden on the low income households (chart 12). Ireland also performed relatively well in this respect compared to the other studied countries.

The crisis impacted to some extent the distribution of income, but Ireland's income inequalities remain close to the EA average. Compared to its peers, Ireland scores poorer in the Gini coefficient (chart 11). However, this reflects mainly the pre-crisis situation when income inequalities were already higher than in the peer countries.

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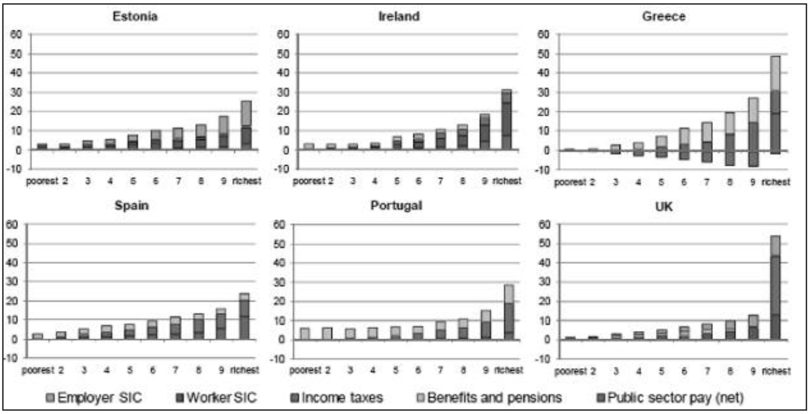
6 Measured as a difference in percentage points in at-risk-of-poverty rate before and after social transfers.

7 This standard indicator of income inequality takes values between 0 and 100 – higher values imply a higher degree of inequality.

8 Callan, T., Leventi, C., Levy, H., Matsaganis, M., Paulus, A., Sutherland, H. (2011). "The distributional effects of austerity measures: a comparison of six EU economies". Euromod Working Paper No. EM6/11.

Chart 12: Relative contribution to the 2009-2011 fiscal consolidation by type of austerity measure



Source: ESRI

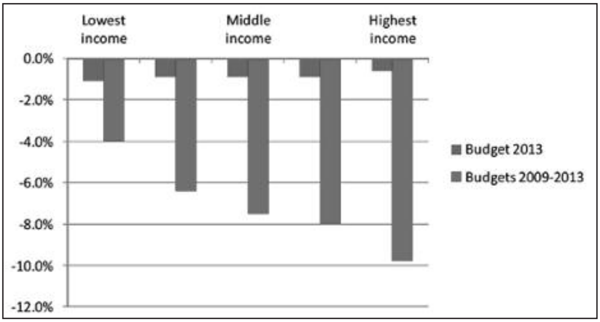
Despite the somewhat regressive impact of the 2013 budget, the cumulative impact of fiscal adjustment during 2009-2013 remained progressive. As mentioned earlier, the European Commission's staff review reports reiterated[9] the importance of choosing measures which protect the most vulnerable in society, and a fair sharing of the adjustment burden across income groups. An ESRI analysis of the 2013 fiscal consolidation measures shows that their impact on income distribution has been to some extent regressive (chart 13). However, it is also important to mention that the ESRI model does not include all the measures, some of which tend to have a more progressive impact (such as capital gains taxes, the deposit interest retention tax, and the change in the universal social charge for the elderly). Moreover, the analysis found that the cumulative consolidation efforts of the 2009-2013 period remained progressive. It is up to the Irish public to decide whether the apparent slight reversal in 2013 is acceptable or not, and to convey its views to the elected officials. The very thorough analysis of Social Justice Ireland will certainly be a helpful source of information in this regard, also concerning the 2014 budget[10]. In making this judgement, however, it is important not to rely on partial analysis, as fiscal measures

[9] European Commission, Economic Adjustment Programme for Ireland, 2011-2013 Reviews, Occasional Economic Papers 84/2011, 88/2011, 93/2012, 96/2012, 115/2012, 127/2013, 131/2013, 154/2013.

[10] Social Justice Ireland. (2013). "Budget 2014 Analysis & Critique".

also strongly impact poverty and income distribution through their effect on growth, labour supply and relative prices, which can only be captured by a full model of the economy, such as the one used by ESRI. In judging a particular budget or the impact of the entire adjustment path since the crisis broke out, it is also important to factor in all the measures, not only a subset. Caution is also needed in making a judgement about particular years, as some of the measures that played a major role in achieving a progressive distribution of burden cannot be repeated. In fact, it was one of the strengths of the Irish adjustment that these measures, such as the necessary correction of public sector wages, were taken early on.

Chart 13: Average percentage loss from budgetary policy, 2009-2013



Source: ESRI

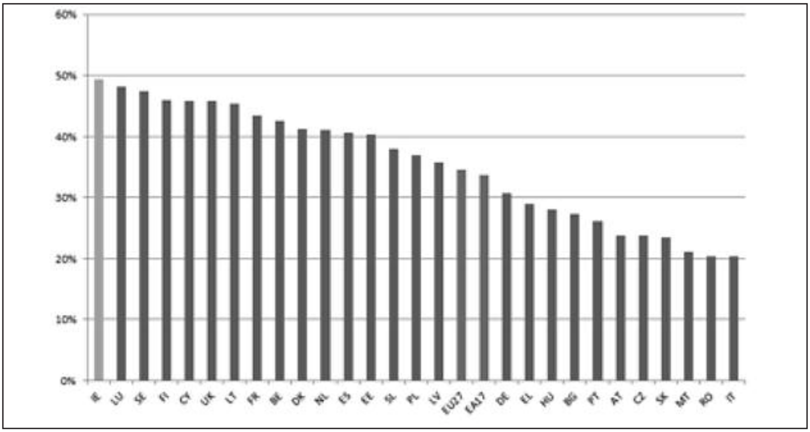
3. Challenges ahead

Outlook for economic growth remains crucial for improving the social dimension going forward. The Irish economy has returned to growth and the Commission's staff spring forecast projected a further pick-up in economic output for 2013–2014. Nevertheless, the latest macroeconomic data indicate that the recovery remains fragile. The growth outlook remains important for the success of the economic adjustment programme and is closely linked to the improvement in the social indicators discussed in this note.

Ireland is well placed to return to a sustainable growth path thanks to its strong fundamentals in terms of education and business environment. Nearly half of the Irish population have completed tertiary education and

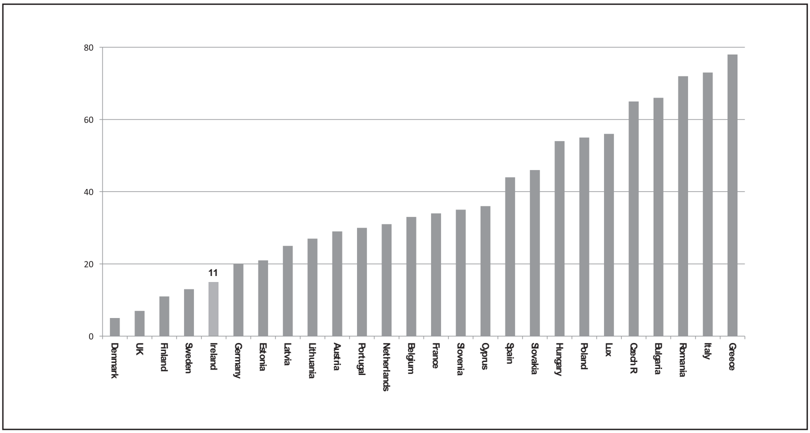
Ireland ranks 15th in the world (5th in the EU) at the ease of doing business – an index compiled by the World Bank. That is, Ireland has a highly-skilled labour force and a regulatory environment that is conducive to long-term growth and adjustment (charts 14 and 15). It has also largely restored its cost competitiveness (chart 16).

Chart 14: 30-34yr olds with tertiary education



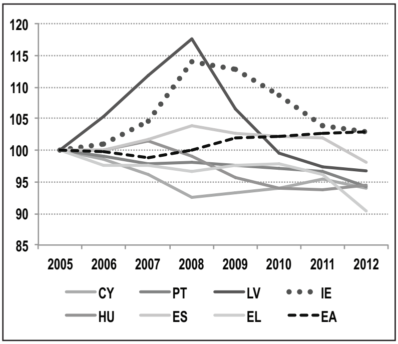
Source: Eurostat

Chart 15: Doing business ranking 2012



Source: World Bank

Chart 16: Relative real unit labour costs

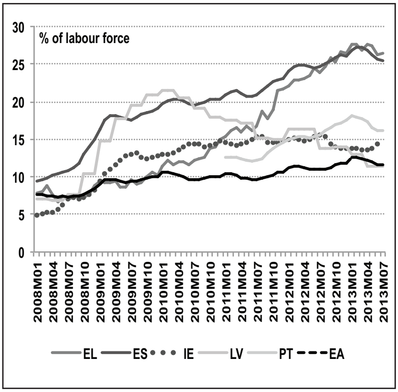


Source: AMECO. Performance relative to the rest of 37 industrial countries; double export weights; Index 2005 = 100

Unemployment, including long-term unemployment, has also started to decline, albeit it still remains unacceptably high. Job creation was an important factor in bringing about this improvement. With stabilising house prices, in fact even somewhat increasing in Dublin, and an increasing unmet demand for certain type of homes in Dublin, the construction sector can be expected to gradually recover. The important work of the Central Bank of Ireland, as part of the programme, to push banks to find sustainable solutions for mortgage holders in a difficult situation; the continuously improving access of Irish banks to stable funding; and banks' faster-than-planned progress with rightsizing their balance sheets, will help create the necessary conditions for a rebound in mortgage lending and thus help the recovery of the construction industry. Such recovery will no doubt provide a major relief to unemployment, particularly to youth and long-term unemployment. (Charts 17 and 18 below show the size of the unemployment challenge in the programme countries). Continuous assessment of the effectiveness of active labour market policies, as well as corrective measures if necessary, will also be important to help unemployed people benefit from the improvement in economic conditions. The government may want to look into the study the World Bank did for Latvia in this area[11], using a careful analysis based on micro-level data, and conduct or commission a similar study if it finds it useful.

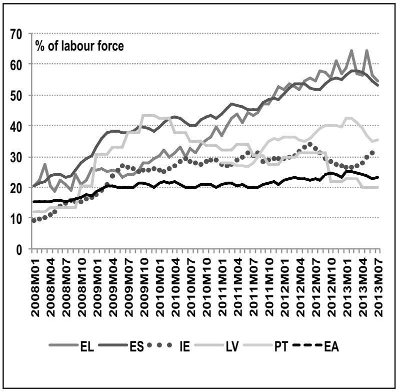
[11] The World Bank, European Social Fund Activity - Complex support measures No. 1DP//1.4.1.1.1./09/IPIA/NVA/001. "Latvia: Who is Unemployed, Inactive or Needy? Assessing Post-Crisis Policy Options".

Chart 17: Unemployment rate (monthly data)[12]



Source: Eurostat

Chart 18: Youth (15-24) unemployment rate



Source: Eurostat

Additional structural reforms are nevertheless needed to further strengthen competitiveness, foster growth and to significantly reduce long-term and youth unemployment. Notwithstanding major achievements so far, there is still room for improvement, particularly in the non-tradable sector, including for example further reforms regarding sheltered professions. In the fight against long-term and youth unemployment and social exclusion, several reform strands are critical mainly to: (1) finalise the implementation of active labour market policies; (2) provide the level and types of support needed by job seekers; (3) facilitate the re-skilling and up-skilling of the unemployed through the improved delivery of relevant further education and training programmes; and (4) pursue efforts to foster job creation. This will require continued determined efforts on the part of the authorities in the coming years, as some of the reforms that were initiated during the programme still remain to be completed.

12 Monthly data for PT is only available from January 2011

4. Conclusions

The burst of the bubble in Ireland created an unprecedented shock to the Irish economy, leading to a rapid increase in unemployment and a collapse in budget revenue. The inevitable fiscal adjustment no doubt added to the already strong pressure on the economy and made public funds scarce. Given the large imbalances that had built up prior to the crisis, the initial shock was largely unavoidable, and so was the large fiscal adjustment given the rapid increase in public debt. The performance of the Irish economy should be measured by how quickly it returned to growth and job creation after the initial shock, relative to other economies that experienced similar imbalances. Public policies should be judged based on how much they supported this recovery and helped mitigate the inevitable social impact of crisis. The financial assistance from the EU and the IMF helped ease the pressure on the budget by providing concessional credit and avoided a hasty fiscal adjustment in a period when the Irish government was cut off from the market. The programme was built on a carefully chosen gradual fiscal adjustment path, one that aimed to limit the fiscal adjustment burden in the early phase when the economy was very fragile. Within this framework, however, it was always up to the Irish authorities to choose the combination of measures that they thought was most supportive of their economic and social goals.

Thanks to its flexibility and healthy deep fundamentals, the economy rapidly restored its competitiveness and established a new set of relative prices, including asset prices, and hence created the foundations for growth and job creation. The structural reforms that were pursued as part of the programme also helped in this regard. Nevertheless, due to the large imbalances that had emerged prior to the crisis, the increase in unemployment, particularly in long-term and youth unemployment, was much greater in Ireland than in its peer economies, albeit significantly less than in other programme countries in Europe.

The resulting high unemployment was the main reason for the increase in absolute and relative poverty, while the scarcity of public funds limited the capacity of the government to mitigate the social implications of the crisis. Prior to the crisis, Ireland made major achievements in reducing poverty and social exclusion. Its performance in this regard compared favourably with its peer countries with similar income levels and social development indicators in Europe, perhaps with the exception of income distribution (Gini coefficient). The rapid increase in unemployment was not comparable to what the peer countries experienced. It led to a significant deterioration in social indicators relative to the peer countries, albeit probably much less than the size of the shock and the consequent increase in unemployment would have implied, thanks to an overall rather effective social transfer system. In this regard, the European Commission staff's structural policy advice focused on measures that can help improve employability and matching of supply and demand in the labour market, such as improvements in training and placement services for unemployed people. As the economy started to create jobs again, improvements in this area will undoubtedly bear fruit, even though more determined measures to improve placement services are needed.

During the programme, Troika staff teams regularly met those major non-governmental organisations which work in Ireland towards better social policies and encouraged them to convey their views and policy recommendations to the government and the elected representatives of the Irish people. Commission staff also repeatedly called attention to this aspect of crisis management in its reports and press conferences.

This short note is in no way a substitute for a careful and thorough analysis of the social impact of the crisis and its management in Ireland; it merely sketches out some of the main developments in this regard and the basic approach to this issue in the programme. It is for the Irish government and independent experts in Ireland and elsewhere to come to a final assessment, but perhaps such a final assessment should wait until the Irish economy is firmly back to normal and the effects of the policies in this area have fully played out. As always, the best way to assess a particular country, or government, is to compare them to the best performers among those who faced similar challenges. The role of the EU-IMF programme for Ireland in this regard is also best judged in this way.

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2. Perspectives on the Fiscal Challenges Facing Ireland

Robert Watt[13]

Introduction

As Ireland is preparing to exit the EU/IMF Programme, it is an appropriate time to consider the challenges that Ireland is likely to face in the immediate future as well as over the medium-term. The manner in which these challenges are to be addressed is a matter for society to debate. One key decision is, of course, the level and quality of the public services that will be provided and the volume of resources that will be raised from taxpayers to provide such services. In liberal democracies such as Ireland, addressing the question of how the provision of public services, or the relationship between the State and the citizen, should progress is a dialogue within society articulated through on-going and open debate that is mediated through elections and governments.

It is therefore important that we are open about the challenges Ireland faces in arriving at such decisions. The first and most obvious is that there are finite resources available to the State for providing public services to citizens. These fiscal constraints set the overall context within which Ireland can address the challenges it is likely to face. In learning to live within these constraints, a key challenge will be to ensure that the choices that are made support sustainable economic and social progress.

Another challenge is how to utilise the available resources as efficiently and effectively as possible and to organise the provision of public services in a manner that best meets the needs of citizens. While nobody can say what the future will look like, it is clear that there will be particular pressures on public expenditure, such as those associated with the changing

[13] Robert Watt is writing in a personal capacity. A version of this paper was presented at the *Social Justice Ireland* Policy Conference on 19 November 2013. The subject of the Conference was "A future Worth Living For".

demographic profile. Other challenges, such as the risks associated with being a small open economy within the Euro area and climate change, are known but their impacts vary or need to be balanced against significant benefits that are not perceived as immediate. The challenge is to identify the likely impacts and potential costs of hypothetical events.

This paper focuses on the challenges facing the public finances and related issues. It does not examine in detail labour market and social policy challenges which I understand are the subject of other papers at this conference. Hence, the paper does not purport to be a comprehensive examination of challenges we face.

This paper begins by providing some overall context in terms of the role of the State and the relationship between the State and the citizen. The paper then examines the resources that the Irish State has available to it and what services are provided and how this has changed over time. The next section sets out the main features of the on-going fiscal consolidation effort before setting out a number of selected challenges that Ireland is likely to face in the next few years and over subsequent decades.

Role of the State

Seventeenth and eighteenth century social contract theorists who examined questions relating to the origins of society and the legitimacy of authority saw the State in terms of its capacity to provide citizens with security, protection of property and development of people and their abilities. The deepening of this relationship between the State and the citizen is perhaps most evident in the evolution of welfare supports over the last century or so, the origins of which are in part associated with nineteenth century Prussia. Of that, Galbraith (1991: 210-11) observed that the passing of legislation in the Prussian Reichstag in 1884 and 1887, providing for elementary accident, sickness, old-age and disability insurance, was an example of 'fear of revolution as an inducement to reform, [as] Bismarck pressed for amelioration of the more stark cruelties of capitalism'.

In the twentieth century, the potential of state involvement in the promotion of economic growth has been strongly associated with the work of John Maynard Keynes, especially in terms of raising the level of investment spending for public purposes in order to tackle the problems of persistent under-employment and under-investment. However, rising inflation and unemployment in the 1970s undermined the efficacy of the Keynesian model for policy making and contributed to the counter-reaction, emphasising the use of monetary policy to control inflation. The 1980s in the UK and USA have become associated with such policies supporting free-markets, non-intervention, privatisation, deregulation and income tax cuts.

When examining the role of the state in development, Fukuyama (2005) based his analysis around the two dimensions of ‘scope’ and ‘strength’. ‘Scope’ focuses on what it is that the state does. The World Bank (1997) has set out a list of the state’s functions which ranges from the ‘minimal’ (e.g. providing pure public goods such as defence, law and order, property rights and basic protection of the poor) to ‘intermediate’ (e.g. addressing externalities through education and economic regulation) to ‘activist’ (e.g. industrial policy and wealth redistribution). ‘Strength’ does not simply refer to the state’s ability to enforce laws but includes its institutional capabilities such as the ability to formulate and implement policies in an efficient and transparent way.

While all of the above tend towards ‘top-down’ or ‘expert led’ approaches, it should not be forgotten that in liberal democracies there is a very direct relationship between the citizen and the State through general elections. In elections, the citizens play an important role in selecting their political leaders and choosing between political parties that often compete for support by offering different policy platforms. While there may be some debate about the degree to which policy choice informs voter behaviour, in Ireland, the evidence shows that the pledges included in election manifestoes are included in the government programmes formulated and agreed after an election (Mansergh and Thomson, 2007).

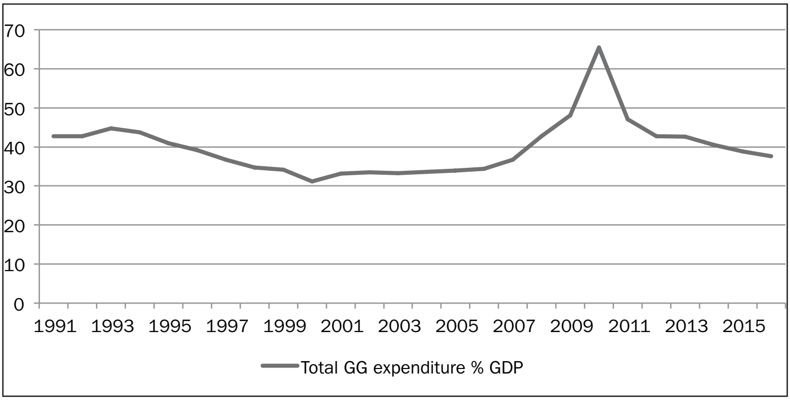
The Size of the Irish State
General Government Expenditure

General government expenditure is defined as overall expenditure including interest costs on our debt and expenditure of the local government sector. Over time there have been significant changes in the volume of Government expenditure and of course its size relative to the overall economy. In nominal terms, general government expenditure will have increased from under €17bn in 1991 to a projected €69 billion in 2014; in real terms the State's expenditure has tripled in size since the early 1990s.

As a proportion of the overall size of the economy, total Government expenditure has varied around a long-term, pre-crisis average of 38% of GDP[14]. At the turn of the millennium, government expenditure represented a more modest 31% of output which is low by historic standards. As the downturn materialised, total and underlying spending (excluding interest costs, expenditure related to the economic cycle, and banking-related once-offs) increased to well beyond 40% of GDP in 2010. For 2014 it is expected to return to 40 per cent of GDP.

Based on this broad measure spending is heading towards its pre-crisis average and it is expected to be there by 2016. The level includes significant debt service costs on serving the larger stock of Government debt.

Figure 1: Total General Government Expenditure % GDP



Source: Dept. of Finance

[14] For convenience throughout this paper GDP is used. Of course, GNP is a better measure of available resources to Irish citizens but this does not affect the arguments here.

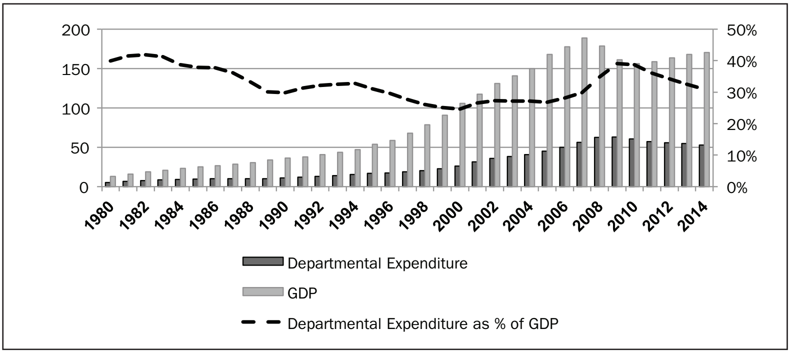
Voted Government Expenditure

Government Voted Expenditure refers to spending on the day-to-day provision of public services to citizens including investment in infrastructure. It excludes debt service costs and it is this type of expenditure that is the main focus of Budget Day announcements.

In Budget 2014, the Government announced that the overall voted expenditure allocated to Departments for 2014 is €52.9 billion - €49.6 billion current spending and €3.3 billion capital – and this will account for about 31% of GDP in 2014. Since the early 1980s, Departmental expenditure has accounted for, on average, 32% of GDP. From Figure 2 it is clear that Departmental expenditure as a proportion of the size of the economy has varied from just over 40% in the early 1980s to around 25% of GDP at the turn of the millennium. In the first few years of the economic crisis, this ratio increased from just under 30% in 2007 to 39% in 2009 and has now fallen back due to some growth in GDP and lower spending.

It is noteworthy that spending on the volume of public services is getting close to average pre-crisis levels as a percentage of output.

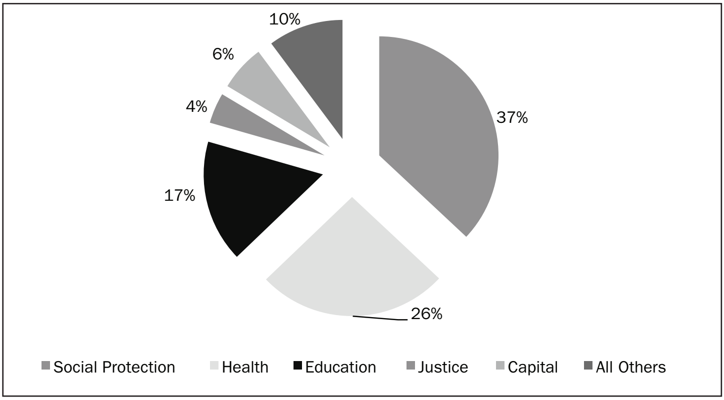
Figure 2: Departmental expenditure as a proportion of economy size



Source: Dept. of Finance

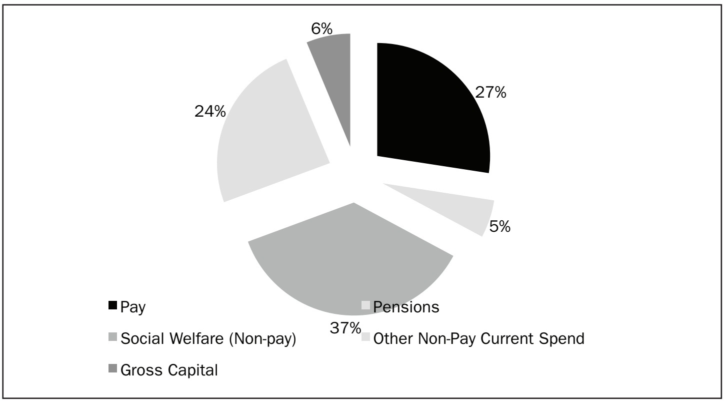
As is evident in the Figure 3A, government expenditure is predominately in the areas of Social Protection, Health and Education and these areas will account for 80% of Gross Total Expenditure in 2014 (or €42.1 billion). Or looked at from a slightly different perspective, (see Figure 3B) public service pay and pensions account for almost a third of total expenditure with the non-pay allocations dominated by Social Protection and the remaining 24% allocated to non-pay costs of delivering day-to-day services in all other areas.

Figure 3A: Allocations of Expenditure by Department as % of Gross Expenditures in 2014



Source: Dept. of Public Expenditure and Reform

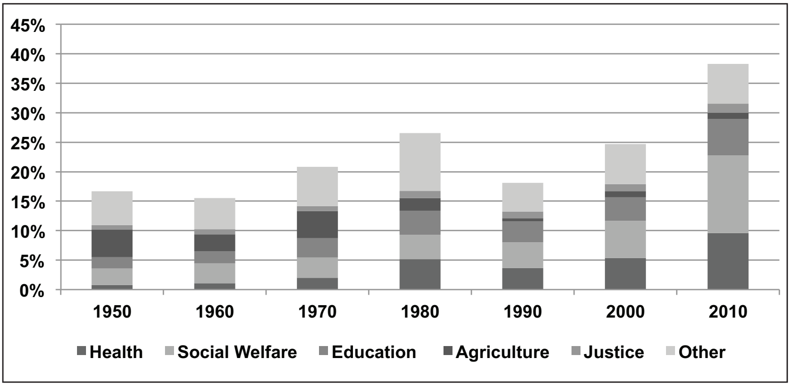
Figure 3B: Allocations of Expenditure as % of Gross Expenditures in 2014



Source: Dept. of Public Expenditure and Reform

There is a tendency to assume that the public services of today were also the public services of yesterday. However, over the last six decades or so there have been some notable changes in the composition of Government expenditure. For instance, while expenditure on agriculture accounted for more than a quarter of total Government expenditure in 1950, today it accounts for about 2%. Conversely, combined expenditure on health, social welfare and education accounted for 33% in 1950.

Figure 4: Departmental Expenditure as a proportion of economy size 1950-2010[15]



Source: Dept. of Public Expenditure & Reform

The scope to significantly increase expenditure as the economy recovers will be constrained by binding new EU fiscal rules. (See below for a detailed discussion of these). The new 'expenditure benchmark' will mean that expenditure as a share of GDP (excluding interest payments and payments related to the economic cycle such as unemployment payments) cannot grow faster than the average medium term potential growth rate of the Irish economy. We will return to this point later.

Fiscal Consolidation To-Date

While many of the problems associated with the economic crisis that Ireland has had to endure have domestic roots, the international nature of

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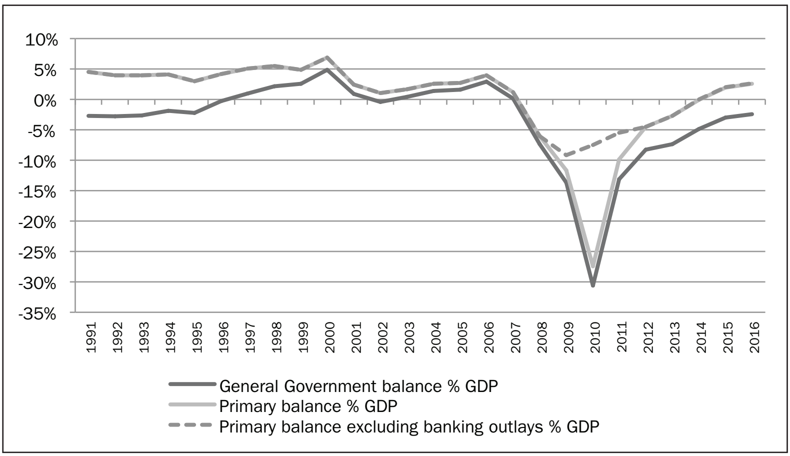
15 As a percentage of nominal GDP.

the crisis made it even more difficult to return the economy to a stable footing. The consolidation effort has required disciplined approach to meeting Ireland's targets under the EU/IMF Programme while at the same time addressing increasing pressures and demands for public services.

Figure 5 shows the evolution of the overall fiscal and the primary balance since 1991. The economic downturn led to a dramatic deterioration in the fiscal position. In 2010, the headline deficit stood at nearly 31% of GDP including banking related costs. Excluding these costs the primary deficit was almost 10% of GDP at the peak of the crisis. The overall deficit is forecast to be 4.8% of GDP in 2014 (below the 5.1% EDP target) with a small primary surplus.

It is uncertain how much of the remaining deficit is structural. Estimating potential output and the output gap is difficult for an economy such as Ireland. However, the economy is operating below 2008 output levels and unemployment is over 13%. This suggests that a cyclical recovery could reduce a large element of the remaining deficit.

Figure 5 General Government Balance and Primary Balance as a % of GDP



Source: Government Finance statistics CSO data for 1991-2012. Projections based on Budget 2014. Figures include impact of banking injections.

Ireland is expected to record a small primary surplus in 2014 for the first time since 2007. In other words, the revenues raised by the State will be sufficient to meet expenditures (excluding debt service costs). This is a key metric in assessing the underlying sustainability of Ireland's public finances. It is a necessary first step towards lowering our debt levels and freeing up expenditure for uses other than debt servicing.

Consolidation Effort

To reduce the fiscal deficits, successive Irish Governments have undertaken a range of revenue and expenditure measures. Table 1 shows how expenditure has evolved since 2007 across a number of key categories. There has been a reduction in aggregate public expenditure of some €10.2 billion since it peaked in 2009.

Looking at the detail in the table it is clear that there have been significant reductions in the public service pay bill. The gross pay bill has been reduced from a peak of €17.5 billion in 2009 to just over €14.5 billion in 2014. This has been achieved through a series of reductions in pay rates and in the number of people working in the public service. The net cost to the Exchequer was lowered by nearly a further billion euro a year from the introduction of the Pension Related Deduction in 2009. In overall terms, the number working in the public service has decreased from just over 320,000 in 2008 to less than 290,000 by end-2014.

While measures have been introduced to control expenditure on Social Welfare, it is worth noting the expenditure on the Live Register is more than twice what it was before the economic crisis. Furthermore, the allocation in 2014 for other Social Welfare schemes is €2.2 billion greater than it was in 2007. Decisions in this area have had to take into account cost pressures due to an aging population and costs associated with the very large increase in the number of people on the live register.

Similarly, in Health and Education the 2014 non-pay allocations are greater than they were in 2007. Budgetary decisions in both of these areas have also had to take account of significant increases in demand for services. For instance, over last number of years the number of medical cards has increased by about 600,000 to 1.87 million and the number of students at primary and secondary school has increased by about 75,000 to 889,269.

Table 1 – Evolution in Expenditure by category, 2007-2014

Government Expenditure, 2007-2014 (€ billions)

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Pay	16.6	17.2	17.5	16.0	15.6	15.3	15.1	14.5
Pensions	1.5	2.1	2.6	2.7	2.8	3.1	3.0	2.9
SW - Live Register	1.4	2.1	3.7	4.1	3.9	3.6	3.7	3.3
SW – Other	13.8	15.4	16.5	16.5	16.8	16.6	16.2	16.0
Other Programmes	15.3	16.6	15.5	14.9	13.8	13.3	13.2	12.9
(of which) Health non-pay	*6.4*	*6.9*	*7.1*	*6.9*	*6.9*	*6.7*	*6.6*	*6.6*
Education non-pay	*1.9*	*2.0*	*1.9*	*2.1*	*1.8*	*2.0*	*2.0*	*2.0*
Other	*7.0*	*7.7*	*6.5*	*5.9*	*5.1*	*4.6*	*4.6*	*4.3*
Gross Current Expenditure	**48.6**	**53.4**	**55.8**	**54.2**	**52.9**	**51.9**	**51.2**	**49.6**
Gross Capital Expenditure	**7.8**	**9.0**	**7.3**	**6.4**	**4.5**	**4.0**	**3.4**	**3.3**
Gross Total Expenditure	***56.4***	***62.4***	***63.1***	***60.6***	***57.4***	***55.9***	***54.6***	***52.9***

Source: Dept. Public Expenditure and Reform. Figures on an Exchequer cash basis and do not correspond directly to general government expenditure volumes.

The largest nominal reduction in expenditure has been on capital investment, which has decreased from a peak of €9 billion in 2008 to €3.3 billion in 2014. However, over the course of the past two decades there has been significant infrastructural investment and upgrading throughout the country. Perhaps the most visible and beneficial legacy is the national motorway network. The investment of €6.6 billion in this area has significantly reduced journey times, accidents and vehicle maintenance costs. Further substantial benefits have also accrued from investment into water and wastewater infrastructure (€6.4 billion) and in primary, secondary and tertiary education infrastructure (€4.8 billion).

It is clear then that expenditure on capital and public service pay have borne the brunt of the consolidation efforts to reduce public expenditure. However, this is not to ignore the impact on citizens of the various measures that have had to be introduced just to keep expenditure on Social Welfare, Health and Education more or less standing still. Furthermore, as the economic position improves, an increase in employment will be associated with a decrease in unemployment which will contribute to a reduction in the costs associated with the Live Register. This will be critical in further reducing the fiscal deficit.

Sustaining Social Cohesion

Almost a third of public expenditure is targeted at helping people and protecting families, and this safety net has been mostly maintained throughout the consolidation period. While it is the case that the economic crisis has meant that people are more likely to find themselves at risk of poverty, evidence published by the CSO shows that social transfers and pensions play a central role in reducing the "risk of poverty" from just over 50% before transfers to just over 15% after transfers (This 35 percentage point reduction is notably larger than the EU average of 27 percentage points).

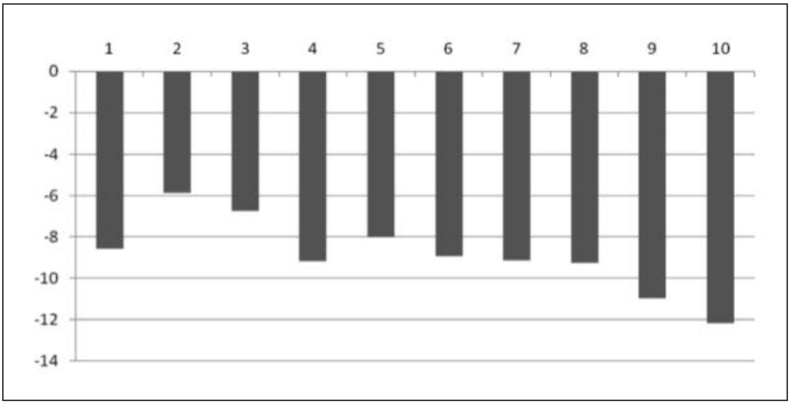
In terms of equality, Ireland has maintained a gini coefficient[16] (based on Household Budget Survey data) of 0.31. This compares favourably with international benchmarks.

Figure 6 sets out the change in equivalised disposable incomes resulting from budgetary decisions. The evidence suggests that those on higher incomes have seen a greater reduction in equivalised disposable income when compared against those on lower incomes. Those who earn most have faced the largest reductions in their equivalised disposable incomes of at least 11%. People who earn least have faced lower reductions of about 6%. A key factor in the lower losses for deciles 2 and 3 is the decision to hold pension rates constant. However, there are a number of breaks in this pattern as the equivalised disposable incomes of those in the lowest and fourth deciles have been reduced by percentages greater than those in an adjacent higher decile. For instance, equivalised disposable incomes in the lowest decile fell by over 8%. This decrease is associated with a combination

[16] The Gini-coefficient is a measure of income dispersion which ranges from 0 to 1, with 0 representing maximum equality and 1 being complete inequality (i.e. one individual holding all income).

of indirect tax increases as well as reductions in particular welfare payment rates for those of working age and reductions in Child Benefit rates.

Figure 6 – Impact of income tax, welfare and public service pay policy changes, 2008-2013 (% change by decile of equivalised disposable income)



Source: Callan et al 2013: 19

Debating the Future – Selected Challenges

The challenges that Ireland faces are contested, that is, they require broad public dialogue to address their implications for Irish policy and to determine their impact on the Irish society more generally. However, these challenges, and others, will remain as there is no end point at which people will be able to say 'we have arrived'. Instead, there is a need for on-going public debate and discussion about how best to address any and all challenges faced by Ireland.

Living with Constraints of new Fiscal Rules

The reformed Stability and Growth Pact (SGP), including the so-called 'six-pack' and 'two-pack', introduced significant changes to the way in which EU Member States manage public resources.[17]

17 This reform was complemented by the *Treaty on Stability Coordination and Governance in the EMU* ('Fiscal Compact') which was ratified in Ireland by referendum in 2012.

Ireland will remain under the Excessive Deficit Procedure (EDP), or 'corrective arm', of the Stability and Growth Pact until the deficit falls below 3% of GDP.

Once the excessive deficit has been corrected, Ireland will then be subject to the 'preventative arm' of the Stability and Growth Pact. It will be necessary to make progress towards achieving our Medium Term Objective (MTO). Our MTO requires a balanced budget once allowance is made for one-off temporary factors, and the impact of the economic cycle on the public finances.

In Ireland, the new EU rules have been placed on a statutory footing by means of the *Fiscal Responsibility Act 2012 and 2013* and the *Ministers and Secretaries (Amendment) Act 2013*.

The *Fiscal Responsibility Act 2012 and 2013* imposes a duty on the Government to ensure compliance with the budgetary rule and the debt rule, which are provided for in the Act. The budgetary rule requires that the budgetary position of general government must be either:

- In balance or in surplus and this will be satisfied if the annual structural balance is at the medium-term budgetary objective (MTO); or

- If it is not at the MTO target, on the adjustment path toward adhering to the MTO as set in accordance with the Stability and Growth Pact.[18]

These rules also constrain public expenditure because each Government in the Eurozone is now bound by the 'expenditure benchmark'. The application of the expenditure benchmark requires the Government to set multi-annual upper limits on General Government expenditure.

This is the context in which Ireland must set three-year 'Government Expenditure Ceiling' – equivalent to total gross voted expenditure. In Budget 2014, the Government Expenditure Ceiling for 2014 will be €52.9 billion and at €51.5 billion and €51.9 billion for 2015 and 2016, respectively.

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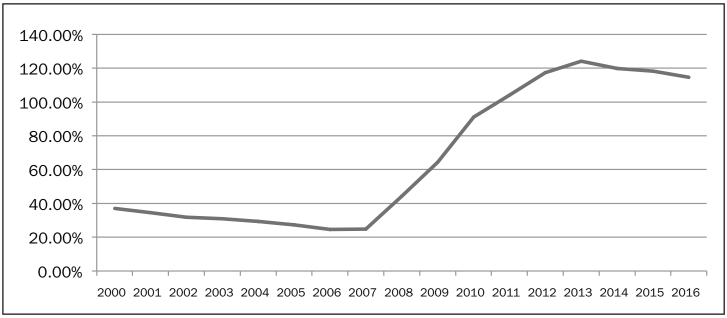
18 If there is a failure to comply with the budgetary rule and there is a significant deviation from the MTO or the adjustment path, then the Government will be required to implement the correction mechanism and introduce a plan to restore compliance. Only in the event of exceptional circumstances, as defined under the SGP, might this rule not apply.

Following on from this, the Ministers and Secretaries (Amendment) Act 2013 provides that the Government Expenditure Ceiling shall be apportioned into individual Ministerial Expenditure Ceilings for the next three financial years. Three year Ministerial Expenditure Ceilings were published in the *Expenditure Report 2014*.

Over the period of the economic crisis, Ireland's debt increased significantly, both in nominal terms and as a proportion of national output. For 2013, the forecast ratio of gross general government debt to GDP is 124% having stood at just 25% in 2006. The increase in the Debt-to-GDP ratio has been due to a combination of factors including support for the financial sector, a contraction in GDP (which pushes up the ratio) and persistent primary deficits since 2008. The sharp increase in the stock of debt since 2007 has resulted in an increased cost of servicing the debt – from 2.7% of revenue in 2007 to 10.9% in 2012. While this is high, it is still lower than in the 1980s.

A key Government priority is to reduce the debt and the first step in doing so is to reduce the amount being borrowed and then to cease borrowing, particularly for day-to-day expenditure.[19] In terms of progress toward this goal, as noted earlier, Ireland is expected to record a small primary surplus in 2014 for the first time since 2007. This means that the revenues raised by the State are sufficient to meet expenditures (excluding debt service costs).

Figure 7 – General Government Debt as % GDP



Source: Dept. of Finance

19 It should also be noted that one reason for the high gross debt ratio is the policy decision to ensure that the Irish State is well funded as it leaves the EU/IMF Programme. In the coming years, the NTMA will run down the level of the State's cash reserves to significantly lower but still prudent levels. Gross general government debt is expected to fall to 120% of GDP in 2014 and to continue to decline to just under 115% of GDP by 2016.

Managing Our Expenditure Effectively

An on-going challenge is to ensure that the resources available are used efficiently to deliver effective public services to citizens and to address unemployment. Over the last number of years, a series of reforms have been introduced to reform our budgetary architecture. While some of these changes are a consequence of the new EU rules, others build on the Government's determination to ensure sustainable public expenditure. In addition to the EU fiscal rules outlined above, the key elements of the Public Expenditure Framework are:

- *Spending Reviews* – in 2014 there will be spending reviews of both current and capital expenditure. These will involve a line-by-line examination of expenditure and will allow the Government to recalibrate Ministerial Expenditure Ceilings in light of changing priorities and evaluations of expenditure;

- *On-going evaluation* – a number of processes are in place to develop evaluations of public expenditure (Value for Money & Policy Reviews and Focussed Policy Assessments) and the establishment of the Irish Government Economic and Evaluation Service has increased the capacity for carrying out such evaluations. Both of these resources will contribute to next year's spending reviews and continue to inform budgetary decisions on an annual basis; and

- *Performance Information* - the aim is to strengthen the focus upon what is being delivered with public resources and to build this information into the policy-making process. (The Government has decided to extend the public service performance information website *Ireland Stat* to all Departments and at present a data collection process is underway.)

Together these elements constitute a framework that concentrates attention on whether or not the limited public resources available to the Government are being used in an efficient manner to deliver effective public services to the citizens.

The Department of Public Expenditure & Reform is engaged in examining and developing new and better ways of delivering public services to both improve services and reduce costs. Over the last year significant progress has been made on the implementation of the Government's *Public Service Reform Plan* and by means of the *Haddington Road Agreement*.

In delivering public services, we must identify new ways of delivering better, higher quality public services. For instance, what can Ireland learn from other countries and their experiences with new ways of designing public services, such as, from the application of behavioural insights. In *Budget 2014,* the Government announced the piloting of two Social Impact Investing projects. These projects will support outcome focussed public services.

It is also worth noting that there has been an increasing role for private and non-governmental actors in public service provision. Central to such approaches is the concept of competition through the creation of 'quasi-markets' for public services. However, this shift in the supply of public services is the subject of on-going debate. In the UK, the evidence suggests that contracting private providers has worked well in simpler and transaction based policy areas but in more complex policy areas, such as health and education, the impact is less clear (Gash *et al*, 2013: 11). In Ireland, private and voluntary actors already play an important role in public service delivery in Ireland. The challenge is to ensure that specific public services are provided through the most appropriate and accountable means in a manner that is not only cost-effective but also optimises quality and performance.

Promoting Economic Growth

Over the next few years, the Irish economy needs to grow both to generate employment and reduce the burden of General Government debt. The Department of Finance and the Department of Public Expenditure & Reform are drawing up a medium-term economic strategy (MTES) to cover the period 2014 to 2020. The purpose of the MTES is to provide the framework for the macroeconomic, fiscal and structural policies which will support sustainable economic and employment growth in the period 2014-2020.

Innovation and productivity gains are important in sustaining economic growth and to attracting investment from innovative and export oriented companies. A key challenge is to ensure that Ireland's workforce not only maintains its high levels of productivity but becomes more productive. The productivity of the Irish workforce has been an important element in attracting international investment. Productivity growth in Ireland has averaged around 2½% per annum since the early 1990s.

A key driver of innovation and productivity is competition. Competition encourages firms to reduce costs and to invest in the development of new products and production methods. While it will be important that the traded sector remains competitive, perhaps the key challenge over the next few years is to increase competition in the non-traded sectors. This is especially so in those sheltered sectors, such as utilities, health, education and legal services, that contribute to costs in the traded sector. In these sectors there needs to be incentives in place to drive cost-efficiencies and the adoption of more innovative solutions to providing services.

Since the 1980s, Ireland's infrastructural capacity has been recognised as a critical input to productivity and competitiveness. The availability of competitively priced and high quality infrastructure is a necessary ingredient to ensuring that the traded sector can compete on global markets. Ireland has invested large volumes of resources in infrastructure over the last decade or so. The challenge now is to ensure that the gains made in recent years are maintained and to identify and develop new investment projects that will further enhance the capacity of the economy to trade internationally. The Department of Public Expenditure & Reform will be reviewing Ireland's capital investment plan over the course of 2014. A related challenge is to try and develop innovative methods to encourage private investment in infrastructural projects that will benefit society.

Ireland's education system plays the most crucial role in supporting economic growth. The challenge that Ireland faces is to ensure that high quality education is being provided at all levels of the education system, including pre-school. The focus of the education system should not just be on those who will graduate next year or by 2020 but on those who will be graduating in 20 years' time. The education system must ensure that our young people have the requisite skills. To achieve this, Ireland needs to discuss how to collect relevant performance information that will best inform curriculum development and ensure that children are developing the necessary skills. In addition, we need to look at countries and assess their successful policies. Many countries have introduced more robust performance and evaluation cultures affecting teachers and schools.

While the comments here have been confined to the education sector, the reality is that this approach needs to be extended to the provision of all public services.

Labour Market

High unemployment is the main challenge we face. Growing the Irish economy is a necessary condition to increase employment. Recent data suggests that Ireland has reached a turning point in the labour market. Employment growth of 1.6% is projected for 2013 as a whole and this is reflected in an increase in both full-time and part-time employment across the majority of sectors in the economy. Furthermore, unemployment over the course of 2013 and September's standardised unemployment rate of 13.3% is the lowest in three and a half years. The available evidence also suggests that long-term unemployment has stabilised. While the long-term unemployed still account for the majority of those on the live register this share has fallen from 62% in Q2 2012 to 58% in Q2 2013. The problem of long-term unemployment is particularly acute for those who previously worked in the 'Craft and Related Occupations' (account for about 20% of the Live Register).

The Government has introduced a number of labour market measures as part of their *Action Plan for Jobs 2013* and the *Pathways to Work* initiatives. To deliver on *Pathways to Work*, in 2014, the Government has allocated €1.6 billion and this activation programme will provide nearly 300,000 places. *JobPath* is part of the Government's commitment to the long term unemployed and, when introduced in 2014, will mark a step change in the intensity of engagement with the long term unemployed.

The Demographic Challenge

Ireland needs to discuss how to deal with issues that might not necessarily pose a specific challenge today but that will result in significant demands on public services in the medium-term. One such challenge is Ireland's changing demographic profile. The European Commission forecasts that the population of Ireland will continue to grow, increasing to 6.5 million by 2050[20]. The forecasts also suggest that the demographic profile of the Irish population will increasingly get older. The European Commission forecasts to 2060 project a decrease in the working age population of 7% from the 2010 base period, and an increase in the elderly population of 10% over the same period. This presents a significant challenge to the Exchequer in respect of its revenue base. As the proportion of the elderly increases and the working-age population shrinks, the revenue base of the State reduces just as demand for public services and pension income increases. A recent study for the Department of Social Protection highlighted major concerns about the long-term sustainability of current welfare policies.

On the other hand, there is an increasing number of young people. Today over 20% of Irish people are under the age of 14 years. The European Commission forecasts that this will remain the case at least until 2025. As this cohort age and enter the workforce they will increase the tax base and growth potential of the economy. However, in the next few years, the increasing numbers of young people will involve financial and service pressures on public services, particularly the education system and the costs associated with providing child benefit.

The changing demographic profile is expected to place significant demands on the available public resources (See Figure 8). In particular, an ageing population is likely to place significant demands on the resources allocated to provide health care services. The OECD (1987) assumes that the costs associated with people aged 65 years or older are four times those associated with younger people. Demand for expensive long-term care is influenced by the age profile of the population and the proportion of the population in each age group with a disability. This suggests that, as Ireland's demographic profile ages, the cost of long-term care will increase, especially given the labour intensive nature of caring services. At a fundamental level we must decide how this infrastructure will be provided and funded.

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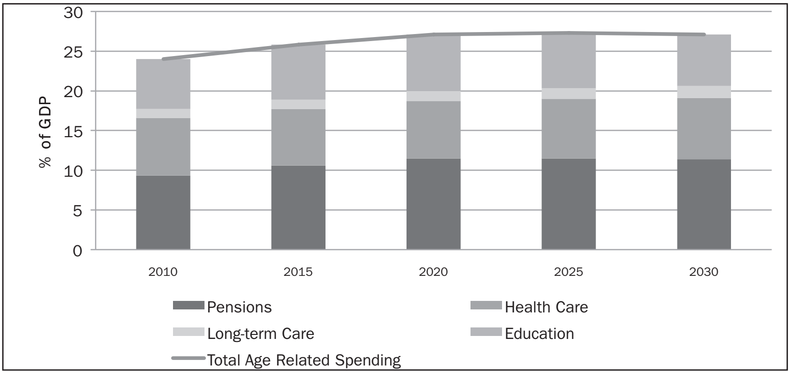
20 European Commission, (2012), 'The 2012 Ageing Report Economic and budgetary projections for the 27 EU Member States (2010-2060)', European Economy 2/2012.

Figure 8 – Age Related Expenditure



Source: Ageing Report 2012

A Small Open Economy in the Eurozone

Since the late 1950s a key platform of Ireland's economic policy has to been its openness to international trade and investment. This openness as well as the small size of the economy, has meant that Ireland is been especially vulnerable to the impacts of changes in the international economic environment.

In the global economy, capital and labour have become more mobile. Countries compete with one another to attract international investment. The FDI sector has been of immense importance in Ireland accounting for a very large proportion of external trade as well as employment. It is crucial that the Irish economy stays competitive. The challenges Ireland faces is to not only maintain but grow the levels of investment and to ensure that this investment leads to growth in jobs. However, this also means that Ireland remains vulnerable to external risks and we need to manage macroeconomic policy to help us cope with these.

Energy Security and Climate Change

Irelands total energy consumption in 2011 was 11,154 ktoe, 54% above the 1990 level of 7,249 ktoe. However, Ireland lacks significant oil and gas resources and is heavily reliant on energy imports. Ireland's energy import dependency grew significantly over the 1990s and 2000s due to an increase in energy use and a decline in indigenous natural gas and peat production and is notably higher than many other EU Member States. As the economy grows, so too will Ireland's energy consumption. Despite increasing levels of electricity produced from renewable sources, over the medium term the Irish economy will remain particularly exposed to changes in supply and price in international markets. The security of energy supply is a vital consideration for Ireland in coming years.

The future also poses challenges about which it is difficult to be sure about the impacts for Ireland. For instance, the warnings about climate change are becoming clearer. Irish society needs to discuss what it can do to mitigate the associated risks. However, it is difficult to have such a discussion when there is uncertainty about the likely impacts. Climate change may have several consequences for Ireland. First a warming climate is likely to alter Ireland's weather patterns, increasing the likelihood and frequency of extreme weather events such as flooding and droughts. Such weather events would put greater pressure on the national strategic infrastructure, requiring increased investment in the repair, replenishment and climate proofing of roads, railways and the electricity and water networks. In the agricultural sector, while a warmer average annual temperature is likely to benefit the growing season, more frequent extreme weather events could reduce output and increase the costs of farming.

Secondly, the cost of meeting Ireland's Greenhouse Gas Emissions' and related targets for 2020 and any such subsequent future targets will entail additional costs for both the public and private sectors. Reducing emissions from the Agriculture sector in particular is a significant challenge as this sector contributes over 30% of national GHG emissions[21] with a large share of these emissions coming from agricultural livestock where there is limited availability of cost effective mitigation options.

It is also worth noting that Ireland also faces the challenge of fulfilling its commitment, as a Party to the UNFCCC, to the developed country goal of mobilising jointly, by 2020, US $100bn in annual financial flows, from a variety of sources (public, private, innovative, alternative), in order to assist with adaptation/mitigation to climate change impacts in developing countries.

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21 http://www.epa.ie/pubs/reports/air/airemissions/Ire_GHG_Emissions_1990_2012_handout.pdf

Concluding Remarks

Ireland faces many challenges and how these challenges are addressed should be the subject of broad, open public debate. These debates need to be evidence based.

There are very immediate challenges in terms of repairing Ireland's fiscal position but the effort does not simply end with returning to a balanced budget. Instead, debate about what services the State should provide to citizens must take place within the boundaries set by our membership of the euro area.

The level of resources that Ireland will have available to it to provide services will be largely dependent on how well the Irish economy is managed. When society discusses the types of public services that are provided it needs also to focus on how the available resources are used in the most efficient manner possible to provide effective public services for citizens. Furthermore, such debates should include new thinking about the way in which specific types of services are delivered and what Ireland can learn from the experience of other countries.

Reducing unemployment will require a return to growth and the right activation and labour market policies.

To some extent Ireland has some control over how these challenges are addressed as ultimately they are reliant on a willingness to change to make Ireland a better place to live.

While all involved in discussing how to build 'a future worth living for' are ambitious for Ireland and the Irish people, the debate itself must not lose sight of the various challenges that Ireland faces. It is also important to note that despite the conference theme, there is no end point at which we can say we have arrived at 'a future worth living for' but instead acknowledge that our aim as a people is one of continuing and sustainable progress so that tomorrow can be better than today.

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3. 21st Century European Social Investment Imperatives[22]

Anton Hemerijck

1 Beyond frozen welfare states

Europe finds itself at a crossroads amidst the turmoil of the Euro crisis in the aftermath of the global financial crash of 2008. It needs a growth strategy that is both economically viable and socially fair. Without a long-term strategic focus on employment opportunities, easing labour transitions for working families, and improving human capital, the EU risks becoming entrapped in a permanent economic depression. This is the central message of the *Social Investment Package for Growth and Social Cohesion* launched by the European Commission in February 2013 (European Commission, 2013). The notion of social investment emerged as a policy perspective round the turn of the century with the ambition to modernize the welfare state and ensure its sustainability (Ferrera et al., 2000; Esping-Andersen et al., 2002). Social investment implies policies that 'prepare' individuals and families to respond to new social risks of the competitive knowledge society, by investing in human capital stock from their early childhood on, rather than simply to 'repair' damage after economic misfortune strikes. Because of adverse demography, alongside expected sluggish growth, social investments in productive human potential and capacitating social servicing are more relevant than ever.

Over the past two decades, European welfare states have, with varying success, pushed through reform. In a fair number of countries trajectories of welfare reform have been more proactive and reconstructive than defensive or destructive. With their tradition of high quality child care and high employment rates for older workers, the Nordic countries display the strongest social investment profile, but we also observe change in countries like the Netherlands (social activation), Germany (support for dual earner

[22] A version of this paper was presented at the *Social Justice Ireland* Policy Conference on 19 November 2013. The subject of the Conference was "A future Worth Living For".

families), France (minimum income protection for labour market outsiders), the United Kingdom (fighting child poverty), Ireland (much improved education) and Spain (negotiated pension recalibration) in the period leading up to the financial crisis. Alongside retrenchments there have deliberate attempts – often given impetus by intensified European (economic) integration – to rebuild social programs and institutions thereby accommodate policy repertoires within the new economic and social realities of the 21st century. *Ex negativo*, the pension-heavy welfare states, with their segmented labour markets and low active labour market policy spending, of Southern Europe are confronted with high levels of youth unemployment, long-term unemployment, low female employment participation, and perverse fertility trends, thereby aggravating not only ageing predicaments, but, by implication, also reinforcing existing trade imbalances and deepening social divergences across the Euro zone (Hemerijck, 2013).

In the wake of the global financial crisis, costly bank bailouts, automatic stabilization, tax cuts, and other initial stimulus measures, drained the public purse. This resulted in a “double bind” of rising social protection expenditures and declining government revenues. In the spring of 2010, the Greek sovereign debt crisis confronted the European economy with a new and challenging crisis aftershock, and contagion fears spread across the weaker periphery of the Euro zone. The European Union (EU) and the European Central Bank (ECB) ultimately came to the rescue of Greece and other weak economies with general bail-out packages, monetary easing and lender-of-last-resort interventions. In exchange for support, Greece, Spain, and Portugal staged impressive fiscal consolidation programs, including significant welfare retrenchment and labor market reforms.

In the face of the raging Euro crisis, social investment can no longer be dismissed as a “fair weather” policy when times get rough, as was the case during the Lisbon era. European policy makers are confronted with a truly existential – economic, political and social – interest in addressing prevailing trade and competitiveness asymmetries by forging viable economic adjustment strategies that do justice to the important macro-economic returns of the social investment perspective. Because of ageing, human capital cannot be allowed to go to waste through semi-permanent inactivity, as was the case in the 1980s and 1990s in many mature continental European welfare states.

It is important to emphasize that the social investment imperative is a supply side strategy and thus cannot serve as a real alternative for an effective macro-economic policy regime. To the Euro zone member countries of the Mediterranean in dire fiscal straits today the social investment message, therefore, is easily lost. Fiscal consolidation requires them to slash active labour market policies and retrench preventive health care programs, which we know, in the long run, critically erodes job opportunities for men and women and thereby the capacity of the economy to shoulder the ageing burden. There is a real risk that a balanced set of objectives, laid down in the Social Investment Package, will be lost in the drive for front-loading (pro-cyclical) austerity in times of large-scale public and private deleveraging, conjuring up a spectre of a lost decade for Europe, worse than the one experienced by Japan since the early 1990s.

The EU is in desperate need of a New Deal between countries which are in better budgetary shape and have pursued social investment strategies more consistently in the past, and countries which have been less consistent with regard to social investment than one may have wished and therefore experience dramatic budgetary situations. The macro-economic policy regime that is required is one wherein *all* governments pursue budgetary discipline and social investment over the medium and long run, and are effectively supported therein. To convince the larger European democratic publics, in terms of political legitimacy, consistent with norms of social fairness, such a macro strategy should be tangibly based on a well-articulated vision of a 'caring Europe', caring about people's daily lives and future social wellbeing.

For the rest of the chapter, I first discuss the welfare reform momentum of the past two decades across different European welfare clusters. Next, in section 3, I will explicate the economic logic of social investment', "crowing in" growth prospects by helping to 'prepare' individuals and families to confront the 'new social risk' profile of the knowledge-based economy (Esping-Andersen et al., 2002; Morel et al., 2012). It may be all too soon to draw definite conclusions about European welfare state futures in the aftermath of the Euro crisis since 2011. But this is perhaps the most pressing question of our times. Will the social investment paradigm carry the day in this new context of predicament, or will it revert to marginality and be left orphaned in an epoch of intrusive EU-led austerity? Section 4, in conclusion, tries to draw some tentative answers to this burning predicament.

2 A short history of profound social reform

Welfare states are multidimensional policy systems, made up of interdependent social and economic policy repertoires with different dimensions. For an adequate understanding of overall social risk mitigation, it is necessary to consider how macroeconomic policy, labor market regulation, social insurance, and taxation work together to reduce the risks of poverty, unemployment, and social and labor market exclusion across time. Drawing on an expanding literature of comparative welfare reform, I propose to briefly look at some key changes across the following policy domains: (1) macroeconomic policy (including fiscal, exchange rate, and monetary policy); (2) wage bargaining and industrial relations; (3) labor market policy; (4) labor market regulation; (5) social insurance and social assistance; (6) old age pensions; (7) family and social servicing; (8) welfare financing; and (9) governance and social policy administration. I concentrate on the recent social reform momentum in the older EU15 Member States of the European Union (see for a more encompassing EU27 overview, see Hemerijck, 2013).

In *macroeconomic policy*, Keynesian priorities were prevalent until the late 1970s, with full employment as the principal goal of macroeconomic management. After 1980, macroeconomic policy gave way to a stricter rule-based fiscal and monetary policy framework centered on economic stability, hard currencies, low inflation, sound budgets, and public debt reduction, culminating in the introduction of the European Monetary Union (EMU) (Dyson & Featherstone, 1999; Eichengreen, 2007). EMU restrictions on monetary and fiscal policies, in addition, led many policymakers across Europe to bring social and employment policy to the center of welfare state adjustment over the 1990s.

In the field of *wage policy*, the 1980s saw a reorientation in favor of market-based wage restraint in order to facilitate competitiveness, profitability, and employment growth, prompted by the new rule-based macroeconomic policy prescription. Wage moderation has in many countries been pursued through social pacts among the trade unions, employer organizations, and government, often linked with wider packages of negotiated reform that have made taxation, social protection, and pension and labor market regulation more “employment friendly.” The EMU entrance exam played an especially critical role in national social pacts in the so-called hard-currency latecomer countries, such as Italy, Spain, and Portugal, as an alternative to straightforward labor market deregulation and collective bargaining decentralization (Avdagic et al., 2011).

In line with the general shift to supply side economics, the overarching social policy objective in the 1990s has shifted from fighting unemployment to proactively promoting labour market participation. Spending on *active labour market policies* in most OECD countries has increased considerably from the 1990s and the mid-2000s, in the context of falling unemployment rates, mobilizing women, youth, older workers, and less productive workers through early intervention, case management and conditional benefits gained sway (Bonoli, 2013). With respect to *labour market regulation*, several European countries have moved towards greater acceptance of flexible labour markets with new elements of security being introduced for labour market outsiders (Schmid, 2008). In terms of *social insurance* and *assistance*, the generosity of benefits has been curtailed. In the process, social insurance benefits have become less status confirming. Today most countries preside over universal minimum income protection programs, coupled to 'demanding' activation and 'enabling' reintegration measures, targeting labour market 'outsiders' like the young, female or low-skill workers

(Clasen and Clegg, 2011).

A string of adjustments, however, have fundamentally altered *pension policy* over the past two decades (Häusermann, 2010; Ebbinghaus, 2011). A key shift has been the growth of (compulsory) occupational and private pensions and the development of multi-pillar systems, combining pay-as-you-go and fully funded methods, with relatively tight (actuarial) links between the pension benefits and contributions, with strong incentives to delay early exit from the labour market and award those working longer (Clark and Whiteside, 2003).

Social services have significantly expanded, especially in the 2000s, to boost female participation though family policy (Lewis, 2006; Mahon, 2006; Orloff, 2010). Spending on family services, childcare, education, health, and care for the frail elderly, as well as on training and employment services, has increased as a percentage of GDP practically everywhere in the European Union. Family policy, covering childcare, parental leave and employment regulation, and work and family life reconciliation policies, has been subject to profound change in both scope and substance over the past decade and half.

With respect to the *financing of the welfare state*, policies have been sought to relieve public finances and to shift some of the responsibility for welfare provision to individual workers or the social partners, and to reduce charges of business and labor. Over the past two decades the source of social protections expenditure financing has shifted from social contribution to fiscal financing. Although a straightforward privatization of social risks has remained a marginal phenomenon across Europe, except for pensions, we do observe an increase in user financing in social services—child care, school education, medical care, old-age care.

A final overarching reform trend has been *administrative reform*. Yuri Kazepov speaks of a fundamental 'rescaling' of modern social policy. Most important has been the attempt to bring social insurance and assistance and labour market policies institutionally under one roof in so-called one-stop centres, thus ending previous separation of social security and public employment administration (Kazepov, 2010). Ideas of New Public Management and novel concepts of *purchaser-provider* models within public welfare services have been especially instructive with respect to the restructuring of Public Employment Services (PES), since the 1990s (Weishaupt, 2011).

These are big policy changes, executed in a sequence of incremental, but cumulative transformative, steps. Even though public social spending has largely been consolidated, practically all advanced European welfare states have been recasting and reconfiguring the basic policy mixes upon which they were built after 1945. Especially since the mid-1990s, the welfare state has been in a constant state of flux.

3 The economics of social investment

Without proper contextualization any list of intense social policy changes remains unsatisfactory. The emergence of the so-called "social investment perspective" in the second half of the 1990s can serve as a benchmark for gauging substantive social policy redirection. Have European welfare states been recalibrated in accordance to the teachings of the social investment edifice?

The philosophy underpinning the social investment approach was given impetus by the publication of a book edited by Esping-Andersen et al. in 2002, *Why We Need a New Welfare State* (Esping-Andersen et al., 2002), commissioned by the Belgian presidency of the EU in 2001. Central to *Why We Need a New Welfare State* is the argument that male-breadwinner welfare inertia would foster increasingly suboptimal life chances in labour market opportunities, income, educational attainment, and intra- and intergenerational fairness, for large proportions of the population. The new social risks of social segmentation, skill erosion, and structural poverty dynamics in the knowledge-based service economy, pressed by demographic ageing, make traditional passive, employment-related, social insurance provision extremely expensive and ultimately unsustainable. Instead, the emergence of 'new' social risk mitigation underlines the importance of early childhood development, training, education and lifelong learning, and family reconciliation policies. It is important to add here that Esping-Andersen et al. emphasized—*contra* the Third Way—that social investment is no substitute for social protection. Adequate minimum income protection is a critical precondition for an effective social investment strategy. In other words 'social protection' and 'social promotion' should be understood as the indispensable twin pillars of the new social investment welfare edifice.

An emphasis on the productive function of social policy stands as the distinguishing feature of the social investment perspective. From this perspective, social investment is essentially an encompassing human capital strategy with an explicit focus on helping both men and women balance earning and caring. There is a deliberate orientation toward "early identification" and "early action" targeted on the more vulnerable new risks groups. By raising employment and citizens' long-term productivity the financial sustainability of the welfare state is best guaranteed. If successful, social investments relieve dependence on passive social insurance provision, without having to further retrench existing benefits.

Social investment protagonists hold the relationship between substantive social policy and economic performance to be critically dependent on identifying institutional conditions, at the micro-, meso-, and macro-levels, under which it is possible to formulate and implement productive social policies. The economic and institutional policy analysis of social investment hereby relies heavily on empirical data and case-by-case comparisons. It is crucial to consider the "fine" structures of the welfare state. Social policy is never a productive factor per se. One cannot turn a blind eye to the negative, unintended, and perverse side effects of excessively generous social security benefits of long duration, undermining work incentives, raising the tax burden, and contributing to high gross wage costs. By the same token, rigid forms of dismissal protection making hiring and firing unnecessarily costly can result in high levels of inactivity. Beyond these caveats, in agreement with Keynesian economics, the social investment paradigm makes a virtue of the argument that a strong economy requires a strong welfare state. Social protection expenditures are powerful stabilizers of economic activity at the macro-level, because they consolidate effective demand during recessions. This kind of Keynesianism through the back door is still operative today, as we have experienced from the early days of the 2007–2010 financial crisis.

A fundamental unifying tenet of the economics of the social investment perspective bears on its theory of the state. Distancing themselves from the neoliberal "negative" economic theory of the state, social investment advocates view public policy as a key provider for families and labor markets. Neoclassical economic policy analysis, based on perfect information and market clearing, theoretically rules out the kind of social risks and market failures that the welfare state seeks to address. Two economic rationales theoretically support the proficiency of social investment. The first rationale for public intervention harks back to the original economic rationale for collective social insurance, countering market inefficiencies caused by asymmetric information, and to the economic rationale for social policy interventions related to the problems of imperfect information and the framing of choice in a more general sense. This is what Nicholas Barr has coined as the "piggy-bank" function of the welfare state (Barr, 2001). Because citizens often lack the requisite information and capabilities to make enlightened choices, many postindustrial life-course needs remain unmet because of the market failures of service under provision at too high a cost.

The second, more fundamental, reason why the welfare state today must be "active" and provide enabling social services is inherently bound up with the declining effectiveness of the logic of social insurance ever since the 1980s. When the risk of industrial unemployment was still largely cyclical, it made perfect sense to administer collective social insurance funds for consumption smoothing during spells of Keynesian demand-deficient unemployment. However, when unemployment becomes structural, caused by radical shifts in labor demand and supply, intensified international competition, skill-biased technological change, the feminization of the labor market, family transformation, and social and economic preferences for more flexible employment relations, traditional unemployment insurance no longer functions as an effective reserve income buffer between jobs in the same industry. Basic public income guarantees, therefore, have to be complemented with capacitating public services, a term coined by Charles Sabel (2012), tailored to particular social needs caused by life course contingencies. In order to connect social policy more fully with a more dynamic competitive knowledge-based economy and society, citizens therefore have to be supported by *capacitating* services ex ante, tailored to particular social needs over the life cycle. When social insurance risk pooling fails, a more effective strategy is often to help risk categories to self-insure against uncertain risks by enabling to acquire the capacities they need to overcome the social risks they face, with ex ante public supports in family services and training provisions. What matters at the level of policy execution is that, as welfare states become ever more service-oriented, local service provision offers highly qualified professional care workers, able to help clients to make timely choices in areas of childcare placement, job search and training, and elder and family care.

The empirical turn towards social investment contains some important lessons. First and foremost is that social investment should indeed be understood in terms of 'packages' of interdependent policy initiatives across various areas. Positive returns in terms of economic growth, employment opportunities, and (child) poverty mitigation depend on complementary sets of provision, ranging from quality childcare, parental leave arrangements, training, education and activation services, alongside adequate (universal) minimum income protection, rely on strong elements of "goodness of fit" between various policy provisions. Quality childcare services, alongside effective parental leave arrangements, supported by appropriate tax and benefit incentives and active labour market policies, enable more parents to engage in gainful employment, creating additional job opportunities for especially mothers, while helping their offspring to a 'strong start', allowing them to develop their cognitive and social skills to make them successful later in life (Esping-Andersen, 2009). The available evidence before and after 2008 clearly shows that effective "institutional complementarities" are associated with high employment rates and lower long terms unemployment (Hemerijck, 2013; Eichhorst, & Hemerijck, 2010; Kenworthy, 2008; 2011; OECD, 2008; 2011).

4 A growing Europe is a social investment Europe

It should in the final analysis not be forgotten that the welfare state is a normative concept based on the image of a social contract, with claims on social justice that go beyond issues of economic efficiency and effective insurance, to include dimensions of gender roles, the work ethic, child-rearing, and inter- and intra-generational equity. The policy changes surveyed in this chapter have contributed to a slow redefinition in the very idea of social justice: a shift away from understanding fairness in terms of static Rawlsian income equality towards an understanding of solidarity and fairness as an obligation to give due support to the needs of each, individually, so as to enable all to flourish, in line with the 'capability approach' of Amartya Sen (1999) and Martha Nussbaum (2011). At the normative heart of the social investment edifice lies a reorientation of social citizenship, away from the compensating *freedom from want* logic towards the capacitating logic of *freedom to act*, under the proviso of accommodating work and family life through social servicing and a guaranteed *rich social minimum* enabling citizens to pursue fuller and more satisfying lives.

Reasoning from the popular 'new politics' of the welfare state perspective, it has often been argued that social investment recalibration is extremely difficult to pursue under economic conditions of relative austerity. Paul Pierson, the leading advocate of this approach, has in various publications advanced the conjecture that welfare states have in recent decades become exceedingly change-resistant, despite irresistible social, demographic, economic, and fiscal pressures (1998; 2001). Because social investments are contingent on highly heterogeneous risks at play over different stages of the life cycle, it is argued from a 'new politics' perspective that social investment policies may fail to muster political support from cohesive social movements, reminiscent of organized labor from the male-breadwinner manufacturing era, which stood at the basis of the post-war welfare state (Pierson, 2011). The 'mirror image' of the expected lack of support for social investment reform is the impossibility of far-reaching old-age pension reform, because this would trigger large-scale interest based opposition from highly organized clienteles and mainstream parties. It is true that new social risks, ranging from skill depletion and difficulties in balancing work and family life, affect people at variegated episodes over the (family) life cycle. But the empirical record is less sanguine than the 'new politics' welfare immobilism conjecture. Despite incentives of 'blame-avoidance', in effect, most European countries have embarked on thoroughgoing pension reform so as to respond to demographic challenges and fiscal pressures. As a result, future pension commitments in the EU have been reduced by almost a quarter since 1990s, making pension costs far more manageable than ever before. On the other hand, significant spending increases on childcare, elder care, pre-schooling, reconciling work and family life, and active labor market policies, suggest that social investments are supported by mainstream parties and interest groups. Interestingly, moreover, is that social investment policy reforms have been enacted and defended by both conservative and progressive coalitions across Europe, even in economically hard times. Apparent support for social investment, I believe, is rooted in the evolution of the aspirations of modern family hood over the past two decades, which has come to converge on the desire of adult men and women to work and raise children, an aspiration shared by low-income and middle-class groups alike. Of course, social investments will inevitably miss out on protecting the most vulnerable groups in an era of deepening inequalities. For this reason, adequate minimum income protection remains a critical precondition for any inclusive social investment welfare state.

In the difficult years ahead, intensifying fiscal pressures will lead many finance ministers to demand scrutiny on social spending. In both employment and social policy, there is a strong urge to do more with less resources. At the same time, the aftermath of the financial crisis will surely reinforce the need for human capital investment and the importance of poverty relief and social protection. Demographic headwind will bring social contracts under further duress, especially in countries facing high unemployment and the most daunting budgetary pressures, where long-run population ageing and the feminization of the workforce have not been adequately dealt with before the crisis. Social investment can no longer be dismissed as a "fair weather" policy when times get rough. Will the social investment paradigm carry the day in this context of predicament, or will it revert to marginality and be left orphaned in the new epoch of reinforced fiscal austerity? What makes the Euro zone predicament particularly worrying is that national fiscal and EU monetary authorities have practically no room left for proactive adjustment. Politically, governments have been caught between Scylla and Charybdus. On the one hand, pressures for deficit reduction constrain domestic social policy space. On the other hand, disenchanted electorates are increasingly unwilling to abide by the austerity promises of national political leaders agreed in supranational rescue packages and EU reinforced fiscal rules.

The global financial crisis, it should not be forgotten, originated in the behavioural excesses in deregulated financial markets, not in excess welfare spending. The fundamental insight that (re-)emerged from the crisis is that economic markets are not self-regulating, self-stabilising or self-legitimising (Rodrik, 2010). While this important lesson is certainly not new, a whole generation of domestic and EU policy makers and academic economists seem to have forgotten the basic truth that the benefits of global economic interdependence rely heavily on robust social and political – both domestic and supranational – institutions. The EU's original sin of pushing for rapid market and currency integration to let the social-political-institutional underpinnings of European economic integration catch up later is in dire need of correction. In their cognitive bias of further liberalising the internal market through monetary integration, EU economic policy makers, from the European Commission to the ECB, declined to really appreciate the Lisbon Treaty's macroeconomic importance in terms of 'productivity-enhancing', 'participation-raising', 'employability-friendly', 'family-capacitating' social investments for the greater good of a more prosperous, equitable and caring Europe.

A social investment strategy is not cheap, especially not in the short run. Simultaneously responding to rising needs in health-care (and pensions) and implementing a successful transition to fully-fledged social investment strategies will require additional resources. European integration can ultimately only be maintained if citizens support the political project at stake and trust governments to handle the social consequences of the crisis fairly.

While all the available evidence suggests that investments in child care and education will, in the long-run, pay for themselves, EMU public finance constraints take all forms of public social policy spending as pure consumption, "crowding out" private economic activity. This may have been true for the modus operandi of the post-War social insurance welfare state, which was indeed income-transfer biased. Today, as social policy is in the process of becoming more service based, there is a clear need to distinguish social investments from consumption spending. A new regime of public finance that would allow finance ministers to, in the first place, identify real public investments with estimated real return, and, second, examine the joint expenditure trends in markets and governments alike, has become imperative. This would be akin to distinguishing between current and capital accounts in welfare state spending, just as private companies do. There is even an argument to be made that public deficits and debt wisely spent on social investment in education and family support, can help stabilize the macro-economy. This in two ways: first, by depriving financial institutions of excess liquidity for short-term speculation, and, second, by nourishing sustained job and productivity growth with social progress.

Because of adverse demography, human capital cannot be allowed to go to waste through semi-permanent inactivity, as was the case in the 1980s and 1990s in many mature continental European welfare states.

To Euro zone member countries in dire fiscal straits today the social investment message, advocated by the European Commission in February 2013 *Social Investment Package* policy platform, is easily lost under the current macroeconomic regime. The reinforced 2011 "fiscal compact", "two-pack" and "six-pack" agreements, with their overriding emphasis on collective austerity, labour market deregulation and wage-cost competitiveness, are pressing Euro zone economies to adopt pro-cyclical and self-defeating welfare retrenchments and labour market reforms.

Both the survival of the Euro zone and the imperative to recalibrate welfare provision in the knowledge-based economy conjure up a democratic predicament of national and European dimensions. The EU can no longer advance as a mere project of market integration and fiscal austerity. A Pareto-superior social investment policy mix, as I have argued in this chapter, comes with a comparative advantage for Europe and an orderly resolution of the sovereign debt crisis and is a *sine qua non* for the survival of the welfare state and vice versa. The social and economic policy challenge is to make social investments and fiscal consolidation mutually supportive and sustainable, through improved macroeconomic governance. To this end, a more realistic (slower) pace of fiscal adjustment should be coupled with productivity-enhancing social investments, in part funded through Euro bonds and project bonds.

The EU needs a New Deal between countries which are in better budgetary shape and have pursued social investment strategies more consistently in the past, and countries which have been less consistent with regard to social investment than one may have wished and therefore experience dramatic budgetary situations. The macro-economic policy regime that is required is one wherein *all* governments pursue budgetary discipline and social investment over the medium and long run, and are effectively supported therein (Vandenbroucke, Hemerijck, and Palier, 2011; Hemerijck and Vandenbroucke, 2012). An EU social investment pact implies significant burden sharing. In terms of budgetary policy, Northern European governments should avoid austerity overkill, as part and parcel of a mutual effort. The competitive north could tolerate higher levels of inflation so as to make price and wage adjustments in the Mediterranean south realistic, provided that Greece, Italy and Spain use leniency to continue with structural social (investment) reforms. A 'social investment pact', bolstered by Euro bonds and special social investment project bonds and more generous human capital promoting access to structural funds (discounted in national budget accounts) could be an important step towards a Pareto-superior 'caring Europe', caring about people's daily lives and future social wellbeing, based on much improved national solidarity and supranational European cohesion.

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4. Towards A Social Europe[23]

Brigitte Unger

In analogy to the Fiscal Pact, the financial crisis can only be countered by also establishing a Social Pact in the EU. The summary of the European Council from December 2012 commented that the EU Commission was supposed to present a social roadmap in June 2013 towards a social Europe which we have failed to receive so far. After all, the measures suggested by the EU Commission on Oct 2, 2013, for a better and earlier identification of employment and social issues are not satisfactory. Together with Anne-Marie Grozelier, Bjoern Hacker, Wolfgang Kowalsky, Jan Machnig and Henning Meyer, we therefore published a Roadmap to a Social Europe in English in October 2013 by which we intend to stimulate an in-depth discussion of what a "Social Europe" would involve. From the point of politics, and peace policies in particular, it is important to sketch the vision of a Social Europe rather than indulging in a debate on 'Getting back to the nation state' and 'Us first'.

Below I will first outline the background of the debate on a 'Social Europe' in the aftermath of the financial crisis, before presenting models for a Social Europe and potential obstacles we can expect to be facing within this context before outlining specific suggestions on reforms and who should enforce them. In my capacity as an economist I will then focus on ways to fund a Social Europe, because money should not be an issue.

1. The threat to social policies after the financial crisis

In the aftermath of the financial crisis, the financial markets pulled off a coup with threefold implication:

23 A version of this paper was presented at the *Social Justice Ireland* Policy Conference on 19 November 2013. The subject of the Conference was "A future Worth Living For".

1. Firstly, the harm it caused was paid for using tax payers' money. Consequently, most of those who caused the crisis, the banks and other financial institutions, did not incur any major damage as a result of bad speculations and bad investments. Instead, it was the public budgets which incurred deficits, while government debts kept rising.

2. Next, government bonds of highly indebted countries presented themselves as a perfect new lucrative object of speculation for the financial markets, and even more so, if combined with credit default swaps, a kind of bet on which countries could be expected to go bankrupt. This way, the players involved were able to speculate on countries hit by the crisis, e. g. on an impending insolvency on the part of Greece, thus pushing the interest rates on Greek bonds up, making a lot of money in doing so and, should Greece actually become insolvent, cash in the insurance monies for the credit default swaps, which would be just as lucrative. In other words, this was a sure fire business at the expense of the Greek population. This business could even be expanded to include other EU countries, most of them from the South.

3. Since explicit and implicit government debt (e. g. in the form of state guarantees for the banking sector) increased as a result of the financial crisis, the public sector was forced to implement austerity measures. This way, it became possible to—rather than giving rise to fundamental criticism with regard to the way the financial markets and the markets in general work, followed by implementing a strict regulation of the financial markets in particular—dedicate the public sector to a new purpose, making it a guarantor for the financial system rather than for the *res publica*, the public affairs and the welfare state.

This way, the financial markets succeeded in using the crisis to kill three birds with one stone: (1) they did not incur any damage of their own; (2) they were able to expand their business based on government debt; and (3) they managed to undermine public finances in order to reinforce neoliberal tendencies shouting "less state, more private" even louder.

Taking the neoliberal stance, the need to cut expenses came to be defined in a very biased way, with productive, innovative, government spending contributing to human resources being acceptable, and unproductive, consumptive government spending which is of little or no benefit to the market becoming candidates for drastic austerity measures. The tenor of the debate is that, more than anything else, it is welfare spending—aid for the elderly, the sick and the most deprived—which is deemed ‘unproductive’, in other words, not worth anything. This kind of argumentation is dangerous, since it shakes the welfare state with which have also prospered economically for more than half a century after all to its very foundation.

2. Models for a Social Europe

What might a social Europe look like and how do we want it to be? A Europe with national social politics slowly beginning to crumble more and more (see 2.1)? A Europe with a core euro zone pursuing a common social policy (see 2.2)? Or an EU of nations and citizens, in other words, a democracy (see 2.3)? A Europe of variety, with the EU determining the social framework conditions for self-regulation which are intended to protect the EU countries from the excesses of competition just like the dykes protecting the Dutch polders from becoming flooded (see 2.4)?

2.1. Euroscepticism

A number of distinguished German political scientists, particularly from the Max Planck Institute in Cologne, believe that creating a Social Europe is impossible and that therefore it would be appropriate for every nation to focus on its own policy. Books such as Wolfgang Streeck’s *Gekaufte Zeit* (“Buying Time”*)* and Fritz Scharpf’s *call to* return to the European Currency System reveal this type of pessimism with regard to Europe. From this standpoint, coping with social crises should be left to the nation states and social pacts from the past have to be renewed under now more difficult circumstances in view of the crisis.

Arrangements between the social partners, promoted by a grand coalition have to be made. Bipartism in Germany between trade unions and labour associations, with a labour market and social policy subsidizing low wages based on the Hartz IV laws (financial support for the unemployed but also applied to low wage jobs) and thus mixing labour market and social policy. Tripartism in Austria between trade unions, labour associations and the state. Arrangements between the social partners take place under now more challenging circumstances such as companies threatening to leave the country, but with political and democratic backing nevertheless. The problem about this euro pessimistic model, however, is: there is no way back, since the integration process in Europe has already progressed too far. In a globalised world and within the Europe we are facing, returning to national states is not possible. And Scharpf's European monetary system would collapse within 24 hours due to speculation by unregulated financial markets.

2.2. A core Europe of the Euro zone countries

A more optimistic take on the state of affairs for Europe has been presented by the German philosopher and sociologist, Jürgen Habermas. From his point of view, our current dilemma is that technocrats (the EU Commission, the European Central Bank and the European Court of Justice), the European Council and European Parliament rather than working along the same lines and having a vision for a common EU Policy, just dare to take small steps for fear of a complete collapse of the European project. What contributes to the dilemma is the fact that the EU policy implemented by the technocrats massively interferes with citizens' lives, while at the same time being cut off from any kind of democratic control[24]. In this context, the British political scientist, Colin Crouch, uses the term 'post democracy', namely that, instead of democratically legitimized politicians, institutions which are not democratically legitimized (the EU Commission, the European Court of Justice, the ECB) take political decisions. In view of the lack of democracy found here, the anger and rage expressed by the EU population after the financial crisis had no appreciable effect on EU decisions. In spite of massive protests in many countries, where citizens who had always been told that there were no funds for schools, education and welfare suddenly witnessed billions being pumped into the financial markets started a revolution, the EU policy failed to show any response. In contrast, the European Council consists of democratically elected Heads of State or Government, but with the latter pursuing their national interests rather than EU interests. And then there is the EU Parliament, which should constitute a bridge between national interests and EU decisions, which in particularly during the financial crisis had had little say. Habermas, however, views the EU Parliament as chance to transcend national interests, since it is comprised of different parties rather than of representatives of different nations. This, he says, makes it easier to respond to European concerns (for example Social Democratic parties responding to social concerns) beyond national interests.

[24] A more appropriate quote by Habermas reads: "when economic constraints imposed by markets happily meet the flexibility of a free-floating European technocracy…"

According to Habermas, neoliberal economists wrongly claimed a convergence of unit labour costs and growth under conditions of free competition and mobility of goods, services, labour and capital within the Monetary Union. Today, even the EU admits that the Monetary Union was designed the wrong way. Common financial, economic and social policies, he said, were required to maintain the euro zone.

Habermas calls for a Europe in which the euro countries exist as a political union, as a core Europe making supranational decisions based on a joint economic policy, and the European periphery which agrees to remaining outside of the euro zone. Thus, the national scope of action in the core European countries would be reduced significantly for the benefit of a common European economic and social policy. Modification of the EU treaties and surrender of national sovereignty requires solidarity, which Habermas, however does not view as an act of altruism, but as something in the fundamental interest of all parties involved. After all, he comments, welfare states, too, had only been established after two world wars.

This kind of national solidarity, which was important for the welfare of both labour and capital, only took shape when both parties realised that they would benefit from solidarity. The challenge today is to transcend national borders and to practice solidarity in the sense of a common economic and social policy within the euro zone in the form of a political union. Here, too, according to Habermas, solidarity is not an end in itself, but a means towards shared growth and prosperity (cf. Habermas 2013).

2.3. Democracy – A people's and citizen's Europe

Kalypso Nicolaidis (2013), a political scientist of International Relations at Oxford University, pleads for a European *Democracy*, a Union of peoples, with states and citizens alike governing, though not as one. First, democracy should prevail and be ensured on the national level. Secondly, negative spillover effects of national democracies should be corrected on the EU level, thus implementing a transnational democracy. And thirdly, a consensual democracy of peoples should be ensured on the supranational level. Any discrepancies between the views and requests of the peoples involved (e.g. with regard to austerity policy) need to be reconciled (rather than imposing austerity packages to the South).

2.4. A Europe of self-regulation – in Varietate Concordia

Nicolaidis idea is conformable with van Waarden´s, the 'devisor' of the Dutch polder model.

Van Waarden (2013) sees a major difference between the kind of solidarity required to establish a national welfare state, and the solidarity called for between the North and the South of Europe. From his viewpoint, the different languages within Europe form a major barrier to solidarity. In order to identify commonalities, and also shared benefits, you need to understand each other. Although Abraham de Swan's prognosis that English would begin to dominate more and more as a lingua franca the more countries would join the EU has proven to be true, he states, language still separates the EU countries and prevents a common policy. Van Waarden advocates an EU which stays true to its original motto, '*In Varietate Concordia*', meaning 'Unity in Diversity'. To achieve that, he stresses, the EU needs to establish regulations ensuring a balance between competition on the one hand and cooperation of labour and capital on the other hand both on the national and on the EU levels. The EU, he admonishes, needs to rely on self-regulation, a model which is based on the medieval European guilds, after all, like the Dutch polder model which is superior to the neoliberal competition models.

The majority of these models developed on a small-scale level, with few parties involved (trade unions, but it could also consist of e. g. 10 multinationals on the EU level or of farmers specializing on organic food). In this framework, trade unions, labour associations, social partnerships and social policy have to be protected by regulations like dykes protecting the country against being flooded by competition, while at the same time enabling competition within the dykes.

Van Warden challenges the EU to ensure regulatory interventions broadly reflecting the polder model in order to protect these national arrangements and to also establish them on the EU level. The need for regulatory action, according to him, encompasses trade, production, labour, income and investment and must not be reduced to wage negotiations between the social partners. The extension of collective agreements to many areas by the Dutch government (e.g. a national book award promoting Dutch-language books), he explains, is just as much part of the polder model as are retirement pensions, education and the redistribution of wealth.

For him, the EU is responsible for guaranteeing that these five areas are protected both on the national and supranational levels in order to balance competition against cooperation and thus achieve sustainable prosperity.

3. For a Social Europe a broad social meaning is necessary

When designing a Social Europe, another certainly significant aspect is what “Social” is supposed to cover. Do we mean “social” in the sense of a social policy? In other words, a policy focusing on social security systems such as retirement pensions, health, families and unemployment? Or do we want to use the term in a broader sense? Frank Bsirske, the Chairman of the German services trade union ver.di, and Klaus Busch (2013), ver-di’s EU advisor, argue in favor using the term “Social Europe” in a broad meaning, stating that it should cover all social affairs affecting employees and thus include labour market policies, wage and income policies and the fallback systems provided by the welfare state alike. They propose a number of indicators for inequality on the labour market, the social situation faced by adolescents and precarious employment and ways to reduce them. For pensions, for example, minimum income replacement ratios could be introduced, along with additional investments into health and training which help to raise the actual retirement age. A Social Europe should be achieved and made transparent by deepening the social dimension by means of a kind of benchmarking of target variables within a particular corridor.

Berthold Huber (2013), the Chairman of the IG Metall trade union and President of the International Metalworkers’ Union, views education and fighting youth unemployment as the top priority. In other words, a Social Europe inspiring hope in young people, also for the sake of preventing the risk of a ticking time-bomb in the form of a lost generation.

Seeing the new developments in labour and social affairs, which mean a merging of labour market and social policy issues, like atypical jobs, sabbaticals etc., a broad definition of social policy is necessary in order to cover the whole life of workers.

4. What are the specific suggestions for creating a Social Europe?

The suggestions for creating a Social Europe refer to the EU architecture (4.1), to minimal standards (4.2) and to financial support (4.3).

4.1. Reforms of the EU architecture and institutions

The experiences around the financial crisis revealed that countries with strong welfare states are more robust than those with a weak welfare state. Simon Deakin (2013) from Cambridge University demonstrates that, in order to be sustainable, any EU policy needs to combine growth and social cohesion. An egalitarian approach to labour market and social policies ensures a solid foundation for tax revenue on the part of the EU and its member states. A good vocational education, solidarity-based wage policy and active labour market policy help to overcome a recession. The EU institutions have been able to demonstrate a **high level of flexibility** during the crisis (e.g. with the ECB buying up government bonds to prevent speculation). This level of flexibility, Deakin states, would now also be required for a Social Europe.

The US political author Steven Hill (2013) suggests that first of all the **European institutions** were in need of reforms. As he points out, their very names – Council of Europe, the European Council, the Council of the European Union (also referred to as 'the Council') – including their respective Presidents were something only Europhiles could keep track of. The ordinary EU citizen, however, he claims, has no way to find out who is in charge of what, be it the Council of Europe, the European Council, or the Council of the European Union. Similarly, the Council of Ministers, the exact composition of which in any given case depends upon the topic in question both with regard to the number of representatives and the competence areas to be covered. The EU Parliament, he argues, still has not developed into a fully-fledged legislature, since all it can do is approve or reject laws, without being able to initiate any new ones. Accordingly, Hill concludes that the deficit in democracy and the small role that social issues play in EU politics also was the result of poorly designed European institutions.

The European Trade Union Confederation (ETUC, EGB) demands political reforms in Europe, and a fundamental **reform of the European Treaties** in particular. **Fundamental rights** with regard to labour and social rights should be included in the new treaties and guaranteed by them.

4.2. Minimum standards

Can there be a Social Europe for all? And, if yes, what would be the legal and political changes required to achieve it? What minimum standards should apply for everyone in this type of Europe? It would be the highly developed welfare states in particular who would have reason to be worried that discussions about a Social Europe would result in lowering their own higher social standards, since the average social standard in the EU would of course be significantly below the standard of a country such as Germany.

Thorsten Schulten from the WSI (2006 and 2011), Jean Paul Fitoussi and Xavier Timbeau (2013) from Science Po and the OFCE in Paris would like to see a **minimum wage for Europe** leaving room for a variety of national arrangements which would take account of the varying collective bargaining practices in the different member states.

Martin Seeleib Kaiser (2013) from Oxford University calls for a European welfare state providing the basic essential minimum needs e. g. in the form of a **minimum pension.** As for pensions, Bsirske from ver.di Germany proposes, among other things, **minimum income replacement ratios** as well as complimentary investment into health and fitness helping to increase the actual retirement age.

The Belgian philosopher, Philippe van Parijs (2013), suggests a **euro dividend** which would secure a basic income for every EU citizen or at least for every euro citizen. A (harmonized EU-wide) 20-percent value added tax would equal approx.10 percent of the GDP of the EU and guarantee 200 euros per month as a basic income (= euro dividend) for every single citizen. This measure, he argues, would provide a basic level of social security all over Europe, and, even more importantly, would partly compensate for the low mobility of the European labour force compared to the US. In addition, it would reduce economically induced migration from the South and therefore spread more money from the centre into the periphery. Proceeding this way, van Parijs explains, would reduce competition and social dumping between the EU countries. Also, he points out, the EU would become the distributor of something visible and tangible, which would change its perception from being a heartless bureaucratic institution to a caring and providing one and thus increase its legitimacy.

The negative side of the Euro Dividend is that it is first too little for the poor and second a waste on the rich. Furthermore, financing it through a value added tax which is a regressive tax, would burden the poor even more. So, I do not think that this is a model for the future.

4.3. Financial Support

Michael Sommer (2013), the Chairman of the DGB (German Trade Union Configuration) advocates a kind of **Marshall Plan for Europe**, an investment and development program for all 27 EU countries to run for 10 years.

Martin Seeleib Kaiser (2013) from Oxford University is in favor of a **transfer union** in order to bridge different perceptions of Europe and as an act of solidarity

5. Who could build up a Social Europe?

Who can and should take the initiative to build a Social Europe? Is it the Social Democratic Parties (Wilson 2013)? Is it Self-regulating organizations (Van Waarden 2013)? Is it the trade unions (Huber 2013, Bsirske 2013, Sommer 2013) on the national level and Europe-wide caring not only for their traditional but also their potential clientele? The national employers' associations coming to understand that asocial behavior and increasing crime rates are bad for business? The multinational corporations which are well aware that they will not be able to sell their products in revolting countries? Social protest movements such as Attac or Occupy Wall Street generating fear of revolution and a paradigm shift among the ruling elites? The reformed and enlightened European Council with Heads of State or Government thinking Europe? Or the Council of Europe, with its judges, suddenly declaring social well-being a fundamental human right? The European Parliament with successful Social Democratic European political parties? The European Commission drafting new EU social pacts? The European Court of Justice suddenly coming to treat social issues as equally important as competitiveness, and refraining from rulings such as in the Viking, Laval and Rüffert cases, which massively interfered with the labour and social legislation of the member countries, in the future? The European

Central Bank deciding to buy up all government bonds, so that is will no longer make a difference whether we have Eurobonds or national bonds? Or even the financial markets which – as predicted by J. M. Keynes, a child of the Age of Enlightenment – finally arrive at the insight that they want to return to contributing something useful to society and end up bringing about Keynes' "death of the rentier" themselves?

6. Options to fund a Social Europe

Finally I will focus on options to fund a Social Europe, because money should not be an issue.

6.1. New taxes for a Social Europe

In times in which money seems so terribly important, one should not forget to make those pay who caused the financial crisis, namely financial markets. They should at least have to take some of the responsibilities. When one takes into account the damage and misery that has been done to European welfare states, the introduction of a financial transactivity tax seems more than appropriate. In May 2013, the EU calculated, that a tax of 0.1% on bonds and equity sales and of 0.01% on derivative transactions, would bring about 20 billion Euros by 2020. If one would add a tax on foreign currencies, the total revenue would be as much as 50 billion Euros.

The Financial Activities Tax (FAT) currently discussed as an alternative which would amount to 5% of the wage and profit income generated by the financial institutions, would yield 25 billion Euros.

6.2. Tax avoidance– closing tax loopholes

When the British Parliament accused Starbucks, Google and Amazon of unethical conduct because they had taken advantage of tax loopholes, for a short time it seemed as if a new era was being heralded. Even more so, when offshore leaks daily began to reveal new corporate strategies to avoid paying taxes. Suddenly, global players found themselves being rebuked in public for their unethical (legal) demeanor. Starbucks, though claiming to sell 'fair trade coffee' in its advertising slogan, had procured its entire coffee supplies worldwide from a country which neither grows a single coffee bean nor offers cheap prices: in Switzerland. The high purchase costs enabled the company to keep its profits low and to also be paid at a low rate. Not a very fair business, according to the British Parliament. Amazon UK keeps all his stocks of books in warehouses in Great Britain, where it also sells its books, but pays its taxes in Luxembourg. And Google saved a significant amount of taxes via tax arrangement such as the Double Irish Dutch Sandwich, which involve founding two Irish subsidiaries (double Irish), one of them with foreign management, because a loophole in the Irish tax system says that no corporate income tax will accrue for companies managed abroad. A Dutch tax loophole, on the other hand, stipulates that inner-European transactions are tax-exempt. So first the money is transferred to one of the Irish subsidiaries, and then via the Netherlands (Dutch Sandwich) tax free to the second Irish subsidiary, which is managed from abroad, so that no corporate tax needs to be paid in Ireland, too, and from there to some tax free Caribbean island.

James Henry from the Tax Justice Network estimates that the offshore financial assets worldwide total 32 trillion USD. Offshore Leaks identified more than 122,000 “letterbox companies” in offshore centers such as the British Virgin Islands, the Cayman Islands or in Singapore.

Closing tax loopholes within the EU and Europe in particular would significantly increase tax revenues from corporate tax in particular, the tax on corporate profits in particular. Among other sources, these revenues could be used to fund a Social Europe.

6.3. Tax evasion – collecting tax monies

While large groups have legal ways to avoid paying taxes with the help of their in-house financial advisors and tax consultants specifically dedicated to the purpose of inventing tax tricks, SMEs and private individual have to resort to illegal channels if they want to avoid tax. Using hidden cameras, the German TV station ZDF succeeded in exposing tax-saving foundation structures and filming cash-filled suitcases in the triangle between Austria, Liechtenstein and Switzerland quite clearly. Swarovski’s attorney was stopped at Dutch customs carrying a suitcase filled with 3 million in cash. Estimates of tax evasion vary greatly between 15% and 3% of the GDP (Unger 2013). According to findings by Booz and Company in Zurich in 2011, 102 billion euros from tax-evading German firms and individuals are stored in Swiss bank accounts. The GDP for the EU amounts to 12.8 trillion Euros; social expenditures vary between 17.8% of the GDP in Slovakia, 26% in Germany and 32% in France. If we were to assume that an EU welfare state would also cost approximately 20% -30% of the EU GDP and to consider that a European welfare state according to German or French standards would cost around 3-4 trillion euros, this welfare state could be funded exclusively by subjecting the financial markets to taxation and by recovering evaded taxes.

Consequently, there is enough money. Therefore money should not prevent a Social Europe from happening!

Conclusion

As the models for a Social Europe show, establishing a Social Europe is possible. There are numerous options concerning the shape it might take, as specific proposals show. And it is financially feasible. There are actors which can become involved in shaping it, such as political parties, associations and social movements. The solidarity required for this purpose does not arise from philanthropy alone, but is also an end in itself which will contribute to a joint peace project which everyone will benefit from.

After all, according to the Eurobarometer survey of the EU, the perceived legitimacy of the EU is very poor at the present: 59% of the Germans, 69% of the British, 72% of the Spanish distrust the EU. To put it differently, the EU has lost the approval of 2/3 of its citizens! So, trying to establish a Social Europe seems urgent. As the Austrian economist Kurt Rothschild once said: we are richer than we ever were, the GDP per capita rises, and, yet we suddenly cannot afford the welfare state anymore?

Today, a Social Europe still remains in the realms of utopia. The welfare state, however, also started out as a utopian idea. And Bismarck did not establish the public pension system, which also became the model for the Austrian pension system, because he was such a kind-hearted person, but because he was concerned that the French Revolution would also begin to spread in Germany. So what are we waiting for?

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5. Economic Foundations of Social Progress: Ireland Through a Nordic Lens[25]

Seán Ó Riain

Why a Nordic Lens?

A central question in realising an egalitarian society with strong social protections for all its citizens is the economic feasibility of these social arrangements. Equality is said to undermine incentives while social protection adds a high cost to these disincentive effects. This paper addresses the question of the economic foundations of social progress through an examination of the key features of the Nordic social democracies (Denmark, Finland, Norway and Sweden), societies that have combined economic dynamism with equality and social protection more successfully than any others across the world in the past sixty years.

There are numerous potential starting points for an examination of the economic foundations of social progress. A model can be posed that reconciles economic dynamism and social progress and societies assessed against this (for example, in discussions of 'Pareto optimality' or Rawlsian or Habermasian discussions of ideal societies). Particular criteria can be established as desirable and used to form indices along which societies can be compared (for example, in the Human Development Index). This paper begins from a different starting point. It identifies the Nordic social democracies as societies that have provided sustainable, dynamic economic foundations for significant (although far from perfect) patterns of social protection, solidarity and equality. It then asks what the key features of these societies' economic models are and uses these features to provide deeper insight into the challenges facing Ireland in advancing economically sustainable social progress.

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25 A version of this paper was presented at the *Social Justice Ireland* Policy Conference on 19 November 2013. The subject of the Conference was "a future worth living for".

In contrast to the approach of theoretical modelling, this approach has the advantage of being based on real world existing examples of such workable societies. In addition, compared to the 'index' approach, it allows for an examination of how the various elements of such societies interact and mutually influence and depend upon one another. We should not assume that the Nordic societies are presented here as ideal societies, however. There are many areas where improvements in those societies are possible and there may well be significant limits to the social transformations possible within them[26]. Nonetheless, Ireland's economic and social record is so significantly behind those of the Nordics that they are a useful benchmark for comparative assessment. They are also a relevant comparative yardstick, as the countries share the characteristics of small, open, European economies with strong agrarian traditions (if largely different religious cultures). While the Nordic lens is not the only one that can be held up to the Irish situation, it is a relevant, useful and challenging one.

We should nonetheless avoid focussing the argument on questions such as 'how can we become Denmark?' It is well established how difficult it is for societies to emulate other national societies, or even specific institutions or programmes from within those societies – the general failure of societies to produce their own German style apprenticeships or Silicon Valley style high tech regions is clear evidence of this. The approach taken here is to extract the central principles of the Nordic models, and in particular their 'social democratic' elements, and then to use these principles of social organisation to examine the critical elements of economically sustainable social progress in Ireland. Finally the paper concludes with a discussion of the dilemmas of economic and social transformation in Ireland and in the ever more important European context.

The Social Democratic Nordic model

The Nordic social democracies are generally associated with high levels of economic equality and social protection, secured through an extensive welfare state and high levels of taxation and spending. There is a great deal of truth to this account. However, there are interesting wrinkles to this story that suggest the overall picture is more complicated. For example, while

[26] For example, this paper does not deal seriously with issues of gender, racial and ethnic inequality or environmental sustainability – although the Nordic societies do significantly better than Ireland on gender and environmental issues at least.

levels of equality and social spending are high, the relationship between them is not clear. Table 1 illustrates this by comparing income inequality in Ireland and the Nordics in 2008, before and after taxes and transfer payments. While the Nordics are more equal than Ireland on all measures, this not due to transfer payments (which significantly reduce inequality in all societies). The Nordics' direct redistributive effort is arguably not particularly strong and Ireland's transfer payments reduce inequality more than those in the Nordic societies. The more significant element of the Nordic equality advantage in disposable income is their greater equality in market income. It is also worth noting that this equality is greatest between employees themselves, as the share of national income going to employees and the self-employed (rather than to capital) is no higher in social democracies than in liberal economies (Flaherty and Ó Riain, 2013).

Table 1: Income Inequality in Ireland and the Nordic Social Democracies

(a) Gini coefficient, 2008

	Pre-Tax and Transfers	Post-Tax and Transfers	% decline
Denmark	.40	.24	40%
Finland	.47	.26	45%
Norway	.41	.25	39%
Sweden	.43	.26	40%
Ireland	.54	.29	46%

(b) Gap with Ireland, 2008

	Pre-Tax and Transfers	Post-Tax and Transfers
Denmark	.14	.05
Finland	.07	.03
Norway	.13	.04
Sweden	.11	.03

(c) Gini coefficient, Average 2005-7

	Pre-Tax and Transfers	Post-Tax and Transfers
Denmark	.42	.24
Ireland	.51	.30
Gap between Ireland and Denmark	.09	.06

Furthermore, as is well known, the Nordic economies are consistently among the most 'competitive' in the world (Table 2). While these rankings have many problems, the high GDP and trading success of the Nordic economies testify to their consistent strong performance on even the narrowest economic indicators.

Table 2: Global Competitiveness Rankings

	2012-13	2007-8
Denmark	15	3
Finland	3	6
Norway	11	16
Sweden	6	4
Ireland	28	22

Source: World Economic Forum

So what are the features that characterise the Nordic economies? Figure 1 briefly outlines my view of these key features. Social protection is central to the Nordic model. But it relies particularly heavily on (broadly universal) social services rather than on transfer payments as the main mechanisms of the securing of social welfare and, since these services are typically widely used, social solidarity.

However, these high levels of service provision are balanced by very high levels of economic activity across the population. While they have not undertaken punitive forms of workfare, for the most part, social democracies have exceptionally high labour force participation rates and strongly emphasised labour market activation, including significant decreases in benefits for the long-term unemployed combined with very generous short-term replacement rates but also, at least as importantly, a strong emphasis on active labour market policy (Huo, Nelson and Stephens, 2008).

These 'social' measures are integrated with the more strictly 'economic' policies, targeting capital and firms. Despite a variety of periods of financial liberalisation that resulted in crises (particularly in the early 1990s and to a lesser extent since 2008), finance in the Nordic economies has been channelled towards productive uses to a greater degree than in the liberal political economies. This has partly been achieved through bank based finance but also through public channelling of private market based financing. The competitive performance of the Nordics is also underpinned by high rates of investment within firms – including in training and R&D.

Finally, Nordic economies rely heavily on public institutions to play a significant role in both social and economic institutions and purposes. However, they have long been as Schumpeterian as they are Keynesian in their approach to macroeconomic management, favouring fiscal disciplines and export competitiveness (Erikson, 2008).

Figure 1: The Institutions of Nordic Social Democratic Economies

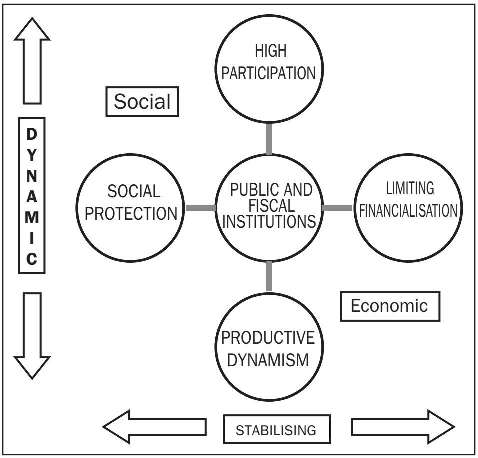


Figure 1 also indicates that the Nordic economies combine two key dualities within this structure. First, the organisation of social protections and economic performance are integrated within the overall institutional organisation of the political economy. Most narrowly, the economic performance pays for the social protections while social investment enhances economic dynamism. However, the implications are much broader and shape the degree of innovation and experimentalism within the society and economy (Kristensen et al, 2009). Second, each of these in turn has a dynamic element (driven by productive investment by firms and high rates of labour force activity) and a stabilising force (controlled finance and collective social provision). These dualities are held together by the interdependencies between these elements but also by the collective provisions and central facilitating role of public institutions.

Ireland Through a Nordic Lens

What does this particular Nordic lens tell us about the comparable institutions in Ireland and the Irish challenges of securing the economic foundations of social progress? We now turn to each of the dimensions identified above, drawing in large part on the analysis in Ó Riain (2014).

Social Protection

Ireland is typically classified as a liberal welfare regime based on its relatively low levels of taxation and spending and on the significant use of means testing and other qualification mechanisms for benefits. Ireland ranks very highly in Europe in the degree to which social transfer payments boost low incomes and alleviate poverty, although this should be tempered by the fact that part of the reason that transfers are effective is because underlying rates of inequality and poverty are comparatively high in Ireland relative to the rest of Europe, with a particularly high proportion of 'jobless households' (Whelan et al, 2012). Nonetheless, rates of consistent and relative poverty rose steadily in Ireland during the crisis (CSO, 2013).

However, there are a variety of aspects to the welfare state in Ireland which distinguish it from the pure ideal type of the "liberal welfare regime". Ireland's welfare state is better understood as a "pay related" welfare state (Ó Riain and O'Connell, 2000), or what Castles (1985) has called a "wage earner welfare state" in the "antipodean" welfare states of Australia and New Zealand. In this model a basic, relatively low level of universal payments and benefits is provided with significant opportunities for topping up those benefits through occupational or contribution based schemes. In the Australian and New Zealand cases this is focused more heavily on benefits linked to occupation and worker status, while in Ireland it operates primarily through the use of contribution-based schemes or the ability to use market income to gain access to public supports or to enhance them. This contrasts with other liberal welfare states such as Canada and the UK with weaker wage earner elements but where some of the major expansions in welfare were related to historical moments that allowed the building of national public institutions - for example, the National Health Service in the UK. While there are some welfare and wage earner elements in the US system, it conforms much more closely to the classic liberal ideal type of an exceptionally low safety net.

Evaluated as an overall model of welfare spending, this is clearly a version of the liberal model. However, from the perspective of those citizens who can afford to top up the State provided benefits, privately provided social supports have been heavily subsidised by the public purse. In practice the growing middle classes of the 1990s received extensive public subsidies for their pensions, healthcare, housing and education. For the middle classes that were growing through the private sector these subsidies came largely in the form of tax incentives and reliefs. For the growing public sector, many of these supports were directly linked to their public employment (Ó Riain and O'Connell, 2000). Supports for the growing professional classes went beyond education to health, housing, pensions and other crucial factors shaping an internationally competitive labour force (see Table 3). Even as personal taxes were lowered, the Irish middle classes benefited from public subsidies and tax breaks – and so, by extension, did their employers. In short, the welfare state was in some respects strengthened for the middle classes even as it remained a minimalist support for the most excluded. The state did not withdraw – it provided crucial supports, but on an unequal basis. The professional classes in high tech and related sectors benefited from this two-tier system, as did their employers (Ó Riain and O'Connell, 2000). Not all policy developments are in the same direction, of course, with some dilution of the 'wage earner' aspect of social security through abolition of pension and job seeker pay related benefit in 1984 and through gradual erosion of entitlement to pensions and working age wage earner entitlements (Murphy, 2013) and ongoing reductions in tax reliefs for pensions and insurance.

Table 3: Elements of the Wage Earner Welfare State in Ireland

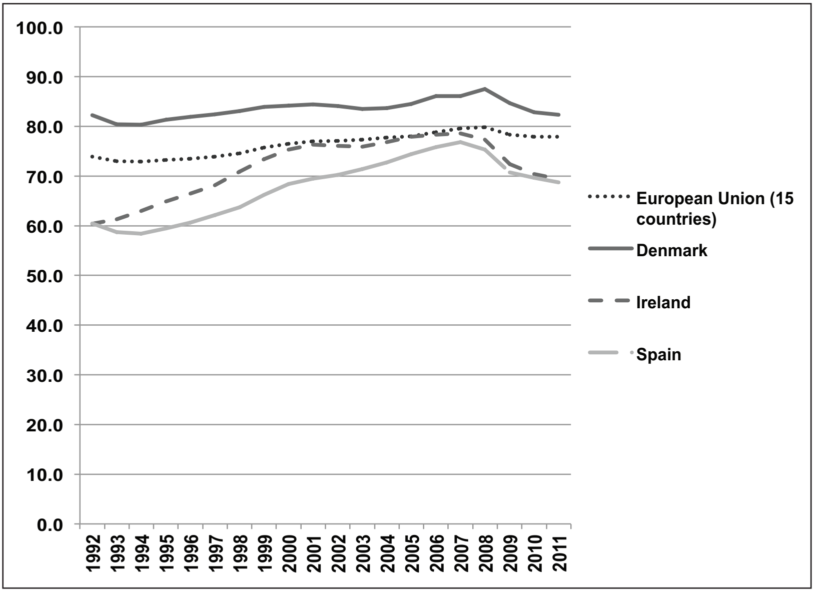
Policy Area	Universal Elements	Wage-Earner Welfare (Occupational or Pay-Related)
Social Protection	Unemployment Assistance and other Benefits	Unemployment Benefit
Education	Public Education, Primary to Tertiary	Subsidised Private Schools Occasional Schemes Allowing Tax Relief on Educational Fees
Childcare	Child Benefit Payments Pre-School Payment	Maternity Leave – Statutory Minimum with Higher Public Sector Rates
Health	Public Access to Hospital Care System Means Tested Medical Card Access to Doctor Care Drug Subsidies (with Means Tested Element)	Private Insurance Allows Priority Access to Public and Publicly-Subsidised Private Providers National Treatment Purchase Fund as Market for Private Providers
Housing	Limited Provision of Social Housing	Mortgage Interest Tax Relief
Pensions	State Pension	Public Employee Pensions Tax relief on private pension contributions Contributory Old Age Pension

Both the low level of social spending in the welfare mix of citizens and the pay related nature of Ireland's welfare State have militated against an expansion of universal social services as a key component of the Irish social compact.

Employment Rate

Figure 2 shows the speed at which Ireland 'caught up' in the percentage of the population at work during the boom, although remaining behind most other European economies. The employment rate is preferred to unemployment as it captures the overall level of activity among the population and the focus is on 25 to 54 year olds to control for different educational and retirement policies and practices. The figure compares Ireland to Denmark, the EU15, and Spain, which has undergone a similar trajectory of development to Ireland.

Figure 2: Employment Rate, 25-54 year olds, 1992-2010



Source: Eurostat

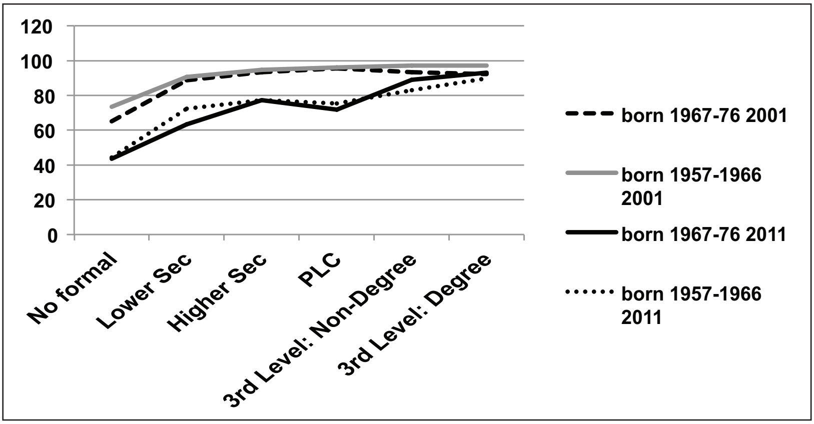
In 1992 Ireland was alongside Spain in its exceptionally low level of employment among 25 to 54 year olds. We see a surge through the 1990s with Ireland's employment rate increasing to that of the EU-15 by 2000. Through the 2000s, albeit a period of significant immigration, Ireland's employment rate did not increase above the EU-15 average. Ireland never managed to close the gap on the UK or particularly Denmark, Finland and the Netherlands (although the Dutch rate is composed of large amounts of part-time work). From 2007 onwards Ireland's employment rates dropped disastrously once more, falling well below the EU-15 average and falling once again to Spanish levels. Despite a spectacular growth in absolute employment, the Irish economy was still dependent on a relatively narrow base of employment to sustain the population as a whole.

The early years of the crisis saw a sharp rise in unemployment which was not halted until the second half of 2012 (CSO, 2013). Growth in information and communication technologies, professional services (e.g. legal and other services) and high tech manufacturing (e.g. pharmaceuticals) added to full time employment during these years. However, many other sectors saw decline in full-time employment with some expansion of part-time positions, with male part-time employment increasing particularly rapidly during these years. Moreover, there was also significant evidence of various forms of exit from the labour market, including emigration, increase in the numbers of inactive workers and a suggestion in 2012 that some unemployed workers were returning to small scale farming.

Figures 3 and 4 show how these trends in different sectors intersected with the structural inequalities in the labour market, linked to class, gender and education. These tables track the experience of two cohorts of workers between 2001 and 2011, showing how workers aged between 25 and 34 and between 35 and 44 in 2001 were faring ten years later. Most striking is the effect of education as the probability of remaining in employment ten years later is strongly related to educational level. While there is almost no difference in the employment rate of workers with a third level education ten years later, there is a 15 to 20% gap between the employment rates in 2001 and in 2011 of those with low levels of education. For women, this effect is particularly pronounced among the younger cohort.

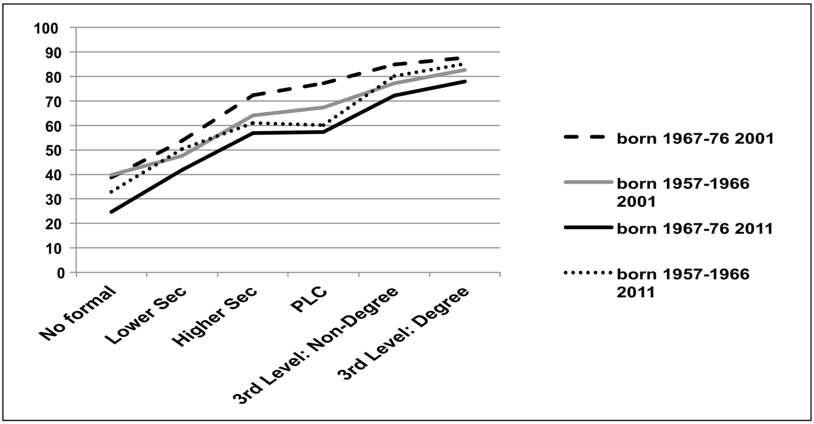
Significant gender differences in participation rates are obvious and the crisis appears to have intensified this gap when we look at the experience of men and women in the younger cohort. The effect of the crisis on employment was dramatic but also dramatically uneven. In addition, these trends would only be reinforced by the nature of the employment growth in 2012 and 2013 which was largely in areas that employed those with higher levels of education. The major effect on the employment of those with third level education was in the new cohorts entering the job market.

Figure 3: Employment Rate in 2001 and 2011 for Men Born between 1957-1966 and 1967-1976; by Level of Education



Source: QNHS Microdata, Central Statistics Office

Figure 4: Employment Rate in 2001 and 2011 for Women Born between 1957-1966 and 1967-1976; by Level of Education



Source: QNHS Microdata, Central Statistics Office

The Irish experience is one of relatively low employment rates, despite some improvement during the boom and bubble. The fragile nature of this improvement is evident in the return to a much lower employment rate in the crisis, characterised by deep inequalities. Ireland's low employment rate is in practice intertwined with the class and gender inequalities within education, the labour market and society.

Finance

The details of Ireland's financial disaster need not be rehearsed here (see Ó Riain, 2012). However, some key features should be outlined. Ireland's financial expansion was only one leg of a 'triple financialisation', also including Anglo-American financial systems and the financialisation associated with European integration and the euro in the 2000s. While the US was always more financialised than the European core, that gap widened significantly over the 1990s, and financialisation is most closely associated with 'liberal market economies' (Hall and Soskice, 2001) such as the US, UK and Ireland. However, the EU economies closed the gap somewhat from 2001 onwards – with France and Germany showing a small surge in the 2002-4 period although generally remaining significantly less financialised than the liberal economies (see Figure 5). Nonetheless, the continental European bank-based system of financing was increasing marketised during the past two decades, laying the foundations for the structural weaknesses that emerged in the crisis of 2008.

Figure 5: Proportion of all corporate profits (Gross Operating Surplus) going to the 'financial intermediation' (banking) sector, 1988-2007

Source: OECD STAN Database

Note: EU14 and the France and Germany measures are an average of national rates, not a total of all profits across those countries

Ireland's financial system was distinctive in a number of ways. Banks have historically played a relatively insignificant role in financing developments in Ireland. Honohan (2006) documents the very limited role that the financial system played in the economic boom of the 1990s. Private venture capital, while active during the boom years, was often led by State programs rather than driving economic recovery through early State investments in difficult times.

Transnational corporations have been the primary source of private sector investment in Ireland. In addition to expanding production and employment, many of them used Ireland as a centre for transfer pricing and related financial activities. In many respects, this expansion in 'entrepôt' activity in Ireland (Honohan et al, 1998) was the equivalent of the financialisation of non-financial corporations documented in the US by Krippner (2011: Chapter 2). Nonetheless, this was a negotiation with industrial capital whose dominance of investment in Ireland favoured production, at least from the perspective of the domestic economy.

Although the state has used tax incentives to promote industrial development, the focus of public policy has been on direct engagement with firms. The policy emphasis on FDI involved significant organisational interaction with major international firms. As noted previously, it is perhaps best to think of the competition to attract mobile capital not as product market competition, but as competitive bargaining between governmental providers of how public goods are provided to private capital. Ireland's success in providing these public goods to transnational corporations is well known.

White (2010) has documented private sector failure to turn liquidity into investment at the national level. He finds that from 2000 to 2008 investment in housing stock increased by 156%. Productive capital investment increased by 66%, or €70 bn. However, of this €70bn road building made up €13.5bn, another €20bn was invested in retail infrastructure (building shops etc.), public buildings took up €9bn and investment by semi-state companies and energy/ utilities companies took up a further €10bn. Ultimately, in an era when bank lending increased by three to four times, inflation adjusted productive capital stock spend by private enterprise increased by 26% between 2000 and 2008. Productive investment in Ireland has largely been driven by foreign private capital and domestic and EU-funded public funding and supports.

The excessive and foolhardy lending to the property development sector in Ireland was produced by a number of social and institutional shifts. The property-based ‘growth machine’, linking developers and political elites, especially in Fianna Fáil, has long been a feature of Irish society. However, it could only become the force that derailed the national economy through three crucial steps.

First, it sidelined alternative investment paths - most notably, the export oriented industries that had been the primary drivers of economic development in the 1990s. These sectors were dominated by foreign investment but were also shaped by public agencies supporting the development of indigenous firms (Ó Riain, 2004). Private banks were notably absent from the process of indigenous industrial and business development. When capital gains tax was cut and financial regulation weakened in the late 1990s, private capital was given the institutional power to decide the destination of investment and favoured property over technology (or indeed other potential productive industries, such as food).

Second, the banking sector itself came to see property lending as a rational investment strategy, despite warnings regarding the risks of a bubble. More specifically, the banking sector promoted property even after the slowdown in growth in the 2002-3 period and as property development became detached from demand. Justifications for this support relied heavily on notions of strong economic fundamentals and self-correcting markets. Competition between banks ‘crowded in’ the banks that were late to property lending into an enthusiastic pursuit of the profits enjoyed by Anglo Irish Bank and others. Neither managerial authority nor markets for governance through the stock market provided the necessary check on this risky activity. Instead, property lending was translated over time into a rational investment.

Third, the expansion of this activity to a scale that was disastrous in terms of the national economy was dependent on the willingness of international lenders to fund Irish banks. This occurred most dramatically between 2002 and 2007 and was encouraged by the liberalisation and internationalisation of significant sections of German and French banking and the financial integration associated with the euro. However, the specific ties between international and Irish banking were made possible by the translation over space of Irish lending into an internationally tradable asset through the work of credit rating agencies.

These steps together linked the general process of financialisation and the specific features that characterised it in Ireland. The existence of a broader process of financialisation facilitated its expansion in Ireland. However, that broader process itself is constituted out of the interaction of a variety of national systems of finance – for example, the early financialisation of the US encouraged banks in Europe to pursue strategies based on trading in international financial markets in place of patient lending to domestic business, which in turn enabled the expansion of Irish property lending.

The Irish case also shows the importance of market liberalism as a force promoting financialisation of the economy. In Ireland, this had three major dimensions. The first dimension was the *institutional power of capital markets*, as legal, institutional and taxation changes made private capital the primary arbiter of investment in the economy and sidelined the public agencies and private enterprises that supported productive investment and export-oriented firms.

Second, the market based financial system in Ireland (and elsewhere) does not operate in practice through sets of buyers, sellers and rules but through a *network of market institutions*. However, while these institutions – competitive markets, stock markets, managerial authority, and credit rating agencies – were crucial aspects of a liberal market system, they did not enforce prudence and discipline but in practice encouraged speculation and indiscipline.

Finally, the third dimension consists of the various rationalities and justifications of action that actors draw upon in making and interpreting conditions and decisions. In a liberal market system, these rationalities rely heavily on *market talk* – justifications that give a central position to the autonomous effects of market processes. Chief among these in Ireland were the appeal to economic fundamentals and the belief in the self-correcting properties of markets.

Productive Economy

In the productive economy we can compare a variety of social compacts across Europe, including measures of the welfare regime, the production regime and the macroeconomic order (Table 4). These include the contribution of business to the productive economy through investment in R&D and other forms of industrial upgrading as well as the organisation of labour in the workplace, as measured by the participation of workers in "learning" organisations. Social spending is included as an indicator of public investment in social reproduction, while public deficits and fiscal balances are included as a summary measure of the balancing of this social spending with available resources. Current account balances for the 2000s are also included to indicate the structural economic position underpinning the social compacts.

Table 4: Social Compacts in Europe: Welfare, Production and Macroeconomic Regimes

	Average Fiscal Balance 1999-2007 (% GDP)	Current Account Balance, 2003-2007 (% of GDP)	Average Business R&D Investment 1999-2007 (% GDP)	Social Spending, 2002	'Learning' Organisation of Work, 2000 (Holm et al, 2010)
	Christian Democratic				
Austria	-1.8	3.98	1.63	34.5	47.5
Belgium	-0.5	6.66	1.35	30.4	38.9
Germany	-2.2	12.54	1.74	33.4	44.3
France	-2.7	-0.32	1.35	36.7	38.0
Netherlands	-0.5	15.58	1.02	27.4	64.0
	Social Democratic				
Denmark	2.4	0.62	1.67	38.6	60.0
Finland	3.8	4.99	2.39	33.3	47.8
Norway	12.6	30.25	0.89	32.4	-
Sweden	1.3	4.04	2.73	38.0	52.6
	Liberal				
Ireland	1.6	-5.37	0.8	27	24
UK	-1.4	-9.54	1.13	27.9	34.8
	Mediterranean				
Greece	-5.3	-5.65	0.18	-	18.7
Spain	0.2	-8.04	0.56	23.7	20.1
Italy	-2.9	-4.42	0.54	28.8	30.0
Portugal	-3.6	-22.90	0.3	27.3	26.1

This table shows that there are significant differences in the underlying social compacts across the various worlds of capitalism in Europe. In addition to the differences in fiscal policies (discussed further below) we can see that there are major differences in the current account balances of the different clusters of countries. The Christian democratic and social democratic countries ran huge current account surpluses from 2003 to 2007, the height of the bubble era. These are reflected in major current account deficits in the liberal and Mediterranean cases. But these differences are themselves rooted in deeper differences in social and business investment and organisation. Social spending is not surprisingly higher in the Christian democratic and social democratic countries but so too is business investment, with business R&D investment running well above the liberal and especially Mediterranean countries right across the period.

Furthermore the organisation of society and economy in the workplace is structured differently. Drawing on work by Holm et al (2010) the final column shows what percentage of workers in each country work in a "learning" system of work, which emphasise worker skills and learning, autonomous decision making and theme work among other features. Learning systems of work are much more prevalent in Christian democratic and social democratic economies – even than in the putatively innovative liberal economies of the UK and particularly Ireland. More detailed results in Holm's (2010) study show that Mediterranean economies had very high level of traditional work organisation based on low levels of formalisation of work and high managerial discretion, while liberal economies tend to emphasise "lean" systems of work organisation, emphasising worker input and team work but within a framework of managerial control and hierarchy. The countries with the strongest external economic performance and the greatest fiscal discipline are also those countries with the greatest social spending, business investment and the strongest emphasis on worker input and participation in the workplace.

The Irish institutions that most clearly attempted to integrate these various elements were the social partnership agreements from 1987 to 2008. Ornston (2012) compares corporatism in Ireland unfavourably to the forms of corporatism in Denmark and Finland. He argues that there are three main kinds of corporatism – a "conservative" version which sought to manage employment relations in a stable economy (and which was the primary form analysed in the literature on 'old' social pacts); "competitive" versions which controlled inflation, managed public spending and delivered wage restraint in order to make industry competitive; and a more dynamic, innovative "creative" form in countries such as Denmark and Finland where corporatist agreements allow for institutional innovation and the negotiation of often profound adjustment to economic change. In the creative model of corporatism, politics was able to both promote and shape the direction of dynamic change within the economy and society.

Ornston identifies the provision of risk capital, the provision of supports for training and other forms of labour market adjustment, and the provision of supports for research and development to facilitate industrial adjustment and upgrading as key policy measures in creative corporatist systems. While acknowledging that Ireland made efforts in all of these areas, Ornston ultimately classifies Ireland as a competitive corporatist economy. However, a closer look at Ireland in comparative perspective suggests a more complex pattern. Table 5 provides a comparative look at "competitive" Ireland, "creative" Denmark and Finland, "conservative" Austria and Belgium and the liberal UK for each of these three key policy areas, for both private business and public sector. The analysis provides indicators for both the late 1990s and mid-2000s, with the specific periods indicated in the table notes. Most of the indicators are offered as a percentage of GDP and it should be noted that this generally underestimates Ireland's efforts in these areas because of the significant gap between GDP and GNP.

Looking first at the late 1990s there are a number of important aspects to Ireland's comparative position. Firstly, it is strikingly different from the UK, especially in the area of public supports for business, which are much higher in Ireland, and in public spending on active labour market policies, which is almost non-existent in the UK but was very significant in Ireland in the late 1990s. This is particularly important given that these spending figures relate only to active labour market policies and not to "passive" spending such as unemployment assistance. Ireland differs significantly therefore from the liberal UK in the activism of its public agencies in support of business and labour activity. Comparisons with other small open economies in Europe are also instructive. Except for research and development investments, where Ireland has historically been particularly weak, Ireland's efforts to develop business through risks capital and public aid and to activate labour were significantly higher in the late 1990s than in the classically "conservative corporatist" countries of Austria and Belgium.

Table 5: Key Indicators of Types of Corporatism in Selected European Economies, Late 1990s and Mid-2000s

		Ireland		**Denmark/ Finland**		**Austria/ Belgium**		**UK**	
		Late 90s	Mid-2000s	Late 90s	Mid-2000s	Late 90s	Mid-2000s	Late 90s	Mid-2000s
Risk Capital									
Business	Early Stage Venture Capital (% of GDP)	5.2	2.0	6.7	4.5	4.4	1.2	4.7	8.7
Public	Sectoral Aid (% of GDP)	.69	.19	.81	.55	.37	.13	.18	.08
Active Labour Market Supports									
Business	% of Labour Costs spent on Training	2.4	2.2	2.7	2.1	1.5	1.5	3.6	1.3
Public	Spending on Active Labour Market Policies (% of GDP)	0.95	0.53	1.35	1.04	0.67	0.67	0.09	0.05
R&D									
Business	Business Funded R&D	.82	.70	1.48	1.93	1.31	1.72	.86	.74
Public	Government Funded R&D	.29	.38	.78	.79	.79	.84	.55	.56

Dates:
Venture Capital, 1998-2001 and 2003-2006
Training, 1999 and 2005
Active Labour Market Policy, Sectoral Aid, R&D: 1996-99 and 2003-2006
Sources: EVCA (2012), Cedefop (2010), Eurostat
Notes: The Eurostat data on sectoral aid offers the advantage of comparison although only covering aid scrutinised by the EU. Irish data on grants and subsidies to enterprise (CSO, 2012) does not track this series directly but offers the same basic picture – with the CSO figures indicating that state aid consisted of 0.81% of GDP from 98-99 and 0.52% from 03-06. Note these figures are almost identical to the Eurostat figures for Denmark and Finland.
Figures given in % of GDP understate Ireland's spending effort, given the gap between GDP and GNP. An added 15% on to the existing figure for Ireland gives a truer measure of Ireland's share of national resources devoted to particular goals.

In the 1990s Ireland was comparable to Denmark and Finland in its levels of risk capital provision, driven by the State, and of supports for training – particularly impressive given that the Irish figures are underestimated due to the use of GDP. As an aside it is also worth noting that there are differences between Finland and Denmark. Both are high on R&D levels but Finland provides higher levels of risk capital, both through private venture capital and public State aid, and Denmark's training effort is higher in both the private and public spheres. Nonetheless it is striking that in this period of the late 1990s Ireland appears closest to the "creative corporatist" economies in its provision of risk capital and training and active labour market supports.

The 2000s present a different picture. The profiles provided at the height of the financial bubble in Europe show that in most countries and in many different categories levels of support for economic adjustment declined. While this process varied across the different types of countries and different types of supports, the shift of Europe as a whole from developmentalism to financialisation is clear in the figures. In the UK, for example, business spending on training declined while venture capital increased. Denmark and Finland weakened their efforts in all areas of promotion of risk capital and labour adjustment. Ireland's fall was particularly dramatic, except in the area of R&D where the State concentrated its resources during the period. Despite remaining at a very low level of R&D as a percentage of GDP, Ireland had one of the highest growth rates in R&D spending and personnel across the OECD. This was particularly the case in the public system. However in the areas of risk capital and labour market policy the Irish public effort declined very significantly, such that it fell well behind Denmark and Finland and, in the case of active labour market policy, even behind Austria and Belgium. Nor is it the case that Ireland simply did not need venture capital or active labour market policy in the 2000s. Indeed Ireland continued through the height of the boom to have the highest rate of jobless households in the European Union (Whelan et al, 2012). In addition, the challenges facing export industries based in Ireland in the 2000s were widely recognised and the need for significant additional support for the development of Irish owned companies, for example through the promotion of venture capital, was widely discussed.

Ornston's analysis fails to distinguish clearly enough between the Irish economy of the late 1990s and that of the 2000s. Ireland was more "creative" than Ornston recognises in the 1990s and the drop-off in this creative effort in the 2000s was even more dramatic than he remarked. There is a significant broader point here. If Ireland's form of corporatism changed so dramatically from the 1990s to the 2000s this cannot be due to constant structural features of the economy or polity. Instead, the story of Irish corporatism is one of surprising if hidden progress in the 1990s but a progress whose promise was never fulfilled and indeed was undermined in the 2000s.

Ireland's corporatism cannot be reduced to a "competitive" form. Significant creative corporatist elements were present in the 1990s and they were relatively successful in promoting industrial adjustment. Moreover, these 'creative' Irish policy efforts were comparable to, if not quite at the level of, the more dynamic European economies. This potential was not built upon and the 2000s saw a significant erosion of creative, developmental efforts by the Irish policy system and the growing dominance of "liberal" forms of State intervention such as the use of tax incentives.

Public Institutions and Fiscal Positions

Finally, and briefly, what of Ireland's public institutions and finances? Table 6 shows that the Irish state was significantly smaller as a percentage of total employment than in the Nordics. Indeed, Ireland falls below the EU-15 average and just at the OECD32 average. Whether it is affordable or effective or not, the Irish state is far from bloated.

However, despite this smaller state, Ireland's public finances were in significantly worse shape than those of the Nordic economies, even before the crisis. Table 7 shows that significant differences persisted across countries in budget balances – both the actual balance and the 'potential' balance (calculated by the IMF to take into account the effects of the business cycle). These are contested concepts but the pattern is clear enough. The Nordic economies do best in terms of 'fiscal discipline', running an actual surplus but also balancing their books, even on the basis of the underlying structural deficit (largely because of the effects of the Norwegian oil boom on Nordic surpluses). While running deficits a little larger than the social democracies, Europe's Christian democracies remained comfortably within the Eurozone criteria. The liberal economies of Ireland and the UK appear to do better, based on their actual balance, but this masked a significant bubble as their large underlying deficits indicate. In keeping with our analysis to date, this structural deficit emerged in the

2003-7 period. The Mediterranean economies also had significant difficulties with budget deficits, which were already present in the early 2000s.

Table 6: Employment in general government and public corporations

	2000	2008
Norway	29.5	29.3
Denmark	29.7	28.7
Sweden	27.7	26.2
Finland	22.2	22.9
Ireland	15.4	14.8

Source: OECD, Government at a Glance 2011

Table 7: Actual and 'Potential' Budget Balances in the 'Varieties of Capitalism' in Europe, 1999-2007

	1999-2007	1999-2007	1999-2002	2003-2007
	(% Actual GDP)	(% Potential GDP)	(% Potential GDP)	(% Potential GDP)
Nordics/ Social Democratic	2.5	0.3	0.1	0.5
Continentals/ Christian Democratic	-1.5	-1.7	-1.7	-1.6
Mediterranean	-2.9	-4.0	-3.1	-4.7
Liberal	0.1	-2.5	-0.6	-3.8
Including: Ireland	1.6	-2.7	-0.7	-3.9

Source: Actual Balances - Eurostat; 'Potential' Balances – IMF

Table 8: Macroeconomic Policy Indicators, 1993-1997

	Deficit/ Surplus, 1994-1997 (% of GDP)	Debt 1996 (% of GDP)	Interest Rate Fluctuation, 1993-1997	Exchange Rate Fluctuation, 1993-1997 (Hard Currency Index, 1973-1993)	Current Account Balance, 1993-1997 (% of GDP)
Christian Democratic					
Austria	-4.2	68.1	1.08	1.32 (.52)	-1.98
Belgium	-4.0	127.2	1.73	1.83 (.47)	5.60
Germany	-4.5	58.5	1.24	2.04 (.60)	-0.91
France	-4.6	58.0	1.26	1.23 (.39)	1.37
Netherlands	-4.0	74.1	1.25	1.38 (.54)	5.51
Social Democratic					
Denmark	-2.2	69.4		1.30 (.42)	1.35
Finland	-4.4	57.0	1.39	6.30 (.38)	2.95
Norway	4.4	-		2.24 (.40)	6.10
Sweden	-5.3	73.3		4.06 (.29)	2.65
Liberal					
Ireland	-0.7	72.7	0.33	4.04	2.43
UK	-4.8	51.3	-	6.60 (.15)	-0.93
Mediterranean					
Greece	-7.5	99.4	-	6.07	-1.96
Spain	-6.5	67.4	1.83	3.91	-0.57
Italy	-6.1	120.2	1.66	5.93	2.12
Portugal	-5.0	58.3	2.17	1.61	-2.77

Sources:
Deficit: Average of Annual Balances, General Government Financial Balance, Annex Table 27, OECD Economic Outlook 2011
Debt: Government Consolidated gross debt (Eurostat)
Interest Rate Fluctuation: Standard deviation of official refinancing rates for Euro Area countries, 1993-1997 (Eurostat)
Exchange Rate Fluctuation: Standard deviation of Effective Exchange Rates, 1993-97 (Eurostat)
Hard Currency Index: Iversen, 2005, p. 56
Current Account Balance: Average over the period (calculated as total current account over 5 years/ total GDP over 5 years) (Eurostat)

A key factor here of course is the establishment of the euro which was created in part to "depoliticise" economic management, in part by taking certain policy instruments out of commission (such as exchange rate and monetary policies) and in part by creating limits around other sets of policies (including fiscal policies). This was designed in part to provide Governments with tests of economic stability but in the process placed a premium on financial regulation (which was greatly emphasised after the crisis, although much less so before) and on fiscal discipline (which was tackled directly in the growth and stability pact rules). The creation of the euro obviously harmonised exchange rate policies. More specifically, the euro policy regime, under the control of the ECB, institutionalised a 'hard currency' policy. In addition, the Eurozone countries shared a common set of interest rates for access to euro funds. The ECB was also mandated to pursue a low inflation policy. The combination of policies favoured growth strategies based on the weakening of currency to support exports rather than a loosening of monetary policy to support domestic demand.

As discussed above, it was largely assumed that 'the market' would be a source of stability within the Eurozone. However, despite this belief in the disciplining power of markets, Continental European governments have always taken a series of non-market measures to ensure this discipline. Faith in the self-regulating disciplinary powers of markets over governments has been accompanied in post-war Europe by strong political governance of markets themselves. Such rules were also central to the monetary union project. It was recognised that business cycle pressures would still exist and that national fiscal problems could undermine the currency, even if these problems were not treated with the urgency they deserved. Nonetheless these pressures had prompted European policy makers to accompany the single European currency with a set of rules for managing national differences in the public finances – most crucially the rules that government deficits should not exceed 3% and overall government debt should not exceed 60% of GDP.

However, the mix of policies associated directly with the Euro fell unevenly on countries within the Eurozone. Table 8 shows how a variety of different economies in Europe fit with the key policy instruments of the Euro itself. The indicators focus on the period from 1993 to 1997 as it falls between the currency crisis of 1992-3 and the advent of the euro in 1999. It is a period when the potential euro members were making strenuous efforts to reach the Maastricht criteria for joining the euro, but also when Germany was undertaking the costs and effort of re-unification and when the Nordic economies were recovering from their financial crises of 1991-2. The table indicates the average deficit or surplus in the public finances (relating to the deficit rule), Government debt as a percentage of GDP (relating to the debt rule), interest rate fluctuations (indicating to what extent variation in interest rates was used as a significant monetary policy), exchange rate fluctuations (related to currency policies as an instrument) and the current account balance as an indicator of structural divergences within the European economy. These 'pre-Euro' indicators provide a sense of which countries' pre-existing economic policy styles and regimes were the best 'fit' for the policy regime associated with the Euro.

We can see that many of the European economies ran significant deficits through the mid-1990s but that these were highest in the Mediterranean economies and that this vulnerability in the public finances extended to the debt level of Italy, Greece and also Belgium. In addition, again with the exception of Belgium, the Mediterranean economies were much more heavily subject to fluctuations in interest rates and in exchange rates. The use of a "hard currency" policy was by far the most widespread in the Christian democratic continental core with the Nordic social democracies following behind, although more likely to use currency policies for strategic reasons (as in the Finnish cycle of devaluations (Vartiainen, 2011)). It is noteworthy that in many respects Ireland appears to be in a healthy shape in the mid-1990s with strong budgetary balance, declining debt levels and a current account surplus. However, it is also clear that it had relatively little policy experience dealing with hard currency constraints.

This analysis suggests that fiscal discipline is not rooted simply in a small state nor in national characteristics or a continental European conservatism to be contrasted with indiscipline and recklessness in the periphery. Instead, it is rooted in the institutional features of the classic European developmental model and, even more significantly, in an underlying social compact that trades off fiscal discipline against high levels of social spending and protection and that uses both of these to embed a dynamic and inclusive business sector. Even in the decade when financial liberalisation and the design flaws of the Euro threatened it most, the European model continued to operate in its continental core to stabilise the broader economies of the Christian democratic and social democratic countries. The failure to diffuse and generalise this model to the Mediterranean and liberal economies, including Ireland, is at the heart of their current fiscal and economic crises.

Dilemmas of transformation

The transformations involved in potentially transforming key elements of the Irish political economy are very challenging. Moving from a transfer and pay related welfare state to one based on collective services and from low, unequal participation to much higher rates with much greater inclusion are profoundly challenging. So too are the transformations on the economic side – involving the controlling of a system of finance that has never worked well and that still bears the scars of the liberalisation and bubble of the 2000s, as well as the recovery of a project begun in the 1990s, but now in deep crisis, to enhance Irish social and economic capabilities. Finally, a public sector that is being cut drastically in numbers and financing and that faces major challenges to public legitimacy and internal morale is hardly an obvious candidate for leading social transformation. Is such change possible? This is a huge question that demands a more sustained treatment. The rest of this chapter outlines some possible sources of momentum for change from within Irish and European policy worlds, and details some of the sources of the dilemmas and challenges for such change.

National Transformations

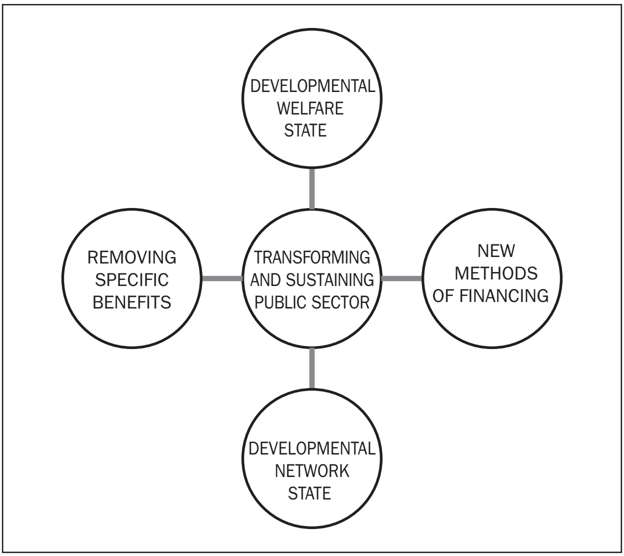
In general, Ireland's recovery strategy has focused heavily on fiscal consolidation with an emphasis on cutting spending. Without examining this approach in great detail, it can be construed – and often is by Chancellor Merkel and Minister Schauble – as a move towards the continental European model of fiscal probity. However, this is a narrow construction of the European, and even Nordic, Model – based on the model of the German economy over the past two decades, emphasising fiscal discipline and wage competitiveness and neglecting strategies of social investment and business upgrading, as well as weakening living standards.

All areas have suffered from fiscal consolidation in Ireland, even the institutions of enterprise policy that are expected to drive recovery. However, we can also ask whether there are sources of institutional change within the Irish political economy that might be resources for a future move towards a more Nordic model. Some of these transformations are outlined in Figure 6, reflecting the dimensions of the Nordic model outlined in Figure 1. On the dynamic axis of these institutions, the NESC has long advocated change in the direction of a 'developmental welfare state' that combines an increased emphasis on collective services and active labour market policy with the current emphasis on income supports (NESC, 2005). The mirror set of institutions for business are those of the 'developmental network state' which similarly provides institutional supports and services as well as financial supports for smaller firms (Ó Riain, 2004). Indeed, these elements are re-asserted as key building blocks for recovery in NESC's most recent report on strategies for recovery from Ireland's 'five part crisis' (NESC, 2009, 2013).

The 'stabilising axis' of social protection and controlled finance is much weaker, however. While the removal of a variety of specific benefits is bringing Ireland closer to a system of clearer universal payments (e.g. through removing or restricting reliefs for medical insurance, mortgage interest etc.) , this is happening in a context where services and payments are being cut very significantly. While some of the institutional and structural changes may ironically be moving towards a more 'continental' model, the immediate effect is to significantly damage the welfare of citizens. The issue on questions of finance is different. Here there are some significant innovations in the provision of new mechanisms for financing business (NESC, 2013). However, there have been few significant changes in the regulation of finance or in enhancing protections against financial speculation. The productive lending operations of banks, the arbitrage activities of the International Financial Services Centre and transnational corporations, and the shadow banking sector all remain largely unchallenged – despite a number of recent innovations.

Turning to the public service, it is clear that fiscal policy looms large over Irish politics today. However, the question of state capacity will be critical as the state, never very large in comparative terms, shrinks its spending and personnel. As is well known, the number of agencies in the public service increased rapidly in the 1990s and 2000s (Hardiman et al, 2008). For our purposes, the most important question is the impact of the expansion of these agencies on the overall structure of the Irish state. These state agencies in the "public service" became the primary vehicle for the development of state capacity through the 1990s and 2000s, while public administration through the "civil service" of Government departments remained relatively stable. The classic case had been an enterprise agency, where the IDA had begun within the Department of Industry and Commerce but had become such a successful vehicle for the administration of industrial development that over time policy formulation moved from within the Government department to public service agencies, an arrangement that was further formalised in 1994 with the formation of Forfás, an over-arching policy and strategy agency. Public service agencies became a vehicle then for many new policy initiatives and the formation of such agencies entered the repertoire of action for politicians and policy makers seeking to respond to political demands. At the same time such agencies became the vehicles for much of the innovation within public administration over this period. However they operated largely at arm's length from the existing Government departments, sometimes combining a reporting relationship to the department with an almost lobby group – like pressure upon the department. This could be dangerous territory and a series of agencies that had been set up to tackle poverty and inequality were abolished in the years just before the crisis hit for largely political rather than fiscal reasons.

Figure 6: Selected Irish Institutional Trends

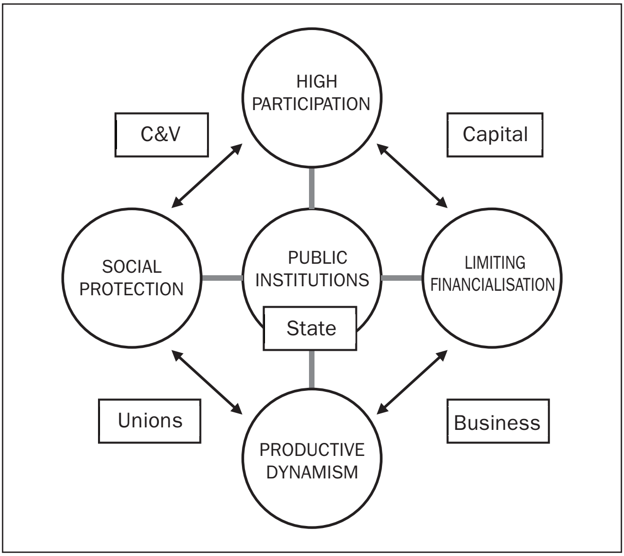


The overall effect of this was to produce a new dualism within the public administration of the State itself. While the civil service departments took care of most of the standardised delivery of public services, much of the policy development and organisational innovation was officially located in agencies that were at arm's length from departments. In practice agencies and departments were often largely autonomous and the innovation in agencies failed to spur innovation in departments, even as co-ordination across agencies was often difficult and partial. Much of this co-ordination was heavily based on individual network ties among the key executives in agencies and departments. While "joined-up Government" was one of the catch phrases of the era, in practice the joining-up of agencies and departments was quite hit and miss, often depending on the structure of personal ties. This also produced a structure where, even with greatly expanded spending, the state layered a series of new policy initiatives and programmes on top of a relatively unchanged basic system of administration and social services. The formation of new, semi-autonomous agencies had seemed like an effective way to produce innovation without having to face substantial reform of civil service departments. However, it ended up producing a dualism between what remained a comparatively under-resourced system of social services (in international terms) and a growing set of agencies that could quite effectively undertake particular projects without substantially reforming the structure of the overall system. In effect, this new state structure reproduced the kind of dualism that we have seen in the fragmentation of the political economy and the pay related welfare regime.

Moving towards a 'more Nordic' model from the current Irish institutional structure will pose significant challenges. Figure 7 outlines these challenges in a highly schematic form, suggesting that the major actors in civil society face particular challenges linked to specific elements of institutional transformation. None of these challenges are in principle insurmountable but even in more generous times would pose difficulties in moving to a new system, at a minimum.

While social protection underpins both productive dynamism and high labour force participation in the Nordic model, there may be tensions in a move from the Irish system to a model along these lines. The C&V sector might well face issues relating to the relative advantages of allocating scarce funds to services or to direct payments while trade unions may need to trade off workplace transformations against the loss of specific protections, especially in the Irish context where protections are often linked to specific terms and conditions of employment and not to a general structure of employment and income protection (which are relatively weak).

Figure 7: Challenges of Institutional Transformation



Similar challenges arise for business and finance. The mis-allocation of capital was at the heart of Ireland's crisis, with a financial system allocating resources to speculation rather than to sustainable productive investment that could generate infrastructure to support high levels of employment and services. The allocation of capital to egalitarian productive investment will likely require the reversing of the financialisation of the economy and the building of new structures of public and private financing. Finally, productive businesses themselves face the challenge of resisting the siren call of speculative finance and short-termist corporate cultures and building strategies that generate productive dynamism. As I have discussed at length elsewhere (Ó Riain, 2004, 2013), this will involve a central and distinctive role for creative public institutions. This is the final challenge for transformation – the transformation of public services in terms of capacity and capabilities to support the four other dimensions of the economic foundations of social progress.

The challenge in an era of austerity is that, while some institutional changes may be welcome, the overall development in each of these areas is going in the wrong direction. Weakening social protections, higher unemployment and emigration, poor investment and credit delivery and struggling SMEs pose dramatic short-term difficulties that mirror these long term challenges. National transformations towards a more 'European model' would be much easier if the European context itself was more conducive to allowing nations room for this more expansive strategy of transformation. It is to the European level that I finally and briefly turn.

Europe's Perverse Policy Mix

This leads us to the question of the specific character of the European policy response and how that might be rooted in the particular national models of capitalism in Europe and their interaction within the European Union. In many respects the core policy goal of the Eurozone response has been to enforce new mechanisms for ensuring "fiscal discipline" in the peripheral economies. Core governments demand new credible commitments from the peripheral political economies that they will place their public finances on a more secure footing.

However we saw above that in practice such fiscal discipline is broadly associated with social compacts that are only weakly developed in the peripheral and liberal economies within Europe. "Social Europe", often seen as a pleasant "add-on" to the European project, is shown to be a key condition for securing this fiscal discipline. The building of Social Europe would, it appears, strengthen the capacity of European public finances to maintain fiscal discipline. However, this itself raises profound difficulties. As Ferrera (2009) argues the "virtuous nesting" of welfare States within the EU as a whole "entails the strengthening of an EU "social space", capable of safe guarding the closure pre-conditions for multi-level social sharing arrangements" (2009: 219). This of course is not easy. Hemerijck (2013) argues that there is a "double bind of social Europe". National social compacts and welfare States are undermined by the market integration associated with globalisation and also with the European Union itself. However differences in national policies make co-operation at the transnational level and the building of a strengthened European social space very difficult. Social Europe is weakened at the national level but the national level remains strong enough to block its emergence at the European level.

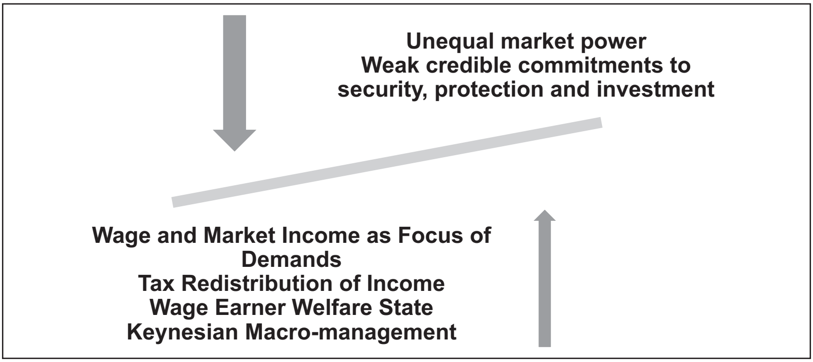
Chapter Four suggested some reasons why it might be so difficult to reconcile these national models, given the distinctive profile of not only welfare but also the links between welfare, production regimes and macroeconomic management in Europe's worlds of capitalism. It documented the quite different interlocking systems at national level within Europe, even as these systems pursued a political programme of institutional convergence. These differences go deeper still as they relate not only to the dominant institutions but to the field of action within the different countries in responding to the crisis of 2008.

Karl Polanyi's notion of the double movement is useful here. For Polanyi, the double movement consists of firstly a movement to establish a market society, where market relations dominate social life, and, secondly, separates from within the society to protect themselves against the corroding effects of market society. Figures 8 and 9 show that this creates different dynamics within liberal and social democratic economies. In liberal political economies these movements are particularly violent because of the dominance of market society. They are characterised by strong inequalities in market power and by weak credible commitments on the parts of all actors to long-term goals and action, including economic security, social protection and economic and social investment. The promotion of market society is also a feature of social democratic societies but takes a quite different form. As Pontusson (2011) has noted, most citizens are market actors with very high levels of employment and economic participation. However, they enter the market much more empowered than citizens and workers in liberal political economies. Given this, and the strong historical development of the welfare state, most actors are in a position to make and expect strong credible collective long-term commitments.

More significant still, the nature of the second part of the double movement is different in the two different types of political economy. In liberal economies, the most realistic avenues of action mean that social protection is most likely to be pursued through market centred mechanisms. These include Keynesian macroeconomic policy, the demand for welfare state expansion linked to wages and occupational earnings of benefits, the attempt to protect wage and market income as a focus of labour's demands rather than the expansion of welfare, and the re-distribution of income through the taxation system. In macroeconomic policy, welfare state development, tax policy and industrial relations, the focus of movements for social protection is the securing of gains in the market, as the development of large scale welfare or other programmes is a much more risky political prospect.

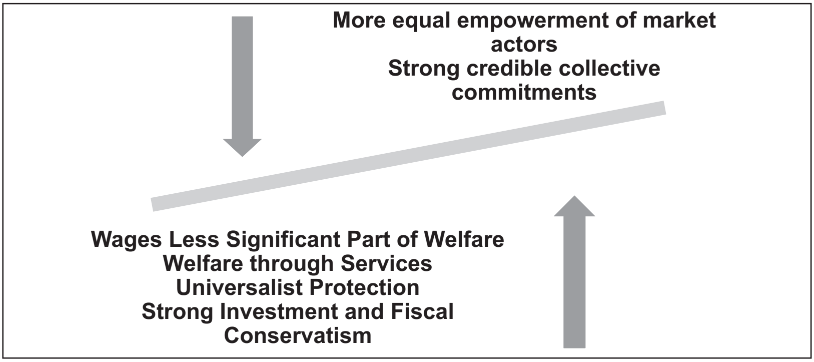
The double movement in social democratic political economies is quite different. The second part of the double movement relies much less on market centred social protection. Instead, universalist collective systems of social protection, strong emphasis on long-term social and economic investments, expansion of the welfare state as a compensation for wage restraint, and the distribution and redistribution of welfare through universal services and the overall size of the welfare states rather than through progressive taxation, are key features of the social democratic double movement.

Figure 8: The Polanyian Double Movement in Liberal Political Economies



Each of the contending views of how to exit the crisis draws on different strands of Keynesianism. While Keynes is often read as an advocate of counter cyclical spending and quantitative easing, this relies purely on a reading of Keynes as macro-economic manager. Keynes also emphasised a more general role for government, particularly in securing social protection and investment and generally managing the economy and ensuring appropriate level of investment and other long term economic requirements (Block, 2012). While most commentators associate the social democratic worlds of capitalism with Keynesianism, in practice it is this more general argument of Keynes for social investments and long range planning and management that is most characteristic of the social democratic and Christian democratic countries. The Keynes who advocated counter cyclical spending and macro-economic reflation to escape from crisis is in practice more widely favoured in liberal political economies – as seen in the persistently higher deficits run in such economies.

Figure 9: The Polanyian Double Movement in Social Democratic Political Economies



Underlying this, each political economy relies on a different system for managing risks. In social democratic countries the risk is internalised within the society itself through high levels of taxation and spending, linked to strong underlying fiscal discipline. The society insulates itself relatively effectively from the vagaries of capitalist business cycle and crises. However, in liberal political economies risk is externalised as the society tends to follow the ups and downs of the business cycle, and indeed of boom and crisis, relying on external adjustments to escape from crisis. These external adjustments include measures such as currency devaluation and international borrowing to fund domestic counter cyclical measures.

In addition, the two double movements relate to quite significantly different notions of the state and its role in the economy and vulnerability in an economic crisis. In liberal models, the state itself becomes an instrument of flexibility through monetary and currency policy. In social market capitalisms the focus is on defending the state from the vagaries of capitalist business cycles and crises. Fiscal discipline is not simply a matter of prudence or conservatism but is based on, ironically, a view where the state (and by extension the society) needs to be protected from capitalism.

The kinds of demand made from the periphery for more Keynesian responses and similar anti-crisis measures were always likely to fall on deaf ears until some reconciliation of these different logics within European capitalism could be found. Table 9 provides a schematic outline of the typical response to economic crisis in liberal and social market capitalisms. Despite being highly schematic, the table gives us a sense of the set of typical options available within the worlds of European capitalism. The table suggests that in each world of capitalism, a contractionary response is combined with a counter balancing expansionary response. The liberal approach relies primarily on private investment to drive recovery, restricting the expansionary contribution of the public sector, but compensates for this with flexibility in expansionary monetary, currency and sometimes fiscal policy. Despite their association with Keynesian demand management, social market capitalisms are typically more conservative in terms of fiscal consolidation, at least in recent decades. However, they are willing to use state investment to drive recovery (for example, the activities of the German state investment bank after 2008).

Table 9: The European Union Response to the Crisis

	Liberal Capitalisms	Social Market Capitalisms	European Union, 2008-2012
Macro-Economic Management	Keynesian Demand Management	Fiscal Consolidation	Fiscal Consolidation
Supporting Real Economy Recovery	‘Confidence’ and Private Investment	State-Led Investment	‘Confidence’ and Private Investment

Both approaches combine expansionary and contractionary elements in their stylised ‘policy mix’. However, the Eurozone-level response has emphasised the contractionary dimensions of both models without taking on the counter balancing expansionary measures. This transnational response has involved fiscal consolidation and restoring confidence in public finances in order to drive future private investment (an investment that has been predictably weak, at least where it is needed most). There was been some discussion of Keynesian measures in the core, including loosening of fiscal policy and increase in wages to boost demand (and ideally, though not necessarily, imports from peripheral economies). However, this made limited progress and in 2013 both France and Germany were planning significant national fiscal consolidation. Less prominent in public debate were suggestions for the expansion of transnational state-led investment – and indeed the EU budget for 2014-2020 was cut by 3.3%, particularly in growth-promoting investments including R&D and structural funds for regional development. The European-level policy response has primarily combined the two contractionary elements from each national policy mix and ignored their expansionary counterweights – providing a policy mix of the worst of both worlds of capitalism.

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6. A Framework for the Future[27]

Seán Healy, Brigid Reynolds and Michelle Murphy

In this paper we challenge the core of the analysis that has underpinned the current approach to economic and social policy across the EU. Instead of this approach we outline a framework for the future that we believe would be both desirable and sustainable. Austerity has been imposed by the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF). They justify this approach on the basis that Governments were profligate in their budgetary policy and reckless in their borrowing. The data however, does not support this analysis. Austerity imposed on the basis of a false analysis is severely hampering countries' capacity to recover. It is ethically unacceptable because it has been grossly unfair to most people particularly those who are poor and/or vulnerable.

Part I: The Road to Nowhere

i) Evidence versus assertion

In an interview given to six major newspapers in six different countries[28] and published on 26th January, 2012 the German Chancellor Angela Merkel argued that austerity was necessary because of the budgetary negligence of countries over many years. She emphasised the "extreme debt of certain countries, accumulated over many years". This is an example of a selective use of data that led to an inaccurate analysis which in turn has led to an inappropriate policy response. What is demonstrably false has been accepted as self-evident; this is a dramatic illustration of the failure of politicians, public officials, academics and commentators who have constantly supported this position.

Inaccurate analysis is not confined to Angela Merkel. On 21st October 2012 *Social Justice Ireland* published a briefing[29] it had presented to the Troika

27 A version of this paper was presented at the *Social Justice Ireland* Policy Conference on 19 November 2013. The subject of the Conference was "A future Worth Living For".

28 The interview was published by El Pais (Spain), the Guardian (Britain), La Stampa (Italy), Le Monde (France), Gazeta (Poland) and Süddeutsche Zeitung (Germany).

29 Available at www.socialjustice.ie

(European Commission, European Central Bank and the International Monetary Fund) during their quarterly monitoring visit to Ireland. The key issue addressed in that briefing was what *Social Justice Ireland* described as "the selective use of data by Troika organisations which is leading to inaccurate analysis which in turn is producing inappropriate policy recommendations for Ireland".

The briefing highlighted the selective use of data by 'Troika' members in the analysis and documentation they had produced in the previous year. This was leading to inaccurate analysis which in turn was leading to inappropriate policy proposals being made. Five examples of this selective use of data were identified in the briefing. These concerned (i) the poverty rate, (ii) reducing unemployment payments over time, (iii) increases in welfare rates in the previous decade, (iv) replacement ratios and (v) the distribution of the 'hits' during the recession. In each of these cases the *Social Justice Ireland* briefing identified the selective use of data in 'Troika' publications, showed how this led to inaccurate analysis and this, in turn, led to inappropriate policy proposals.

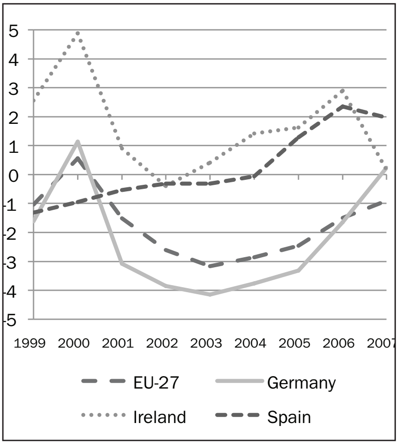
ii) Was there 'budgetary negligence and extreme debt accumulated over many years'?

Let's look at the evidence for Angela Merkel's claim. The public finances of member states in the EU before 2008 were keeping to the convergence criteria of the Stability and Growth Pact (de Grauwe 2011). In 2007 the average budget deficit of the 27 member states of the EU was 0.9 per cent of GDP. This is a long way below the 3 per cent threshold.

Public debts show a similar pattern. From 1999 to 2007 the average public debt of the EU member states went from 65.7 per cent of GDP to 59 per cent. This is below the 60 per cent threshold that applies to this issue. In the following three years this average rose to 80.1 per cent and has continued growing since.

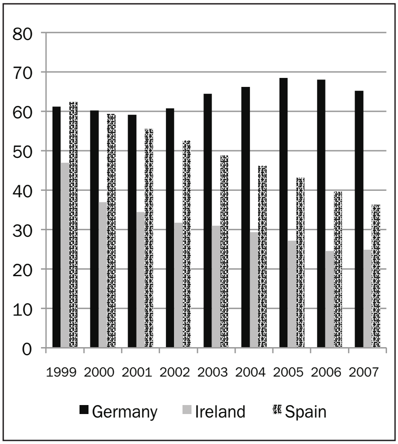
In the period 2000 to 2007 the only Budget deficit in Ireland was in 2002; even then it was minus 0.4 per cent which is very low. By 2010 it had reached minus 32.4 per cent of GDP because of the bailout of the financial sector. In another country currently at risk, Spain, in the period 2005-2007 there were budget surpluses (see Table 1 and Table 2). The fiscal position of Spain and Ireland sharply reversed in 2008 due to the bursting of credit fuelled asset price bubbles, which had been inflated by poor regulation of both the banking sector and commercial and residential construction sectors.

Table 1 – General Government Net Lending (+) or Net Borrowing (-) for selected countries, 1999-2007



Source: AMECO database (2013).

Table 2 - General Government Gross Consolidated Debt as a % of GDP in selected countries, 1999-2007



Source: AMECO database (2013).

This situation is summarised well by Christohe Degryse: "With the exception of Greece – which is a special case – there has been no general drift that might have justified the constriction of budgetary rules and the imposition of forced austerity. The great upheaval has resulted from the bailout of the banking and financial industry and support for the real economy to avoid a great depression" (Degryse 2012). He goes on to cite Martin Wolf in support of this position: "it is not budgetary indiscipline that was at the origin of this crisis. The indiscipline of the financial sector and, generally speaking, of the private sector, including lenders in the countries at the heart of the zone, played a much more important role" (Wolf 2011).

iii) How not to respond to an irresponsible financial sector

An accurate analysis would identify that the crisis of 2008 was caused by the financial industry, how it was framed and regulated and how it operated in the real economy. Such an analysis should have led on to the development and implementation of measures at an EU level to regulate financial institutions and to secure good governance in this area. Such initiatives could have included rigorous regulation of the sector, the introduction of a financial transaction tax, the elimination of tax havens, the tackling of financial fraud and tax evasion, the separation of commercial and investment banking, and so on. Little if anything effective was done in these areas. Instead what we did get - especially from 2010 onwards - has been a very strong focus on the false claim that the crisis was caused by a catastrophic profligate drift in public finances.

The capacity and success of the financial sector to delay introduction of the necessary changes has been in inverse proportion to the social resistance to austerity. The financial sector has got most, if not all of its money back, bank debt has been transferred to the sovereign and the bills are, for the most part, being paid by ordinary citizens who had no hand, act or part in causing the crisis.

Since 2009 the authors of this paper have consistently pointed out that this was the likely outcome of the policies put in place to address the 2008 crisis. The analysis was not accurate so the policy pathway has been inappropriate. In 2010 Paul Krugman, Nobel Prize winner in economics, pointed out that erroneous diagnosis by Europe's leaders was producing bad remedies (Krugman 2010).

The EU has focused principally on increasing supervision of public finances and introducing draconian sanction mechanisms in cases where thresholds are crossed or targets are missed. The Fiscal Compact which has become part of the European Treaty has imposed extraordinary limitations on any country trying to work its way back to fiscal solvency and to produce high levels of employment for its labour force. The justification for this approach is that it 'reassures the markets' so that they continue to provide finance to governments at low interest rates (while making it exceedingly difficult for groups such as small and medium enterprises to borrow at any interest rate). The former president of the European Central Bank, Jean-Claude Trichet argued that this approach was necessary to satisfy the financial markets. The

ECB, the European Council and the Ecofin Council also argued that the first priority was to re-establish the confidence of these markets. A series of initiatives were to be prioritised. In practice this meant the 'social' component of government policy in practice became the main adjustment variable in the management of the debt crisis. Social services and the social infrastructure that supports the delivery of such services were to be reduced dramatically and the savings used to support the on-going dominance of a financial sector that had gambled recklessly, acted illegally in some cases and succeeded in having much of their gambling losses repaid, in many cases repaid in full.

To this end austerity was imposed. Austerity, however, has been exposed as having an unsound academic basis, as being a failure in practice and as morally unethical because poor and middle-income people have borne an unfair share of its consequences.

iv) Austerity – a road to nowhere

What austerity has produced in practice in Ireland is structural unemployment, rising poverty levels, a sustained child poverty problem, on-going adult literacy challenges, high emigration, lengthening social housing waiting lists and declining physical and social infrastructure. The Irish Government's austerity approach has, however, protected the rich at the expense of the rest of us. In practice it has produced the single biggest transfer of resources from low and middle income people to the rich and powerful in Ireland's history. The main beneficiaries of this transfer have been parts of the corporate sector (mostly multinationals) and wealthy individuals. This situation has been mirrored in other vulnerable countries. In the period 2010-2012 substantially more than €700 billion in public spending cuts were decided on in fifteen EU countries[30] (Degryse 2012). These cuts, for the most part, were made in the areas of social protection, public employment and public investment. In most cases the budget cuts were accompanied by tax rises particularly VAT (which disproportionately impacts low-income people) and wage freezes.

This is a road to nowhere. The austerity approach has been challenged by a wide range of people and institutions. While all agree that it is crucial that countries manage their finances in a responsible manner and pay their way

[30] Austria, Belgium, Cyprus, Czech Republic France, Germany, Greece, Hungary, Ireland, Italy, the Netherlands, Portugal, Romania, Spain, United Kingdom.

over time there it is clear that the 'austerity' approach is based on a deeply flawed analysis and that a change of direction is needed if we are not to "cause the economic suicide of the entire continent" (Krugman 2012).

In moving beyond the flawed analysis and inappropriate policy responses that have characterised the response to the 2008 crisis particularly in the EU there are two issues that need to be included in the discussion which have been more or less omitted to date. These are the social dimension and the issue of governance. The authors have dealt with these issues extensively elsewhere (Healy et al 2013; Reynolds and Healy 2012, 2011). We wish simply to make a few comments on these issues here.

v) The social dimension

On the social front the political leadership of the EU has failed to provide the necessary support for countries in difficult situations. These have been forced into a situation of 'internal devaluation' in which the financial sector has been protected but services such as healthcare and pensions have been cut back, unemployment has been allowed to rise dramatically and emigration of people of working age has in practice been encouraged even though every government denies that this is the case. Their deeds, or lack of same, give the lie to their words where these issues are concerned. The social dimension has been the adjustment variable for managing the crisis. The claim by the president of the European Central Bank Maria Draghi that the European social model is dead simply serves to highlight how 'taken for granted' this position has been among the EU's unelected elite.

This situation is going to be exacerbated even further by the structural reforms that have been put in place. These are focused on reducing each Government's borrowing and debt while ensuring they cannot increase their expenditure at more than a very low rate even though such expenditure in many cases is the only hope these governments have of getting out of the crisis. It should be noted that without investment there won't be jobs on the scale required. Without these jobs there won't be recovery. Without recovery then austerity will continue. But the rules of institutions such as the ECB and the European Commission put very inappropriate barriers in place to block such necessary investment even when its repayment is ensured. In such a situation one must question the motivation of those putting these rules in place.

Respect for human dignity is a founding principle of the European Union, whose aims include promoting full employment and social progress, combating social exclusion and discrimination and promoting social justice and social protection (European Commission, 2008). The Treaty provides that the EU should support the activities of member states in integrating people excluded from the labour market (Article 137(1) (h)). The right to social and housing assistance so as to ensure a decent existence for those who do not have sufficient resources is enshrined in the Charter of Fundamental Rights of the European Union.

The Europe 2020 Strategy, adopted by the Council in 2010, aims to turn the EU into a 'smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion' (European Commission, 2010). Its setting of targets to increase levels of employment and education, reduce poverty and social exclusion and improve environmental sustainability are significant, because they highlight the importance of social policy goals to a vision for Europe's future well-being. They also point to the possibility of a more integrated and coordinated approach to economic, social, employment and environmental governance.

What is missing from most European documents is any real commitment to redistribution, fair taxation, solidarity or the elimination of poverty; there is a distinct lack of focus on outcomes. There are weak commitments on a few relevant issues in the EU2020 Strategy but there has been a total lack of support on the scale needed for the initiatives required to achieve even these modest targets. Many countries are further away from these targets today than they were when they were introduced in 2010. Other countries ignore the targets in practice and there is little or no effort to insist that even these limited targets might be achieved.

In its 2013 Social Investment Package, the European Commission recognised that welfare systems fulfill three functions – social investment, social protection and stabilization of the economy and that member states that take a social investment approach in their social policies have more inclusive growth than others (European Commission, 2013). A social investment approach involves putting greater focus on policies such as childcare, education, training, active labour market policies, housing support, rehabilitation and health services that have both immediate effects and returns over time – strengthening current and future capacities and preparing people to face life's risks rather than just repairing the damage.

More integration of social policies has recently been underlined again by the Commission in its Communication on strengthening the social dimension of the EMU (2013). This Communication discusses the possibility of an insurance system to pool the risks of economic shocks across member states thereby reducing fluctuations in national incomes.

In 2008, the European Commission adopted a Recommendation on the active inclusion of people excluded from the labour market (subsequently endorsed by the Council and the Parliament). The Recommendation commits to a balanced approach to active inclusion involving three equally important pillars:

(1) inclusive labour markets – ensure 'effective help to enter or renter and stay in employment',

(2) adequate income support – 'recognise…[the] basic right to resources and social assistance sufficient to lead a life that is compatible with human dignity as part of a comprehensive, consistent drive to combat social exclusion,'

(3) access to high-quality services – 'appropriate social support through access to quality services… including….services…essential to supporting active social and economic inclusion policies' (European Commission, 2008).

The Resolution recommends a 'comprehensive policy design defining the right mix of the three strands….taking account of their joint impact on the social and economic integration of disadvantaged people and their possible interrelationships, including synergies and tradeoffs' (European Commission, 2008).

In this context it is also important to realise that, despite all of these commitments and claims that the social dimension is crucial for the EU's future, inequalities have been growing during this period. An OECD report (2011) shows that even traditionally 'egalitarian' societies such as Germany, Sweden and Finland, have seen inequality grow during the decades leading up to 2008. This, however, has not received the attention it should have even though again the research shows clearly that there will be no permanent exit from this crisis without a reduction in inequalities (Wilkinson and Pickett 2010; Reich 2013).

What is also notable at EU level is that, more and more, social policy is being transformed into a tool with the single purpose of making enterprises and the economy more productive. So it is not surprising to see the Directorate responsible for economic and financial affairs in the EU increasingly being the one that is responsible for social policy. Rather than protecting the vulnerable such an approach undermines the protections that exist. This is a myopic approach that sees everything as being at the service of the market economy. Side by side with these developments there has been a down-playing of social dialogue. On this, as on so much else, the research is ignored. Recent studies have shown that where there have been effective institutions of social dialogue they have helped to reduce the impact of the crisis (Laulom et al. 2012).

Grahl and Teague (2013) have warned that without a 'social union' to complement the monetary union the Eurozone and European Union will increasingly lose legitimacy. They have recommended a range of social policy co-ordinations and adjustments to current European policies. For example, they note that if programme countries are to continue with internal devaluation, such a development should be pursued by reducing high income and wage inequality rather than reducing the wages of the low-paid. Conversely, those countries with current account surpluses should boost income to the low-paid and reform of their welfare states, thus raising Eurozone demand and reducing inequality within the surplus countries. The current European assessments of employment policy - the Lisbon assessments and the Europe 2020 targets – would thus take on a very different character.

vi) A word on governance

One further issue needs to be highlighted before we move on to Part 2 of this paper and look to the future. Many questions are being raised about democracy in the context of what has been happening in the EU since 2008 (de Witte 2011). The crisis of the financial industry exposed a major democratic deficit when the EU came to develop its response. Huge effort and major resources were put into saving the euro but with little or no public discussion or real democratic scrutiny. Parliamentary discussions, where they did take place, were often guillotined and little notice was taken of any critique provided. It's important to remind ourselves of the range of developments in recent years: the European Stability Mechanism was established; the 'golden rule' was inserted into national constitutions; the procedure for adopting national budgets was Europeanised and the powers of national parliaments were limited on these issues; so-called 'reform' programmes were imposed on countries. All of this was done with very little democratic scrutiny.

There are further challenges on the governance front. There is a risk that a two-speed Europe may emerge where some countries will be excluded from the core decision-making processes. There is also a danger that some countries will be allowed to run their own budgetary and fiscal affairs while others will be dictated to by European institutions. The new development which sees countries sending their budgets to Brussels for scrutiny before they are scrutinised by their own parliaments raises questions concerning democratic accountability. The European Commission may now seek revisions or take an even more active role on budgetary matters where some countries are concerned. How does such a development sit with democratic legitimacy (de Grauwe 2012)? The Commission does not bear the political cost of its decisions. This is leading some people to move towards a position where they see their own national government as the agent of other states or of organisations such as the IMF, the ECB and/or the European Commission – all bodies without democratic accountability (Streek 2011).

What concerns the authors most in this area is that the measures being adopted were designed to meet an emergency situation. However they are becoming permanent as they wend their way into the EU treaties, national legislation and other processes. We believe that many of these measures were developed on the basis of a false analysis as we have pointed out already and consequently are inappropriate responses to the real situation. So we are turning policy decisions based on inaccurate analysis into permanent treaty-based actions that must be followed. The folly of this situation is likely to be exposed in the years immediately ahead as countries such as Ireland are barred from making well-founded, evidence-based decisions which will mean that Irish society may suffer a great deal unnecessarily. The neo-liberal approach to development may well have succeeded in embedding its inappropriate policy approaches so deeply in the EU structures and processes that EU governments will not be in a position to respond appropriately to major economic, social or political developments. This democratic deficit is a very worrying development.

All of this suggests that there are major challenges ahead. There is an urgent need to:

- Put processes in place to ensure that debt created by the financial sector does not become sovereign debt.
- Ensure macro-economic stability.
- Reverse the growing inequalities across society; this involves reversing the hyper-concentration of wealth and of economic and social disintegration.
- Move towards just taxation.
- Put sustainability (economic, social and environmental) at the core of all policy decision-making.
- Reform governance.

The remainder of this paper seeks to spell out how these challenges can be addressed within the context of a new social model and a new social contract appropriate for the world of the twenty first century.

Part II - A Pathway to the Future

The need for a new guiding vision

In 1997, the American philosopher Richard Rorty gave a series of lectures at Harvard University, later published as a book, entitled 'Achieving Our Country' (Rorty, 1998). Rorty argued for a restoration of the idea of 'national pride', rejecting both nationalist jingoism and cynical self-disgust, which could exhort and inspire people to formulate radical but pragmatic programmes for political, social and economic change. Today in Ireland, 'national pride' is too often mobilised towards short-term goals such as 'making Ireland the best small country in the world in which to do business'. Perhaps there is an idea that we as a nation are strangers to grand projects and great ideas - that those are best left to other countries - and that the best we can do is to muddle through. But that would be to wilfully forget the ideas that inspired generations to struggle not only to achieve this country's independence, but also to transform Ireland's society and economy.

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

It is often forgotten that the Democratic Programme of 1919, proclaimed by the First Dáil, was embraced as the founding economic and social document of the revolutionary state that conducted the War of Independence. The drafters of the Programme, Tom Johnson and Seán T. Ó Ceallaigh, were heavily influenced by the writings of James Connolly and Patrick Pearse. The words of the Programme still resonate today, pledging that '[i]t shall be the first duty of the Government of the Republic to make provision for the physical, mental and spiritual well-being of the children, to secure that no child shall suffer hunger or cold from lack of food, clothing, or shelter, but that all shall be provided with the means and facilities requisite for their proper education and training'. Though the Programme was never put into effect, and treated with scepticism by those who would ultimately govern the new state, it can still be an inspiration to Irish citizens today.

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

Over the last two hundred years, there has always been a division between those who sought only 'national' territory or a narrow 'economic sovereignty', pursuing the same old agenda with a 'green jersey', and those who fought to create an Ireland of citizens, where everyone, no matter their income or wealth, would be treated equally. As the country turns to commemorating 1916, it is time to reflect on the social and economic vision of those revolutionaries for our country, and whether the country's current path reflects the aspirations of the men and women of 1916, or the aspirations of the great majority of Irish people today.

There are many policy areas outside Ireland's control at the present time. Yet, even within the macroeconomic restrictions contained in the Fiscal Compact, there are real choices to be made about the appropriate distribution of wealth, power and income in our society, the amount of resources our welfare state and health service receive, and the level of taxation required to furnish the resources necessary for a compassionate and civilised society. Now is the time to have a serious debate about our economic and social priorities.

Ireland needs a combination of vision and pragmatic policies that can truly move the country towards a desirable and sustainable future. We believe Ireland should be guided by a vision of becoming a just society that respects human rights, protects human dignity, facilitates human development, and preserves the environment. The core values of Irish society would be the inviolability of human dignity, equality, human rights, solidarity, sustainability and pursuit of the common good. All those living in Ireland should have what they require to live life with dignity and to fulfil their full potential, including sufficient income, access to services they need and active inclusive in a genuinely participatory and democratic society.

A Policy Framework for a New Ireland

To achieve this vision we propose a policy framework that identifies five key policy areas for reform.[31]

31 The authors have presented an earlier version of this framework in Healy et al. (2013).

- The first is macroeconomic stability, which requires a stabilisation of Ireland's debt levels, fiscal stability and economic growth, and an immediate boost to investment, which has collapsed during the crisis.
- The second is the need for a just taxation system, which would require an increase in the overall tax-take to the European average; such an increase must be implemented equitably and in a way that reduces income inequality.
- The third area is social protection which requires investment in the social infrastructure, the prioritisation of employment and a commitment to quantitative targets to reduce poverty.
- The fourth area is that of the governance of our country, which requires new criteria in policy evaluation, the development of a rights-based approach, and the promotion of deliberative democracy.
- Fifth, policies must be adopted that create a sustainable Ireland, through the introduction of measures to slow down climate change and protect the environment, the promotion of balanced regional development, and promotion of new economic and social indicators to measure performance alongside traditional national accounting measures such as GNP, GDP and GNI.

Table 3. A policy framework for a New Ireland

Ensuring macroeconomic stability	**Towards a Just taxation system**	**Enhancing social protection**	**Reforming governance**	**Creating a sustainable Ireland**
Debt sustainability	Bring Taxes to European average	Protect services and the social infrastructure	Reform policy evaluation	Combat climate change and protect the environment
Fiscal stability and economic growth	Increase taxes equitably	Combat unemployment	A Rights-based approach	Balanced regional development
Investment programme	Reduce income inequality	Poverty Reduction	Deliberative democracy	New indicators for sustainability and wellbeing

i) Ensuring macroeconomic stability

Ensuring macroeconomic stability requires a reduction in Ireland's debt burden, the launching of an investment programme and a restoration of fiscal and financial stability. All of these measures are connected. An investment programme would contribute to growth which would in turn lower Ireland's deficit and real debt burden. A reduction of, or commitment to reduce, Ireland's debt burden would increase confidence in the capacity of Ireland's economy to expand and thus fully exit the EU/IMF programme without the requirement of additional credit facilities or the activation of the Outright Monetary Transactions (OMT) programme, thus reducing yields on Irish government debt.

In the future, Ireland's macroeconomic policy will be severely constrained. Since Economic and Monetary Union (EMU), monetary policy has rested with the European Central Bank, and the single currency has prevented the kind of currency devaluation engaged in by Ireland during the late 1980s (Kinsella, 2013). Following the introduction of the Fiscal Compact, there will be severe constraints on Ireland's fiscal policy.[32] The Stability and Growth Pact rules require government deficits to be 3% or less; government debt to GDP ratio to be 60% or less; and government's annual 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%, but the compact requires 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'. We opposed the Compact on a number of bases: that it does not address what is essentially a balance of payments crisis created by persistent and excessive private credit creation; that the considerable debate and confusion about the measure of 'potential' output will severely affect the view of structural output; and that it is undemocratic, removing decisions about resource allocation and tax and spending from parliaments.[33] However, it is likely that the Fiscal Compact will remain in place. As Table 4 shows, over the last

[32] The Fiscal Compact is shorthand for the 'Intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union'.

[33] On the debate about 'potential' output and its implications for measurement of the structural deficit see Sawyer (2012). The difference between potential output – which is the optimal level an economy can operate at while maintaining a stable rate of inflation – and actual output is known at the output gap. The structural budget balance is calculated as the budget balance net of the cyclical component and one-off and other temporary measures. The output gap is used to calculate the cyclical component. Sawyer notes that if potential output is judged to have permanently reduced then this significantly changes what is perceived as an appropriate fiscal stance.

five years, domestic demand and investment have fallen rapidly. Arising from this situation, debt sustainability, fiscal stability and economic growth and investment are critically important. We address each of these below.

Table 4. Components of changes in Real GDP, Ireland, 2008-2014

	2008	2009	2010	2011	2012	2013	2014
Real GDP	-2.2	-6.4	-1.1	2.2	0.2	0.6	1.8
Final Domestic Demand	-2.2	-9.7	5	-3	-1.1	0	0.3
- Private Consumption	0.1	-5.1	0.9	-1.6	-0.3	-0.3	0.5
- Public Consumption	0.6	-3.4	-6.9	-2.8	-3.7	-0.6	-2.8
- Gross fixed investment	-9.6	-26.9	-22.6	-9.5	-0.1	2	4
Net Exports	1.5	4.6	3	5.7	1.6	0.6	1.5
- Exports	-1.1	-3.8	6.4	5.4	1.6	1.1	2.9
- Imports	-3	-9.8	3.6	-0.4	0	0.6	1.9

Source: International Monetary Fund (2013: 34)

a) Debt Sustainability

In October 2013, the Department of Finance estimated that the debt-to-GDP ratio will peak in 2014 at 124.1%, somewhat higher than the 121.4% estimated in 2012 and the 123% estimated in April 2013 (Department of Finance, 2013a: C19). The estimated peak of the debt-to-GDP ratio has tended to rise due to overly optimistic expectations of economic growth. By 2016 the Department expects that 14.3% of general government revenues will be devoted to servicing Ireland's debt (Department of Finance, 2013a: C20). Some improvements to the debt sustainability position have been made in 2013 with the extension of the maturities of the €22.4bn of European Financial Stabilisation Mechanism (EFSM) agreed by the European Council in June 2013. The Department of Finance estimates that Ireland will turn a primary surplus – the budget deficit less interest payments - in 2014. However, a return to debt sustainability is dependent on economic growth, and the ability to issue debt in private capital markets at sustainable rates. In terms of the former, the government and Troika have tended to over-estimate Ireland's capacity to expand through an austerity induced recession. In terms of the latter, the continuing weakness of the Irish banking sector, and doubts about the separation of sovereign and banking debt could pose significant challenges to debt sustainability.

There has yet to be a full recognition by European partners that a large proportion of Ireland's debt was accumulated in the course of rescuing the Irish banking sector, and ensuring that there was relatively lower burden-sharing than would have been expected in any other enterprise. 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 with a corresponding change in the pricing of Irish government debt. 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 (NPRF).[34] Of the €192bn in gross government debt in 2012, over 20% was accounted for directly by the bank recapitalisation alone.

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 retroactively recapitalise the Irish banking sector by purchasing the Irish government's bank equities. However, differences have since emerged between the leading nation-states in the Eurozone, with considerable uncertainty now surrounding the question of additional bank recapitalisations, let alone retroactive recapitalisations. This has re-opened the question of the connection between sovereign and banking debt. Given the upcoming capital adequacy tests, Irish banks may be judged to require additional capital to account for losses on their mortgage and commercial loan books. It is recognised by Irish policymakers that the Irish banking sector is, and has been, unprepared for recognising widespread losses on distressed mortgages (e.g. Honohan, 2013).

If Ireland's debt burden is to be sustainable, the ESM must at least be used to recapitalise the domestic banking sector. European authorities should also consider further changes to the status of the government bonds which were issued to replace the promissory notes including further extending the

34 Parliamentary Question 18719/12.

maturity and considering a lower interest rate. Such measures could also be further applied to the loans received under the EU/IMF Programme, in a similar manner to the EFSF loans.

b) Fiscal stability and economic growth

The connection between fiscal policy, output and employment has been at the heart of the austerity debate in Ireland and Europe. Recent research published by the European Commission and the National Institute for Economic and Social Research suggests that the effect of combined European austerity measures has been to suppress GDP, which actually increases debt levels (Holland and Portes, 2012; in 't Veld, 2013).[35] The Commission's study estimated that Eurozone GDP was 4.5% lower than it would have been without fiscal consolidation in 2013 due to the spill-over effects of Eurozone-wide austerity. Reducing government expenditure and/or increasing tax revenues are not the same thing as reducing the deficit, and meeting deficit reduction targets requires rapid underlying growth.

Ireland should make the case for a European-wide approach to growth, one that takes account of the spill-over effects of combined fiscal consolidation. Unfortunately, the European approach has been to adopt a tight fiscal policy framework through the Fiscal Compact, which was introduced with relatively little debate at the European level. If the Fiscal Compact is enforced in too restrictive manner then it may actually make the deficit and debt positions of European countries worse, as the contraction in economic growth caused by European wide consolidation might actually increase deficits and debts in real terms. DeLong and Summers (2012) have noted that in certain circumstances – short-term nominal interest rates only slightly above 0%, large cyclical unemployment, and excess capacity – expansionary fiscal policy can actually be self-financing.[36]

c) An Investment Programme

Ireland's GNP, measured at constant market prices, remains 10% under its peak in 2007, GDP remains over 7% under its peak, and domestic demand remains 18% under its 2008 level (CSO, 2013). Unemployment in the

35 Holland and Portes (2012) did note that Ireland proved the exception to the rule, potentially achieving a better fiscal position due to austerity measures.

36 This analysis would not apply to Ireland, but rather the Eurozone as a whole, pointing to a role to larger nation-states.

second quarter of 2013 was at 13.7% and has been falling slowly, driven by a growth in employment of 1.8% by the second quarter of 2013 and continuing emigration (CSO, 2013b). Recent Live Register figures imply that unemployment had fallen to 13.3% in October (CSO, 2013d). Investment as % of GDP in Ireland is 10%, the lowest in the European Union (Eurostat, 2013). Both the Troika and Department of Finance have acknowledged that consumption and domestic demand will remain stagnant, and have previously relied on growing exports to boost growth in their projections. Domestic economic investment is sorely needed, to generate employment and provide much-needed infrastructure; this will both reduce short-term unemployment and increase the long-run productivity of the Irish economy. The government has created a new investment fund – the Ireland Strategic Investment Fund (ISIF) - using the NPRF's €6.4bn discretionary investment portfolio. However, the fund is orientated towards commercial investment opportunities such as energy, broadband and water.

The authors believe that there must be an off-balance sheet investment programme between 2014 and 2016 of about €7bn[37]. This would directly create employment and also enhance growth, which would contribute to reducing the deficit by reducing unemployment and increasing tax returns. We propose that the investment programme target both economic *and* social infrastructure, including the construction of social housing units, investment in water infrastructure, and investment in primary care facilities.

ii) Towards a Just Taxation System

The American jurist Oliver Wendell Holmes once said that 'taxes are the price we pay for a civilized society'. We have 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. The authors believe that the incidence of taxation falls too much on the shoulders of those on middle and low incomes. Therefore, the overall tax take must rise in a progressive and equitable manner.

a) Bring Taxes towards the European average

Ireland's tax-take in 2010 was 28.2% of GDP, some 7.4% below the European average. The Department of Finance believes that taxation as a % of GDP

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[37] Cf. *Investing for Growth, Jobs & Recovery* (Social Justice Ireland, 2013)

will rise to 31.7% of GDP by 2015. The authors believe that Ireland should raise the total tax take to 34.9%. This would still keep Ireland as a low-tax economy as defined by Eurostat, while raising significant sums.

Table 5 compares the Department of Finance's targets for taxation as a % of GDP as announced in the Medium Term Fiscal Statement released before Budget 2013 with the level of taxation raised if Ireland increased its tax take towards the EU-27 average of 35.6% of GDP.

Table 5 – Potential Irish Total Tax Revenues, 2011-2015 (€bn)

Year	GDP (€bn)	DoF GDP %	DoF Tax	Tax at 34.9%	Difference
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 relatively low level of taxation to fund vital public services certainly contributed to the scale of the crisis in the public finances. It is also true that the tax system relied heavily on pro-cyclical taxes: a 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% of the total tax take in 1987 to 30% in 2006 (Honohan, 2010: 29). It is obvious that Ireland can never hope to address its longer-term deficits in infrastructure and social provision if we continue to collect substantially less tax income than that required by other European countries. Increasing the total tax take to 34.9%, would still keep Ireland's total tax-take just below the European average. There should also be a public debate on the appropriate level of taxation required over the next twenty years to fund our public services 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.

b) Increase Taxes equitably

If Ireland is to increase its tax-take, it must do so in a fair and equitable manner. These tax reforms should be partly attained by increasing income taxes for those on highest incomes, and by reforming the tax code and broadening the tax base. This will involve shifting taxation towards wealth, ensuring those who benefit the most from Ireland's economic system contribute the most, in the most efficient manner.

In its Policy Briefing on Budget Choices, *Social Justice Ireland* proposed that the Universal Social Charge apply at a rate of 10% for all those earning over €100,000, rather than the 7% it currently is. We also advocated minimum effective tax rate of 6% for corporation tax, reform of reliefs accruing to those paying the marginal tax rate, and the introduction of a Financial Transactions Tax (FTT) in line with proposals outlined by the European Commission and accepted by leading member-states.

A key part of Ireland's industrial strategy has been to attract foreign domestic investment through the use of a low headline corporation tax rate. However, this has recently caused reputational damage due to the utilisation of the Irish tax regime by multinational corporations to avoid taxes on their corporate profits. In practice, this policy has delivered some short-term gains in terms of foreign direct investment. In the medium-term, the main beneficiaries of Ireland's tax regime may well be multinational corporations and Irish professional services companies providing tax and legal services. A key medium-term priority must be the reconceptualization of the role of the Irish corporation tax regime. Under international pressure from the G20 and OECD, controversial loopholes have been closed but a serious discussion must take place about the role of corporation tax in Ireland's industrial strategy, and the role of 'brass-plate' companies headquarter in Dublin for tax purposes.[38]

c) Reduce income inequality

Income inequality, gender inequality and inequality of opportunity, are problems in Irish society. They produce a range of negative outcomes for those who are poor and/or excluded. Growing inequality exacerbates the negative effects on people who are poor and/or excluded. Pickett and Wilkinson (2011) have pointed to the negative consequences of inequality

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38 See Department of Finance (2013c) for recent adjustments to Ireland's corporation tax policy.

for all to societies, pointing to better outcomes in everything from subjective well-being to lower crime in more equal societies. Stigliz (2013) has warned of the wider effects of inequality on the political economy of nation, as wealthier citizens gain an outsize influence in policy formulation, reducing opportunities for the majority through their choices of policy. In Ireland, increases in social protection payments, particularly between 2004 and 2007, played an important role in reducing inequality. This has reversed since 2010, as successive government prioritised cuts in expenditure over increases in taxation, raising serious questions for Irish society.

While budgets in 2008 and 2009 were progressive, changes in taxation and expenditure since 2010 have been regressive, with the increase in VAT impacting particularly significantly on those with the lowest incomes (Callan et. al., 2012, 2013). This does not take into account cuts to public services, which have a greater impact on those who rely on services; the sick, poor and vulnerable. The Gini coefficient, a measure of income inequality, has risen from a low in 2009 of 29.3 to 31.1 in 2011 (CSO, 2013c). Reducing inequality must be a core objective of Government policy. Redistribution through tax and spending decisions should be used to achieve greater equality in Ireland.

iii) Enhancing social protection

There have been significant cuts to social services and payments since 2008. Many of these cuts have been socially destructive and counter-productive. Many cuts have been capricious and reduced expenditure without an adequate examination of the impact of those measures. Moreover, in reducing the deficit the balance between expenditure reductions and taxes has been weighted too much towards cuts. As we return to surplus in the primary budget balance, and fiscal space opens up, additional revenues should be devoted to public expenditure and restoring our public services. Investment in social infrastructure is required now to ensure that it is not eroded further which could potentially have significant future costs. Gross capital expenditure fell from €9bn in 2008 to €3.3bn in 2013, and a social infrastructure deficit has emerged in this climate of underinvestment as the population continues to grow. Finally, the goal of universal provision for all must remain, particularly in the area of health, where inequalities persist between the insured and uninsured population, as well as within the uninsured population that will grow as user charges are introduced, and medical cards removed.

a) Protect services and the social infrastructure

Since 2008 the government has cut spending by €20,159m while increasing taxes by €10,180m: a ratio of €2 in spending cuts for €1 in tax rates. By the projected end of the EU/IMF programme in 2015 taxation will have contributed €10,880m and spending cuts €21,459m to the total budgetary adjustments: the ratio of tax cuts to spending cuts will remain unaltered (Department of Finance, 2013b). Measures were, and are, required to 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. The ratio of spending cuts to tax increases in recent years should have been reversed. Future tax and spending policy should prioritise the building of Ireland's social infrastructure, including as a priority social housing, primary and mental health facilities, and early education facilities. Adequate social infrastructure and services are necessary to achieve sufficient dignity and equality of opportunity to all citizens, from children to older people, particularly in the context of an increased total fertility rate and gradually ageing population.

b) Combat Unemployment

Unemployment has risen rapidly since 2008, and by the second quarter of 2013 stood at 300,700 or 13.7% of the labour force (CSO, 2013b). Unemployment has fallen to 13.3% as of September 2013 (CSO, 2013d). Employment has finally begun to rise, with 33,800 new jobs created in the year to the second quarter of 2013. Long-term unemployment was at 8.1% of the labour force as of the second quarter of 2013, accounting for 58.2% of those who are unemployed. The International Monetary Fund (2013: 35) estimates that unemployment will still be 12.8% in 2015.

Unemployment is the gravest crisis facing Ireland at the present time. It is more pressing than the budget deficit. The Nevin Economic Research Institute (2013: 33) has pointed to the fact that there is currently 1 vacancy for every 32.3 jobseekers. Without a restoration of domestic demand and investment, it is simply not conceivable that employment will grow in the non-traded sector. Policy discussions on 'labour market activation' often do not take this reality into account, and political rhetoric can verge on the demonization of the unemployed. With regard to increasing demand and investment, our proposal for an investment programme would have an impact in reducing unemployment. We have further proposed the introduction of a *Part Time Job Opportunities Programme* which would create thousands of part-time jobs for people who are long-term unemployed.

c) Poverty Reduction

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. 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 since 2009 with the at risk-of-poverty-rate rising from a low of 14.1% in 2009 to 16% in 2011, consistent poverty has risen from a low of 4.2% in 2008 to 6.9% in 2011 while the deprivation rate has risen from a low of 11.8% in 2007 to 24.5% in 2011 (CSO, 2013c:1). In 2011, the single largest demographic group at-risk-of-poverty was children; nearly one in five was at risk of poverty (CSO, 2013c).

It would be a great mistake for Ireland, and Irish policy makers, to repeat the experience of the late 1990s. At that time, economic growth benefited only those who were employed while others, such as those dependent on pensions and other social welfare payments slipped further and further behind. The authors believe that policy in the future should provide equity in social welfare rates across genders, adequate payments for children, and high payments for those with disabilities.

iv) 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, which have been recognised as damaging or – in the case of the bank guarantee – catastrophic. Reforming governance and widening participation are a necessity; below we identify three immediate priorities.

a) Reform Policy Evaluation

Policy evaluation has been extremely poor in some cases throughout the crisis. The authors welcome the steps taken by Government to increase their 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 their analysis of the distributional impact of budgetary measures, and engage in public debate in the light of that analysis. Government should adopt an income and gender inequality analysis and apply it to each budgetary measure. This should be a statutory responsibility for Government.

b) A Rights-based approach

The authors believe 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 recognised and vindicated, 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. To be vindicated these rights will require greater public expenditure and provision of services.

c) Democratic Deliberation

Decisions taken by government must be openly debated both inside and outside the Oireachtas. Since 2008, austerity measures have been implemented in a haphazard manner, with little public debate and often a lack of explanation and justification for the measures by government. Instead of reasoned debate with citizens and civil society participation, decisions have been taken at an elite level. For example, Government has provided a high-level forum called the IFSC Clearing House Group for the financial industry, and 23 changes in the Finance Act 2012 were made to accommodate this group (McGee, 2012).

Decision-making must be founded on the idea of deliberative democracy, in which decisions about what kind of society and economy Ireland needs is founded upon reasoned and enlightened debate, and in which decisions taken by government are justified and accessible to the general public.[39] A

[39] See Gutmann & Thompson (2004) and Healy and Reynolds (2011) for more on the concept of deliberative democracy.

deliberative decision-making process is one where all stakeholders are involved but the power differentials are removed (Healy and Reynolds, 2011). In such a process stakeholders are involved in the framing, implementing and evaluating of policies and measures that impact on them. Each citizen should have a role and voice in how our society is governed. This should not be confined to five-yearly general elections, particularly when election debates do not provide substantive discussions on our country's future.

v) 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 objectives. In light of this, new indicators must be compiled measuring both well-being and sustainability in society, and used as an objective beside the traditional measures of GDP and GNP.

a) Combat climate change and protect the environment

Climate change remains the largest long-term challenge facing Ireland today. The challenge of reducing Ireland's fossil fuel emissions should not be postponed in the face of the current recession. We believe that Ireland should adopt ambitious statutory targets regarding the limitation of fossil fuel emissions, and introduction of taxation measures necessary that price the full costs of resources extraction and pollution. While the publication of the *General Scheme of a Climate Action and Low Carbon Development Bill 2013* was welcome, it only committed to already existing EU2020 and Kyoto Protocol targets. Additionally, there are not adequate sectoral targets or quantitative measures against which individual stakeholders can measure their progress.

The economic crisis has focused attention on economic growth and financial stability. This should not come at the expense of the physical environment. For example, the failure to tackle climate change now will have significant impacts into the future, including on food production, regional and global ecosystems, and on flood-prone countries.

b) Balanced Regional Development

A sustained recovery requires balanced regional development. The boom years saw an attempt to redress growing regional imbalances in socio-economic development through National Spatial Strategy (2002-2020), though it failed to do so, partly because of Government's own initiatives such as the decentralisation programme for public servants (Meredith and van Egeraat, 2013).

During the recession, particular regions of Ireland have suffered more than others. The unemployment rate in Dublin is the lowest in the country at 12% while the South-East remains the hardest hit with an unemployment rate of 18.3% (CSO, 2013: 22). Rural areas have been severely impacted by cuts in services. The authors believe that policy must ensure balanced regional development through the provision of public services – including cultural, economic and social services - and through capital spending projects, and the adoption of a new National Spatial Strategy, which should be formulated through a deliberative national debate.

c) New Indicators

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

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

Conclusion

As Ireland leaves the 2011-2015 IMF/EU Programme it is time to reflect on what type of economic and social vision Ireland wants to pursue in the future. Citizens have been deeply disorientated and demoralised by the years of austerity. A progressive future often seems out of reach. The old Celtic Tiger model, built on unsustainable credit-driven finance, has failed. Given this, it is vitally important that we advocate a new framework for the future and re-emphasise the goal of creating a social Europe.

The years ahead will still be extremely difficult, but it is possible to confront the challenges that we have identified and build a better future, one that is desirable, viable and sustainable. This will require the recognition and vindication of social, economic and cultural rights, and a real debate about the future level of taxation and distribution of resources in society. This should be carried out in the spirit of deliberative democracy, ensuring that all are able to contribute to a national debate. Government must play its part by ensuring that it pursues evidence-based policies, and that policy-making is transparent and that it is accountable to the public for its actions and analyses.

Above all, we should remember the words of the philosopher Raymond Williams, who wrote, ‘to be truly radical is to make hope possible, rather than despair convincing’.

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7. What Future for the Regions?[40]

Patricia O'Hara

1. Introduction and Context

A striking aspect of the aftermath of the collapse of Ireland's economy is the fact that so much of the discourse, analysis and policy response has had a national focus. It is clear that the economic downturn has affected places differently and that the failures in policy and planning and in the functioning of democracy were detrimental to the regions. It follows that there is a need to take account of regional differences in geography, resource endowments and economic and social profiles in constructing the recovery. Perhaps it is inevitable that, in times of crisis, national demands eclipse regional concerns on the policy agenda. However, this has happened at a time when there is strong international recognition of the contribution of lagging regions to growth and the need for geography and place-based factors to be included in the structural policy agenda. Now that Ireland's exit from the Programme of Financial Assistance is imminent, it is opportune to turn attention to the link between national recovery and regional development and to ask what kind of future we want for regions and localities.

In this paper I want to consider regional development issues from the perspective of policy and practice. I do this from the vantage point of having been actively engaged with regional development policy and practice during the boom years and their aftermath.[41] This was at a time when there was considerable awareness of the gap between developed and lagging regions. From the late 1990s onwards, there was a resurgence of regional and spatial consciousness, much of it driven by the obvious spatial impact of Ireland's rapid economic growth, particularly in Dublin and surrounding counties, but also in the other major urban centres. As employment growth continued and exchequer buoyancy meant that there were increased resources for public investment, it seemed possible that Irish public policy freed from the need to

40 A version of this paper was presented at the *Social Justice Ireland* Policy Conference on 19 November 2013. The subject of the Conference was "A future Worth Living For".

41 From 1999-2009 at the Western Development Commission (WDC)

focus narrowly on job creation could finally begin to address entrenched regional disparities and the emerging regional impact of prosperity.

For the first time, balanced regional development (BRD) became a key national objective as set out in the National Development Plan 2000-2006 and retained in the current National Development Plan 2007-2013. The National Spatial Strategy, published in 2002 to provide a framework for spatial development to 2020, aimed at achieving a better balance of social, economic and physical development across Ireland through more effective and integrated planning. The sense of promise and possibility that this activity reflected was paralleled at international level by a new focus on the importance of regions for national development in advanced economies. Regional economies were being regarded as 'keystones' of the performance of national economies in the international literature so that regional development and national growth are inextricably linked. The 'crash' brought this momentum to an abrupt end, both in terms of its direct socio-economic impact and the effect on public investment of the crisis in the public finances. Five years on, I believe it is possible to make some assessment of the impact of the boom years in the regions, identify mistakes and consider how we might address the challenges that face us. The remainder of this paper is divided into five short sections in which I consider the focus of regional development; explore how the regions fared in the boom; discuss the impact of the collapse; draw on international insights to ask whether there is a future for the regions; and set out some challenges for regional development in Ireland.

Before turning to a discussion of how regions fared in the boom years and what has happened since, I want to focus briefly on the rural/regional dilemma as I believe that the conceptual confusion about regional and rural development inhibits policy coherence in Ireland's approach to tackling regional disparities.

2. The focus - regional or rural development?

In recent years, academic and policy debates have blurred the distinction between the concerns of 'rural' and 'regional' development and the two terms are often linked, most notably in OECD and EU discourse.[42] While

[42] See OECD (2009, 2013a) and Barca (2009)

lagging regions are often characterised by rurality in terms of population density, and in Ireland this is certainly the case, the impact of globalisation, increased competiveness, the diversification of rural economies and commoditisation of rural space are among the forces that increasingly dissociate the term 'rural' from its traditional association with agrarianism. Rurality is now associated with the idea of region across Europe, with cities seen as the driving forces of regional economic development within an increasingly competition-oriented space economy.

Thus, in practice, the concept of 'rural' has evolved into a residual or relational concept defining non-urban or non-metropolitan areas so that the parameters of what is rural have become less obvious. A significant complication is that there is huge variation in how 'rural' is defined in official statistics and no widely agreed designation of the term at international level. Definitions vary and can be based on population density, settlement size and commuting distance[43]. Rural areas vary widely particularly in terms of remoteness, dependence on primary production, and human resource capacity. Typologies based on combinations of variables seek to capture the interaction between global processes and local conditions. Among the most complex is the EDORA Cube - a three dimensional framework which includes three typologies based on rurality and accessibility, degree of diversification and performance which was developed to try to capture rural differentiation across Europe and link it to macro-scale processes which are best captured at regional level.[44]

In Ireland the segmentation of rural and regional discourse and policy is both historical and practical. The agrarian base of the economy in the early decades after independence meant that rural economy and rural development were major national concerns. But, as far back as the 1950s, there was recognition that tackling the problems of the non-farm economy required an integrated approach to regional development. In the 1960s and early 1970s this was given concrete expression in various regional initiatives and in debates about growth centres.[45]

Entry to the then European Economic Community in 1973 shifted the focus back to rural development because of the dominance of farming in the

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43 See Walsh and Harvey, B (2013) p. 58
44 See Copus et al.(2011)
45 See Buchanan, (1968) and O'Hara and Commins (1991)

transfer of EU funds to Ireland through the Common Agricultural Policy (CAP). Two models of support to rural development based on CAP remain to this day. The dominant model has a strong agricultural focus and is associated with payments to farmers while the second is associated with locally based rural development. Rural development has become increasingly associated with what is referred to as the 'second pillar' of the CAP involving a specific set of supports to farmers (inside the farm gate) and funding to local action groups (known as Leader groups). The current Rural Development Programme Ireland (RDP) 2007-2013 will deliver €2.3bn in EU funds to Ireland, more than €2bn of which will go to supporting measures 'inside the farm gate'. The remainder of the monies go to supporting interventions aimed at improving the quality of life in rural areas and supporting the diversification of the rural economy which are delivered by Leader groups. A new CAP Rural Development Policy has been agreed for 2014-2020 and will provide funding to rural development on much the same lines.

EU support to regional development 'per se' has been much less significant but following the establishment of a Single European Market in Europe in the early 1990s, Ireland as one of the more disadvantaged member states was able to secure substantial monies from the reformed EU Structural and Cohesion Funds to support particular territories. Regional authorities and assemblies based on the NUTS3 regions and NUTS2 regions respectively were set up at the behest of the EU authorities primarily to oversee the disbursement of European funds but with no executive powers.[46] Meanwhile, Ireland's exceptional economic growth and EU enlargement reduced the amount of non-CAP EU funds available to Ireland.[47] Structural Funds are now by and large targeted at poorer regions in the EU and regional policy must be financed primarily from the national exchequer.

Ireland's approach to rural and regional development policy therefore was to a considerable extent funding-led in the years before the boom. The dominance of the CAP and the strength and sophistication of the farming lobby ensured policy focus for the rural economy. Regional concerns, being more diffuse, and without an articulate lobby, received less attention, with

[46] Ireland is made up of eight NUTS3 regions: Border, Midlands, West, Dublin, Mid-East, Mid-West South East and South West. These can be combined into two larger NUTS2 regions – Border, Midlands and West (BMW) and Southern and Eastern (S&E).

[47] The Border, Midland and Western Region, and Southern and Eastern Region are both concluding Operational Programmes (2007-2013) which are co-funded by the European Union.

the exception of the establishment of the Western Development Commission in 1999. As the economy grew, rural development came to be associated with the EU Rural Development Programmes and regional development shifted from concern with rural decline to the task of managing spatial development. The effects of the very rapid economic growth of the 1990s had made the disparities between the urbanised East and South and the rural West and North West more apparent. These spatial imbalances were characterised by differences in incomes, output, and productivity as well as demographic depletion and the incidence and risk of poverty. However, the management of spatial development was to be a much more politically fraught issue involving as it did decisions about spatial preference and planning.

There was sufficient concern with regional imbalances to include 'balanced regional development' as a key objective of the National Development Plan 2000-2006. This was followed up with the National Spatial Strategy (NSS) published in 2002 to provide the strategic framework for the realisation of economic growth in the regions and set out a hierarchy of urban centres – gateways and hubs – as the focus for growth and development in the regions. Urban-generated development was expected to have a beneficial spillover effects on rural areas, and while priorities for rural areas were identified, they were poorly specified.[48]

Meanwhile the first White Paper on Rural Development in 1999 conflated regional and rural development by specifying the rural development policy agenda as

.. all Government policies and interventions which are directed towards improving the physical, economic and social conditions of people living in the open countryside, in coastal areas, in towns and villages and in smaller urban centres outside of the five major urban areas (p.20).

By widening the compass of rural to the territory of all areas outside of Dublin, Cork, Limerick, Galway and Waterford, the White Paper shifted rural development policy from the narrow focus of the CAP supported measures to more broadly based regional development. This same definition is part of the terms of reference of the Commission on the Economic

48 See special issue of Administration *Revisiting the National Spatial Strategy ten years on* (2013)

Development of Rural Areas (CEDRA)[49] set up by the Ministers for Environment Community and Local Government and Agriculture, Food and the Marine in September 2012 to *inform to the medium term economic development of rural areas for the period to 2025* which is due to report shortly.

While the definitions of rural areas are varied, the Commission will adopt a holistic view of rural as being outside the main metropolitan areas. It recognises of course the relational nature of economic and social development and the interconnections between rural and urban areas. The research report will be short and specific and will take a multi-sectoral approach with specific focus on rural areas.[50]

Thus, while the term rural development continues to have particular meaning in the context of the CAP, the focus of rural development policy and intervention has become synonymous with the development of non-metropolitan areas. From a policy perspective, this can have an obfuscating effect. For instance, the concept of 'rural proofing' whereby policies are analysed for their impact on the well-being of rural communities, is problematic when all of Ireland outside the cities can legitimately be considered to be made up of rural communities. More importantly, it can lead to concentration on growth centres and divert attention from, or obscure, the problems of smaller places such as small and medium-sized provincial towns and villages including their relationship with larger centres.

3. The Regions in the Boom

Job growth drives population increase: The most striking impact of the boom in the regions was employment growth and the associated population increases. As job opportunities improved, Irish people and migrants chose to live and work in the regions in considerable numbers. In all but the remotest parts of Ireland outside of the five main cities, population growth has continued since the historical pattern of decline was reversed in the mid-1990s. Even with the downturn and the resumption of emigration, there were 1.7m people living in aggregate rural areas (effectively open countryside) in Ireland in 2011, up 5% from 2006. Indeed, among the seven Western counties,[51] the most rural counties experienced

49 CEDRA is due to complete its report within weeks of the time of writing.
50 See CEDRA website www.ruralirealnd.ie
51 The counties included in the Western Development Commission (WDC) operational area Donegal, Sligo, Leitrim, Roscommon, Mayo, Galway and Clare.

the highest levels of net inward migration over the 2000-2006 period. The quality of life and sense of well-being that rural living can provide is strongly valued particularly when it is associated with access to kinship networks, a clean environment, outdoor sporting and recreational pursuits and the sense of community that is characteristic of smaller places. This is borne out by experience of the WDC's LookWest.ie campaign, where individual's decisions to relocate were linked to well-being and by the finding from their exploratory study on the relocation of public offices to rural towns.[52] The attraction of relocation varies between individuals, but quality of life emerges as the primary motivating factor. [53]

Towns became more important: While Ireland has become more urbanised as the population has grown over the last fifty years, it is a nation of towns rather than growing large cities. In 1961, Dublin accounted for more than half of the urban population (51%) and the five main centres more than three-quarters (77%). By 2011 the proportion in the five centres had fallen to 53%, as the numbers in smaller towns increased. The numbers living in small towns (< 3,000 population) have doubled since 2002 and the numbers in larger towns (over 10,000) have also grown significantly accounting for a quarter of the urban population in 2011. So while the population generally is becoming more urban, a fifth of the urban population lives in small towns of less than 10,000 population. These towns are very significant for the regions and most of them thrived during the boom. Analysis of travel to work patterns nationally showed that the share of national employment in hubs and other towns increased between 2002 and 2006 while the share in gateways combined decreased in the same period.[54]

Employment grows but mainly in a few sectors: During the boom years the share of employment in construction, services and the public sector increased across all regions while that in agriculture and manufacturing declined. Male unemployment halved (from 18% to 9%) between 1991 and 2006 and women's labour market participation rose dramatically in all regions with many taking up jobs in the public service. The dramatic growth in construction accounted for much of the increase in male jobs, and this was widespread across all regions. Services was the other big growth sector accounting for 76% of net job growth 2000-2006 and 61% of all jobs in

52 See www.lookwest.ie and WDC (2008).
53 The fact that wellbeing matters and that we need to measure it is now widely acknowledged following the Stiglitz Commission Report in 2008, the OECD's work in this area and NESC, 2009.
54 WDC (2009)

2006. However, much of the growth in service employment in small towns in the regions was in locally traded services such as the wholesale and retail sectors which are dependent on local consumer demand. These services together with public sector employment became the backbone of many small town economies.

Little impact on regional differences: If we examine the most widely accepted economic measure of regional development i.e. Gross Value Added (GVA) per capita – we see that the gap between the regions narrowed only slightly during the boom. Dublin and the South West continued as the highest performing regions, being consistently above the national average. At peak, the BMW regions reached 72% of the average in 2006, while in the same year the Southern and Eastern Regions were at 110% with Dublin and the mid-East at 124%. This reflects structural weaknesses in the economies of the regions and their relatively low share of national output in key sectors. For instance, the dramatic growth in internationally traded services and financial services was mainly confined to the Dublin region where the great majority of jobs are located. Apart from Cork and Galway, the regions had limited success in attracting foreign direct investment during the boom; job growth in the regions came primarily from the indigenous sector with some regions recording significant net gains.

Human capital improves: Education attainment levels also improved with share of those with third level increasing significantly. This, together with the increase in the proportion of population in the economically active age groups due to in-migration, greatly improved the human capital resources in the regions. However, strong regional imbalances remained and these were associated with the nature of employment and age structures. The rapid growth of the Greater Dublin Area (GDA) and the South West regions during the boom was based to a significant extent on the availability of young well-educated graduates from weaker regions. It is ironic that the poorer counties continued to show the highest patterns of participation in third level education[55] but were unable to absorb their own graduates into employment within the region.

Community and voluntary sector expands: Integrated approaches to local development had begun to emerge in the 1980s largely at the behest of the

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[55] O'Connell et al (2006)

European Commission which made funding contingent on a partnership approach involving statutory, private and community groups. Over time the 'bottom up' or community based approach became the hallmark of locally based development initiatives and a qualifying condition for both EU and exchequer funds. Representatives of the sector became involved in national social partnership talks and achieved recognition as key providers of services to achieve social targets. In 2001 the Government White Paper *Supporting Voluntary Activity* set out policy for the sector and funding was substantially increased in the following years so that by 2004 there were a great number of locally based groups delivering a range of services on behalf of the state but with little spatial coherence. Government-led reforms in 2004 and 2007 reduced the number of local development companies from 94 to 52 by merging local development and Leader groups and community development projects into single mainly county-based entities and 15 specialised delivery structures. The range and complexity of services delivered by 52 local development companies and a range of other non-governmental agencies in local areas became extensive and complex during the boom, and ranged from training, employment activation and business mentoring to social care, counselling and mental health support. Being locally-based enabled these initiatives to respond particularly to the diversity of local needs, but the organic evolution of the sector meant services could be patchy and uneven in terms of availability and quality with some overlap and duplication also inevitable.

How did people react? The social, psychological and cultural effects of the boom are less easy to quantify. After years of decline or stagnation in many regions, all parts of Ireland experienced an unprecedented period of prosperity and social transformation in less than two decades. The availability of local employment meant that parents, accustomed to tailoring their own and their children's expectations to a limited set of local opportunities could look to a future where migration was not inevitable. The boom allowed earlier migrants to return home and the influx of 'new Irish' created unprecedented social and cultural diversity. Cherished and culturally valued ways of life such as farming, shopkeeping, crafts and other family businesses could flourish when combined with other occupations, or driven by local affluence. Greater mobility and access to technology afforded better choice of where to work and live. Although not everyone benefited, there was a sense of hope, possibility and optimism that was palpably evident to those of us working in the regions.

It is not so surprising in this context that the construction boom was seen as a blessing when the impact on local income generation, employment and affluence was so pervasive. Certainly, in regions where population loss and limited capacity to generate local revenue had persisted for decades, authorities were under considerable pressure from local politicians and voters to facilitate and/or encourage construction investments, even if they harboured doubts about their viability. The localistic and clientelistic nature of Irish politics, lack of regulation from the centre and the proliferation of tax driven investment schemes combined to create a culture in which housing provision was disconnected from need, and investment in residential property was deemed a route to quick profit for ordinary citizens. There seemed to be very few losers and a great many winners.

Did policy deliver? Despite the buoyancy of public finances, and the commitment to 'balanced regional development', government policy and practice during the boom years cannot be said to have addressed regional issues in any coherent or systematic way. Policy structures which had for decades become accustomed to addressing the challenges of a lagging economy with high unemployment were mostly uncertain and unsteady when it came to managing prosperity. Commitments to balanced regional development and maximising the potential of regions in the NDPs were not easily translated into practical investment projects based on convincing evidence, value for money and rigorous ex ante analysis. The administrative system was unaccustomed to the norms associated with large scale investment projects and often lacked the necessary data to provide a strong evidential base for investment. Regional development policy and structures which had been set up to maximise the transfer of structural funds to Ireland, and comply with the reporting demands of the EU, were under-resourced and ill-equipped to respond to the uneven spatial impact of rapid economic growth and there was little appetite for institutional reform. Central government, operating in policy silos, and besieged by competing demands, either ignored or inadequately addressed the need to invest in basic infrastructure to revitalise regions or introduced measure that were inappropriate to regional needs. The National Spatial Strategy was operationalised in only a very limited way, with most of the focus on gateways and relatively little exploration or understanding of the relationships between gateways, hubs, provincial towns and rural areas. Moreover, given the lack of real political commitment to the strategy at both national and local level and the ambiguities regarding its implementation, it had little chance of being taken seriously.

Failure to invest in basic infrastructure: The failure to invest adequately in water infrastructure is a significant example of policy failure. The Environmental Protection Agency [56] has reported that, in 2009, 114 of Ireland's 525 settlements had no secondary water treatment plants. Of those that had secondary treatment 190 did not meet the required standard. Thus, a total of 304 or 58% of towns had either inadequate or non-existent waste water treatment. This means that treatment for waste water has not kept pace with the requirements of the EU water treatment Directives, and discharge of waste water with inadequate or no treatment is still evident. Even where the treatment is in place, it is not always up to standard due to inadequate capacity or the poor performance of the treatment plant. This is a serious public health issue as well as a major cost to the tourism industry, food production and other manufacturing for whom clean water is a prerequisite. Similar problems exist with the quality of drinking water as evidenced by the presence of cryptosporidium and other contaminants in public water supplies. According to the EPA[57] more than 140 public water supplies need remedial action to ensure that their water supplies are safe for drinking.

Property and planning: One of the most striking examples of a policy measure completely inappropriate to regional needs is the Upper Shannon Rural Renewal Scheme (1999-2008) which provided for tax breaks on residential and commercial property investment to *help stimulate the development of the Upper Shannon Region*. This scheme is the primary reason for the explosion in housing growth and the high number of ghost estates in the five eligible counties[58] which doubled their housing stock over the period 2002-2009. In the decade 1996-2006, 30,695 houses were built while household numbers grew by only 18,896. While the Scheme sought to *encourage people to reside in the area and to promote new economic activity*[59] , instead it has left a legacy of 'ghost estates' inappropriate housing and a huge oversupply of housing stock. For instance, Co Leitrim had a housing vacancy rate of 31% in 2011 compared to a national average of 15%.

This over-reliance on property investment as a vehicle for the development of lagging regions, facilitated speculation and reckless planning decisions and can be seen as a failure to devise and implement more appropriate

56 EPA, 2012 Focus on Urban Waste Water Discharges in Ireland, Wexford.
57 See EPA Drinking Water Remedial Action List Q2 of 2013
58 See Kitchin et al (2010)
59 Department of Finance, 1999

regional policies that would have positioned lagging regions to increase their contribution to national economic growth. Strategies to address structural deficiencies in the regions – to improve infrastructure, the skills pool and quality of life so as to attract inward investment and grow indigenous enterprises were much more likely deliver sustainable regional development.

4. The Regions after the Collapse

The global recession and economic crash of 2008 impacted on Ireland more severely than on many European countries. The banking collapse necessitated the Programme of Financial Assistance from the European institutions and the International Monetary Fund which is expected to conclude at the end of 2013. The resulting set of major fiscal adjustments involving tax increases, decreases in welfare payments, and reductions in public expenditure has exacerbated the impact of the recession.

Those who have lost jobs, experienced business failures, seen large falls in wealth or carry a large debt burden have been particularly affected. Unemployment has once again become the key national issue, increasing from 5% in 2007 to 14% in 2012 while there was a cumulative contraction in jobs of 15% over the same period. Joblessness is particularly acute among young people and older, unskilled men. Long-term unemployment is a particular concern with more than half of those jobless out of work for over a year. In more than a fifth of households (22%) there is no member in employment. Poverty, deprivation and indebtedness have increased significantly, with expenditure exceeding disposable income in 38% of households.[60]

The economic crisis has resulted in an increased demand for public services, but expenditure on such services has been cut resulting in reduced budgets, staffing and programmes. For instance, over the period 2008-2011 public expenditure on health services fell by 11 per cent, while costs and Ireland's population continue to rise.

Regional economies – the gap widens: The impact of the recession on the regions has been to widen and deepen the differences between them. While

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60 NESC, 2013

the gap between the highest and lowest performing regions persisted but lessened during the boom years, the most recent data from 2010 show that the gaps between the NUTS2 regions has widened since the collapse.[61] In 2005, GVA per person in the BMW regions was 71% of the state average; by 2010 it had fallen to 66%. By contrast, the GVA per capita in the Southern and Eastern Region rose from 111% of the national average in 2005 to 113% in 2010.

Within the BMW Region, the shifts in relativities are more striking. From 2005-2010 the per capita GVA in the Midlands fell by ten percentage points from 69% to 59% of the state average, and by 13 points in the Border from 71% to 58%. Within the Southern and Eastern Region, GVA per capita in the South East fell from 75% to 68% of the State average while that in the South West rose from 113% to 121% So while the BMW regions are falling behind, the South East is also performing relatively poorly.

The reasons for these differences, and the widening of disparities, are rooted in the sectoral structures of the regions' economies. As noted above, the service sector is the most significant in terms of value and employment, accounting for almost three quarters of total GVA in 2010. What is significant is that half of this was generated in Dublin and only 17% in the BMW Regions. More than three quarters of all workers were employed in this sector in 2012 and close to nine out of ten of these were in Dublin (89%).

Industrial output is also quite spatially concentrated with one-third of GVA produced in the South West in 2010, 23% in Dublin, and just 19% in the BMW regions, with the Midlands contributing only 3%. Agricultural output accounted for just 1.5% of total GVA in 2010 and while spread throughout the regions is also significantly concentrated with more than one quarter (26%) of output produced in the South West nearly one fifth (19%) in the South East.

The level of spatial concentration is even more uneven when we examine the distribution of the value of output between the modern and traditional sectors. Dublin and the South West together accounted for more two third of the value (67%) of the modern sector in 2010. The BMW regions contributed just 10%, but accounts for 30% of the value of output in the

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61 CSO, 2013

traditional sectors. These patterns are reflected in the spatial distribution of the numbers employed with the nearly two thirds (64%) of high tech manufacturing jobs located in Dublin, the Mid-East and South West in 2012.[62]

Employment falls dramatically and unemployment increases: While difference in employment rates between the regions lessened during the boom, the rise in unemployment since the recession has led to a substantial increase in the rates in all regions as well as increased divergence **between** regions which is especially evident since 2010.[63] It is notable that the three regions with the highest unemployment rates back in 1998 also had the highest rates in 2012 (South-East, Border and Midlands) while the economically stronger regions were the least hard hit (Dublin, Mid-East and South West) with rates below the national average in 2012. It is striking that the numbers of unemployed in the Midlands rose from 4,900 in 2007 to 22,200 in 2012.[64] Moreover, these rates obviously do not take account of those who have emigrated in search of work.

Changes in employment reflect the sectoral mix in the regions as well, and while dramatic effects of the collapse of the construction sector were experienced across all regions, large declines in employment were also experienced in retail, industry and agriculture. Furthermore, there was a substantial fall in labour force participation rates across all regions during 2007-2012 which also depressed the employment rate. For instance, there was a drop in the participation rate in the Border Region of 13%. This probably reflects a retreat of agricultural workers back into agricultural activities associated with the decline in construction – a fact borne out by the negative correlation between share of employment in farming and unemployment.[65]

Impact on the voluntary and community sector: The crisis in government finances and resulting cuts in funding to the community and voluntary sector has severely affected them. Harvey has estimated that between 2008 and 2012 there was an overall reduction of 48% in government supports for the sector.[66] In the period 2008-2012 funding to the Community Services Programme fell

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62 FAS 2012, p.8 Tables 6 and 7.
63 See Morgenroth, 2012 p.70
64 More recent data from the QNHS Q2 2013 do show falls in the rates in all regions except the mid-East with the South East, Border and Midland continuing to have the highest rates.
65 See Morgenroth, 2012
66 Harvey, 2012

by €10m, a decrease of 18%. The Local Development Programme which is focused on tackling social exclusion in local communities had a reduction of 35% over the same period, while the social housing budget for the sector declined by 54%. Cuts to Health Services Executive (HSE) funded health and social care services provided by the community and voluntary sector ranged from between 2-7% during 2010 -2011.[67] The overall impact of the reduction in state support to the sector from 2008 will be a contraction of 35% by the end of 2013, with a reduction in staffing of over 11,000. When taken with the inevitable drop in public donations, due to the recession, this has resulted in considerable downsizing in the sector. This has implications for the delivery of services in local areas.

Depressed regions, depressed towns: It is clear that after five years of economic downturn all parts of Ireland are hurting both from the impact of the sudden crash and the outcome of mistakes of the boom times. Some of these outcomes are measurable in socio-economic terms while others are evident but less amenable to precise measurement. For instance, we know from the recent comprehensive survey of emigrants[68] that emigration has a greater impact in rural Ireland and that one in four households in extremely rural areas lost at least one member since 2006. The great majority of recent emigrants had third level education so that we are losing some of the best and brightest of our young people. Emigration is clearly an expression of disillusionment, and a loss of faith in the capacity of Ireland to deliver the quality of life and sense of well-being to which well-educated young people feel entitled. This is evidenced by the fact that nearly half those surveyed had jobs before they left, and that less than a quarter were unemployed before leaving.

Apart from the human cost and the visible effect on the landscape of poor planning regulation and the excesses of the property boom, it is in towns in the regions that some of the most observable effects of the downturn can be discerned, as job losses in construction and locally traded services have been very significant. These towns are heavily dependent on public sector employment,[69] and even allowing for job losses, the wholesale and retail sector remains one of the largest employers accounting for at least 15% of jobs in each region in 2012.

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67 2012 data not available.

68 Glynn I, Kelly, T and MacÉinrí, P (2013)

69 In each region at least one quarter of total regional employment was in public administration, education and health, FAS, (2012).

Businesses in Ireland are in the main very small with more than 90% employing fewer than ten persons (micro-enterprises) in 2010, with the highest share in the Midland and Border Regions. In all regions, less than 3% of businesses employ more than 50 people. Such enterprises, often dependent on local demand, have been badly hit by the recession. These trends are visible in the numbers of closed premises, the depressed property prices and derelict buildings in many Irish towns. Poverty rates too are higher in small and medium sized towns[70] which also have the highest proportions of working age households with no member working. Consumer spending has fallen and saving increased as a hedge against uncertainly. The numbers with mortgage arrears continue to grow with one study showing that in the Midlands, Border and Mid-East Regions there were proportionately more mortgage-holders in arrears of at least ninety days. These regions were also shown to have higher vacancy rates and distressed properties in negative equity.[71]

The towns in Ireland's regions are varied in size and character and their origins are diverse e.g. market and administrative centres, dormitories for larger urban centres, seaside resorts and ports. Almost all act as focal points for their rural hinterlands. The lack of a coherent towns' development strategy during the boom years has left many town centres depleted as out of town retail centres leech business away from the centre. While economic recovery and the return of consumer confidence might eventually provide some boost to towns, there is a pressing need for both a new strategic approach to town development and an immediate stimulus to boost their existing strengths.

5. International Experience

Lagging regions can and do make a vital contribution to growth: In recent years the OECD has focused considerable attention on how regions develop as well as their contribution to economic growth and recovery. This analysis, which is based on extensive empirical investigation, concludes that lagging regions have unused growth potential and can make a strong contribution to national growth. The promotion of regional growth is economically justified and geography and place-based factors need to be part of the policy agenda for economic growth and more inclusive, sustainable and fairer societies.[72]

70 Towns and environs with populations of greater than 1,000 but not cities or suburbs, CSO SILC (2011).

71 Kennedy, G and McIndoe, Calder, T. (2011) The Irish Mortgage Market: Stylised Facts, Negative Equity and Arrears, Research Technical Paper, 12/RT/11, Dublin: Central Bank of Ireland

72 OECD (2009 a), (2009b), (2013a). See also WDC, 2010.

The starting point for their most recent study entitled Promoting Growth in All Regions[73] was that regional growth patterns are not geographically uniform. As was evident from the dominance of the Dublin region in the data discussed above, economic activity tends to concentrate in large metropolitan areas which are often considered engines of national economic growth. This has led to a lack of understanding of the growth potential of other regions and their relevance for national economic performance. Statistical and econometric analysis of fast and slow growth and higher and lower income regions across the OECD together with the results of 23 detailed case studies showed that less developed regions make a vital contribution to national growth and accounted for 43% of total aggregate OECD growth during 1995-2007.

Concentrations of population are neither necessary nor sufficient for success; nor is rurality an inhibitor of growth. In fact, predominantly rural regions have, on average, enjoyed faster growth than intermediate or predominantly urban regions. It makes good economic sense then to invest in lagging regions as they can contribute significantly to economic growth as long as their assets are nurtured. Underperforming regions mean declining taxes, costly service provision and inequalities whereas regional growth brings national benefits in terms of equity, resilience and financial health. OECD concludes that geography and place-based factors need to be included in the structural policy agenda of countries to increase their growth potential. Apart from delivering efficiency, place-based policies also have the capacity to create a more inclusive and fairer society through their ability to mobilise local actors and ensure that they are involved and engaged in the development process

Place-based policies give efficiency and equity the same status: The place-based approach has also been singled out by Barca[74] within the context of an agenda for reform of EU cohesion policy. Barca defines place – within the context of a policy – as a social concept, a contiguous/continuous area within whose boundaries a set of conditions conducive to development apply more than they do across boundaries.

He defines a place-based development policy as:

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73 Promoting Growth in All Regions (2013)
74 See Barca-Report (2009)

- a long-term development strategy whose objective is to reduce persistent *inefficiency* (underutilisation of the full potential) and *inequality* (share of people below a given standard of well-being and/or extent of interpersonal disparities) in specific *places;*
- through the production of bundles of *integrated,* place-tailored *public goods and services* designed and implemented by eliciting and aggregating *local preferences and knowledge* through *participatory political institutions*, and by establishing linkages with other places; and
- promoted from outside the place by a system of *multilevel governance* where grants subject to *conditionalities* on both objectives and institutions are transferred from higher to lower levels of government. (p.5 Italics in original)

This approach can be particularly effective since it is based on the idea that policy measures and institutions should be tailored to local conditions. This need has been stressed by recent advances in the theory of growth and development. More fundamentally, it challenges the tendency not to give equity the same status as efficiency in public discourse and policy. As mentioned above, there is a growing recognition that both are relevant features of development and that societal progress cannot just be measured by GDP but requires an assessment of the multi-dimensional features of well-being. Barca argues that place-based policy interventions should be aimed at improving opportunities and changing economic institutions.

Human capital matters most: Unsurprisingly, the OECD found that international experience is that human capital is a robust determinant of regional growth. Perhaps more surprising is the finding that overall, reducing the proportion of people in a region with very low skills seems to make more difference than increasing the share with very high skills. Low to medium-skilled workers tend to be less mobile than their highly skilled counterparts. We have seen evidence for this in a recent study of emigration in Ireland, cited above, which showed that only a minority of emigrants (23%) were unemployed before leaving and that nearly two thirds of them (62%) had a third level qualification. Markets for highly skilled labour are national or even global, but lower skill demand and supply is more regional and local. So labour market and skills training policy need to be well adapted to local conditions.

For this reason the FAS study of regional labour markets published in 2012 for the Expert Group on Future Skills Needs is an important development as it provides detailed data on demand and supply of skills in the regions for the first time, and bears out the OECD's findings. The Irish data showed a similarity in the distribution of job seekers across regions in that the highest share had previously been employed as crafts persons or labourers, with managers and professionals among the lowest. Those with lower skills tend to be less mobile. According to the OECD, increasing the skills of low-skilled workers is critical, and may be as important for growth as expanding higher education.

How important are other factors? While investment in infrastructure is important, investment needs to be coordinated with other polices to be really effective. Innovation is shown to be important in more developed regions but less important in explaining growth in other regions – innovation tends to be concentrated in high-technology core regions. Other regions depend on less tech intensive forms of innovation which are less easy to measure. The barriers to growth vary widely so place based-approaches tailored to local conditions work most effectively. For less developed regions and intermediate regions, the most common formula for success appeared to be a simultaneous improvement in policies, infrastructure provision and human capital development.

Does the way policy is delivered matter? Yes, it is critical, particularly the way that policy-makers frame the challenge. The OECD case studies showed that a conscious shift toward a growth oriented policy framework that focuses on endogenous (bottom up) development is most effective. Policy packages are more important than individual measures and policy synergies across related domains can make a real difference. Formal and informal institutions play a vital role when they facilitate negotiation and dialogue among key actors so as to mobilise and integrate them into the development process. One of the challenges is to create institutions that strengthen the region's 'voice' in dealing with other entities both national and regional as well as the public private and educational sectors.

Exogenous (top down) policy intervention needs to have enough power, capacity and credibility to trigger institutional change. Well-being and social inclusion are determined by the success or failure of public institutions to deliver public goods and services including health, education, security, social care. Informal institutions and social enterprises can be supported indirectly through the delivery of public goods and services.

The key institutional factors in delivering successful regional policy are **leadership, governance, capacity, continuity and mobilisation.** Among the most important institutional bottlenecks are **lack of coherence and continuity in policy implementation by institutions, institutional instability, lack of a common and strategic vision, lack of capacity and gaps in multi-level governance framework.** These lists identify some of the challenges for Ireland as discussed below.

6. Some Challenges for Ireland

Leadership: It is clear from the account of how regions fared, before, during, and after the boom that the rhetoric of policy – balanced regional development and strategic spatial planning – was not matched by the reality of political commitment and leadership that could deliver sustainable growth for the regions. The international evidence is now compelling that regional development can make a vital contribution to economic growth while simultaneously addressing social exclusion, and that policy intervention is a key enabling factor. While larger metropolitan regions will continue to drive economic growth, the unused growth potential of lagging regions can be realised and contribute significantly to national development, provided the right mix of leadership, governance and capacity is mobilised.

If non-metropolitan Irish regions are to contribute effectively to economic growth and recovery, there is an urgent need for a clear strategic vision for more balanced regional development based on the kind of spatial structure best suited to Ireland's social values, history and geography, and on what has been proven to work elsewhere. This should involve setting out a coherent statement of policy priorities, how they would be operationalised, and those responsible for implementation. We know that the drivers of successful delivery are political leadership, accountability, resources and a sound strategy based on clear and measurable objectives and outcomes. However, 'implementation deficit disorder' continues to dog the realisation of policy objectives in Ireland. The experiences and lessons of the past five years and the current state of many of our institutions provide convincing evidence of the urgency of the need for reform, but also, perhaps, of our capacity to 'rise to the occasion' in times of crisis.

But changing things will require political courage and effective leadership throughout the delivery system. There are some encouraging signs. The recent appointment of an expert group to prepare a scoping report on the principles for a successor to the NSS is a welcome development and should provide an opportunity to identify the broad parameters of how Ireland might develop a place-based approach to regional development. The much-needed reform of governance structures also offers huge potential for change as discussed below.

What needs to be done? There is no shortage of analysis and reports outlining the key drivers of local and regional development or various action plans for employment creation.[75] Strategies for regional economic growth need to enhance regions' competitiveness and capture opportunities for wider spatial distribution of economic activity, by building on their existing strengths and resource endowments, and by recognising the importance of human, social and cultural capital. In practice, this can include positioning them to participate effectively in the knowledge economy, to compete for inward investment, supporting innovation in indigenous industry (both high-tech and traditional), encouraging business start-ups and targeting natural resources-based sectors such as tourism, agri-food , renewable energy, the marine and the creative sectors. What needs to be done is not usually contentious, but whether and how are matters of priorities and resources.

Fundamentally, a place-based development policy should reduce under-utilisation of resources; turn people's knowledge and preferences into projects; be promoted and resourced from the top; and involve multi-level governance.

Governance: In 2012 the Government published *Putting People First* [76] a major programme for fundamental reform of local government based on a vision of local government as the main vehicle of governance and public service at local level. The changes involved are quite far reaching involving a substantial reduction in the number of regional and local authorities. The existing eight regional authorities and two assemblies will be replaced by three new assemblies for the regions – Connacht-Ulster, Southern and

75 See: OECD LEED, 2013b; Enterprise Strategy Group (2004); NESC (2005); WDC, (2010), 2011; Action Plan for Jobs (2012); O'Hara, et al (2008).
76 Department of Environment, Community and Local Government, (2012)

Eastern-Midland – who will have responsibilities for formulation of economic and spatial strategies, functions in relation to EU programmes and oversight of local authority performance and national policy implementation. The county or city will continue to be the core element of local government but extensive change is proposed at sub-county level with municipal districts to be created based on towns and their hinterlands. Councillors will be elected in these districts which will be the main units of local spatial planning.

Local authorities will have a stronger role in enterprise development and business support through Local Enterprise Offices (LEOs). The reforms envisage that community and local development activities will be more closely aligned with local government with a view to improving local service delivery to citizens, achieving greater efficiency and effectiveness and enhancing the role of local authorities in the delivery of local and community development programmes and functions. This includes responsibility for developing a five-year City and County Local and Community Plan encompassing all state funded local and community development interventions.

These reforms are undoubtedly the most important in the history of the state in terms of their potential to radically reform the nature of policy delivery and its impact on Irish regional and local development. [77] They could address some of the problems which have beset the Irish institutional system for years including: insufficient coherence and integration in policy implementation; lack of regional focus in economic development policy; and the disconnect between locally based development and local government structures.

To give effect to the commitments on citizen engagement in *Putting People First* a working group on citizen engagement has been established to make recommendations on more extensive and diverse input by citizens into the decision-making process, and to facilitate their input into decision making at the local government level. Implementation of all of the PPF reforms will be challenging and will require strong political commitment and institutional support from the centre.

[77] A forthcoming OECD report *Delivering Local Government: Ireland* examines the impact of the proposed local government reforms on local economic and community development. See OECD (2013c)

While it is desirable to encourage and enable an active citizenry, this will not automatically empower communities. They also need to have some control over decisions that affect their quality of life and development, including provision of public services. Moreover, it is important that there is capacity to engage with and build on the work of locally based development groups, and involve them in the new governance structures, in a spirit of openness and experimentation. Implementation of these reforms is still in the initial stages, pending enactment of legislation and the institutional arrangements have yet to be worked out. However, there are concerns among those involved in local development about the prospects of greater integration into local authority structures where there can be little institutional knowledge or experience of community-based development. Authorities, on the other hand, are also breaking new ground and face the challenge of shedding old habits and finding new ways of working.

To paraphrase Barca: too much 'bottom up' can lead to dilution of exogenous policy intervention and the rationale gets lost; but if conditionality is over-played, mobilisation of local knowledge and preferences is weakened, and top down intervention is ineffective or counterproductive. Perhaps Ireland can get some of it right this time around.

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8. Hope in the Face of Disaster - Creating a sustainable, viable, future path for civilisation[78]

John Sharry

Summary

Taking a long term view, this paper explores the many crises that civilisation and humanity will face over the coming decades some of which are already starting to have an impact. The paper proposes a central cause to these crises and particularly explores the widespread psychological inertia in the face of these vast problems. Some potential constructive choices that individuals, communities and nations could yet make are outlined.

The Illusion of Progress

There was a small village located in the centre of a large rainforest. Over time, the people decided that they would like to voyage out of the forest and to make their way to the sea, which they knew was close by. To do this they consulted the wise people in the village, notably the engineer, the politician and the philosopher. The engineer and the politician quickly took the lead in the project. The engineer made cutting tools like machetes that could cut easily through the dense undergrowth, and the politician organised the villagers in small working teams. Over time an efficient system was evolved, the engineer made the best and sharpest tools and the politician streamlined their application. Soon the village was making steady progress through the forest and everyone in the village was employed and working hard together. The philosopher, who sat in the trees all day long, seemed to make little contribution and people wondered what his value was.

One day the group came upon a particularly high tree. It stood out as the

[78] A version of this paper was presented at the *Social Justice Ireland* Policy Conference on 19 November 2013. The subject of the Conference was "A future Worth Living For".

highest tree in the forest. The workers quickly bypassed it as they efficiently made progress, but the philosopher stayed behind and climbed to the top of the tree. From the top he had a fantastic view of the whole jungle. He could see the villagers, cutting like a snake through the jungle and in the far off distance he could even see the sea. Then to his horror, he noticed that the villagers were not heading towards the sea, but in fact were moving in the opposite direction, towards a large hidden chasm. If they continued on the same course, all of the villagers would fall to their death. Alarmed, he climbed down the tree and he rushed over to the politician and engineer leading the group.

'We are heading the wrong way, we are headed towards disaster' he shouted.

'Shut up' the engineer and scientist replied in unison 'we are making great progress'.

In many ways the plight of humanity represents that of the tribal village described in the story. We have created an apparently wonderful economic model that seems to provide us with so many benefits. When you consider the incredible feats of technology and the global consumerist lifestyle we enjoy it is easy to marvel at what has been achieved. Of course what may be less obvious is the dark side of the growth economic model which is deeply inequitable restricting its benefits to the relative elite in the western world and trapping the rest of the world in poverty. Most dangerous of all is the unsustainability of the model and where it is taking us in the future. There is now a perfect storm gathering that includes economic indebtedness, resource shortages, population pressures, and climate change that are guaranteed to derail civilisation. Despite this the political and economic mainstream are largely in denial about what is happening– like the hapless engineer and politician in the story everyone agrees that we must restart the 'growth economy' and continue to progress down the business as usual pathway. Very few people are taking the long term view and watching the direction towards doom that this pathway leads us. Too invested in the benefits of our current lifestyle, no one wants to hear the counsel of the philosopher who sees the disaster that looms ahead.

Where is civilisation heading?

> *Human decision-making is complex. On our own, our tendency to yield to short-term temptations, and even to addictions, may be too strong for our rational, long-term planning.*
>
> *- Peter Singer*

Like the philosopher in the story at the beginning it is useful to take a moment to climb the 'tallest tree' and to consider where civilisation is heading. Unfortunately the long term vista is not pleasant. Under the current business as usual economic model we are facing into a series of interrelated crises and global problems that are already beginning to have an impact.

Economic instability/ Financial System Weakness

The world banking crisis in 2008 and the resultant global recession revealed to the general public the inherent weaknesses in our world financial system. The economic growth model on which we depend has created a parallel system of finance that has built up extraordinary amounts of debt between countries and banks that has grown into an unsustainable bubble. In 2008 the world financial system was revealed as co-dependent, embedded and very fragile. Much like a house of cards, the collapse of Lehman's brothers bank send ripples through the world bands that the nearly brought down the whole system. While some stability has been created due to massive intervention on the part of nation states and central banks, unfortunately this is largely temporary and the central weaknesses remain. Many countries have completely unsustainable levels of debt that simply cannot be paid back and when a future crisis happens central banks and nation states will have less capacity to intervene (having spent most of their reserves to stabilise the system since 2008). Despite these problems there is widespread denial about the scale of the financial problems we face. As the economist and founder of Feasta, Richard Douthwaite[79] (p2) notes:

Few of us think that anything radical has to be done. We assure each other that minor tinkering, like holding an inquiry, beefing up the regulatory system and

[79] Richard Douthwaite and Gilian Fallon (2010)Fleeing Vesuvius Overcoming Economic and Environmental Collapse. Dublin Feasta. www.feasta.org

limiting bankers' bonuses, will be enough to allow us to carry on living pretty much as we do now for the foreseeable future.

Resource Shortage

We are heading into an era of resource shortage and constraint. The cheap fossil fuel energy that has powered our civilisation will become increasingly scarce and harder to access. Such a peaking of supply will have serious ramifications across our economies and not just in transport and energy. Our world agricultural system on which we all depend is highly fossil fuel dependent – collapses in the supply of oil, lead to collapses in food production and thus food shortages. Our world economy is so dependent on the cheap availability of oil, that even a small restriction in supply has the potential to collapse the entire system or plunge the world economy into depression.

Current and future resource constraints are not just limited to oil and indeed almost all the vital resources on which we depend are being depleted at exponential rates. Every human person and community depends on the availability of large supplies of water. With increased consumption and droughts caused by climate change fresh water is becoming harder to access in many regions in the world. Many countries are depleting underground water aquifers at exponential rates that far exceed rainfall's ability to replenish them. Many highly populated areas of the planet will become increasingly uninhabitable in the near future.

In his book, Peak Everything, Richard Heinberg[ii] describes how we are facing decline in just about every resource our complex economies depend on whether this is uranium production, grain yields, fish stocks, arable land in agriculture etc. Having been used to everything on demand and plenty in the past, our societies will have to deal with resource constraint and shortage in the future.

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[80] Richard Heinberg 2007. Peak Everything: Waking up to th century in decline in Earth's resources. Clairview Books

Ecological Destruction

Many natural biologists argue that we are currently precipitating the sixth great extinction on the planet. Some estimates put the current extinction rate at up to 10,000 the norm - we are systematically wiping out the earths species. Perhaps most devastatingly, this can be seen in the on-going collapse of life in the oceans. Overfishing and increased ocean acidity caused by CO2 emissions is leading to the collapse of ecosystems and larger dead zones. In a recent report, Alex Rogers, professor of biology at Oxford University, said:

The health of the ocean is spiralling downwards far more rapidly than we had thought. We are seeing greater change, happening faster, and the effects are more imminent than previously anticipated[81].

While the mass extinction of species might be seen as an environmental problem, it will also threaten our own survival as the human species s as our well-being is determined by the life in the oceans. In the same report Rogers continues.

People are just not aware of the massive roles that the oceans play in the Earth's systems. Phytoplankton produce 40 per cent of the oxygen in the atmosphere, for example, and 90 per cent of all life is in the oceans… The situation should be of the gravest concern to everyone since everyone will be affected by changes in the ability of the ocean to support life on Earth.

Climate Change

As if the problems above weren't bad enough, by far the most serious issue to come is global warming caused by human CO2 emissions leading to catastrophic climate change - this is biggest elephant in the room. Already, we are beginning to see the early stages of this in increased rates of flooding, severe heat waves and sea level rises but worse is to come. For many years, 2 degrees was proposed as the safe limit that civilisation could tolerate but this looks likely to be breached on our current economic trajectory. As Prof Kevin Anderson[82] of the Tyndal Centre notes

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81 http://www.theguardian.com/environment/2013/oct/03/ocean-acidification-carbon-dioxide-emissions-levels

82 Kevin Anderson Alice Bows 2011, Beyond 'dangerous' climate change: emission scenarios for a new world Philosophical Transactions of the Royal Society. 369, 20–44 doi:10.1098/rsta.2010.0290

There is now little to no chance of maintaining the rise in global mean surface temperature at below 2˚C, despite repeated high-level statements to the contrary (p42).

In exploring future trajectories, the recent IPCC report concluded that if we continue our 'business as usual' rate of CO2 emissions, this could lead to 3-5 degrees of warming by end century. Such rates of warming could make most of the planet uninhabitable for human life and threaten our very survival as a species. When you consider that the IPCC projections are relatively conservative and avoid taking into account many potential accelerating factors (such as permafrost methane release, dark Arctic Ocean heating etc.), then these predictions are truly alarming. As Kevin Anderson (quoted by David Roberts) states elsewhere[83]

The thing is, if 2 degrees C is extremely dangerous, 4 degrees C is absolutely catastrophic. In fact, according to the latest science, says Anderson, "a 4 degrees C future is incompatible with an organized global community, is likely to be beyond 'adaptation', is devastating to the majority of ecosystems, and has a high probability of not being stable".

What is the basic problem?

> *Because of his greed the foolish farmer opens the goose's stomach in order to access more of the golden eggs she produced. In the end he is left with a dead goose and no more gold*

Like all species, humans have exploited the natural environment to provide food, shelter and warmth. Unlike other species however, we are the first to exploit irreplaceable, and unrenewable natural resources in such excessive quantities that we are destabilising the planet on which we all depend. The most significant of these unrenewable resources are fossil fuels such as coal, oil and gas which we started using a few hundred years ago to kick start our industrial economy and on which we now depend on an increasingly huge scale to power our modern civilisation and consumerist lifestyle.

In the early days such natural resources where in such abundance that it might have seemed churlish to see them as finite or limited. In addition, we

83 http://grist.org/climate-change/2011-12-05-the-brutal-logic-of-climate-change/

had little evidence that our burning of fossil fuels caused harm to the environment. As a result, our economies started to grow at exponential rates and our modern civilisation became increasingly complex and dependent on exploiting these finite natural resources. Over time our industrial economy has morphed into a complex global machine that requires increasing energy and natural resources at its disposal in order to sustain it. The modern economy and the financial system in particular require on-going economic growth for it to remain stable. Loans that banks make now require future economic growth so that they can be repaid with interest. Any sustained recession, puts banks in particular and the financial system in general at risk of collapse.

As a result modern civilisation is collectively caught in the following terrible bind: In order to avoid collapse the modern economy requires continual growth and thus the increased exploitation of natural resources; however, economic growth depletes the earth's resource base on which the economy depends and so will eventually collapse.

This means that whatever choice we make we are facing into some form of decline and collapse. However, the earlier we choose ecologically sensitive alternatives to our current economic growth model, the more manageable such collapse and decline might be.

In simple terms we are reaching the limits of the natural world and things will not be the same in the future. Already, we are feeling the tremors of the future shocks to come. World agricultural output is declining, the availability of crucial natural resources such as fresh water, fish stocks, arable land are all declining. Fossil fuels are increasingly harder to access or cause increasing environmental damage as they are exploited. The mining of tars sands and the boom in worldwide fracking are examples of this, both of which are barely economically viable.

As children we all learnt the parable of the foolish farmer and golden goose who because of his greed kills the goose on which he and his family depends. We are making exactly the same mistake with the planet. Instead of accepting the natural limits of the resources at our disposal, we are living beyond the planets means and are perilously close to destroying the natural world on which we all depend.

Why is No One Listening?

There have been many warnings of the predicament in which humanity finds itself. In the early seventies the Club of Rome group published the famous book 'The Limits to Growth' which outlined the unsustainability of the world economic model. As early as 1988 James Hansen explicitly warned the United States Congress about the dangers of human induced climate change. Some of these warnings were taken up by politicians of the day and indeed President Carter issued a passionate speech about the over-dependence of the USA on fossil fuels in 1977 and called for a switch to renewable and more environmentally friendly alternatives. With the Rio Earth summit in 1992, attended by 152 world leaders, there was perhaps a peak of world optimism that collectively we might now face reality and turn away from the unsustainable and disastrous path we were on.

Sadly, however none of this hope for change has been realised in the last 20 years and indeed if anything things have got much worse. Instead of reducing our dependence on fossil fuels we have rapidly increased our consumption at an exponential rate. Instead of reducing carbon emissions into the atmosphere these are now at the highest than at any time in human history. Further, what is particularly surprising is that people are now denying more than ever the reality of the problem. For example, research conducted by the University of Cardiff in 2013 found that the proportion of climate sceptics in Britain has risen to 19%, an increase of 15% since 2005[84]. Despite increasing and overwhelming scientific certainty about climate change, there is a parallel increase in denial of the facts by the public. Indeed, there are now active and well-funded denial lobbies intent on confusing the message. Even among those who accept the problems, there is an increasing avoidance of discussing these problems. As well as a growing number of 'climate deniers' we now have 'climate ignorers' who are people who despite a sense that all is not right in the world choose not to consider these issues and instead continue day to day on the same path.

So why would this be? Why would people choose to deny the serious problems of the future posed by not just by climate change, but also by resource depletion, and environmental destruction? Why would people deny such serious problems when they are becoming most apparent? Why

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84 http://www.theguardian.com/environment/2013/sep/19/numbers-climate-sceptics-rise-uk

would we turn away from corrective action at the hour of our direst need? While people have suggested the answer to this lies in the existence of well organised vested interests in the energy and fossil fuels industries and this is indeed true, I think there is also a collective failing in our human psychology that explains this rampant denial.

Denial, Fear and Loss

> *The only pain that we can avoid in life is the pain caused by trying to avoid pain.*
>
> - RD Laing

Denial is a common psychological response to deal with a serious threat or loss. Rather than experience the fear that we should normally feel when confronted by a major threat, we try to deny the reality of the threat in order to preserve our mental comfort. This is particularly when the evidence of the threat is indirect or far off. For example, many people who experience the early symptoms of a major illness will avoid thinking about it or seeking help for a considerable amount of time. They will reassure themselves that it is something minor and nothing to worry about, and avoid seeking help. Denial can be particularly strong when acceptance of the threat would mean we have to change or give up something we hold dear. For example, a person addicted to smoking or drinking will go to great lengths to deny the harm such behaviour might be causing their families and themselves, because they can't imagine living without their preferred drug. In addition, because the damage of many addictions is far off and in the future, it is easier to deny its impact and to continue the habit unperturbed. For the smoker, the prospect of lung cancer in 20 years can be no deterrent to smoke the cigarette currently in their hand.

In many ways our collective behaviour in response to the prospect of climate change and environmental destruction is similar to the behaviour of a seriously addicted person. We in the West are addicted to availability of cheap oil and the consumerist economy that it provides us. Just like an alcoholic who will go to great lengths to deny the harm that alcohol causes in his life, so collectively our mainstream media and political system will go to great lengths to deny the harm that our economies dependent on fossil fuels are causing. When the denial is strong, people will cling to any belief (however unfounded) that seems to indicate there is nothing to worry about or that there is no threat to their livelihood. Picking perceived ‘holes’ in the evidence about climate, however tenuous, or clinging to ‘vague solutions’, however unrealistic are all powered by denial. When people read ‘denial’ articles, they can feel reassured momentarily and their fear of the future is abated. Of course such strategies only work temporarily as the evidence continues to grow and crises start to impact.

In addition, just as an alcoholic or drug addict will increasingly employ desperate measures to satisfy his addiction (despite the harm and moral depravity of such measures) so we employ increasingly desperate and ecological harmful strategies to secure an interrupted supply of oil to fuel our economy’s voracious appetite (whether this is fracking, exploiting tar sands or dangerous deep sea drilling).

Denial can also be particularly strong, the greater the threat and the more helpless a person might feel in the face of it. For example, many people on receipt of a fatal diagnosis may choose to actively deny or ignore these facts because they feel there is nothing they can do to reverse the diagnosis and the pain of contemplating its impact and their eventual death is too great for them. The recent growth of the number of ‘climate deniers’ and ‘climate ignorers’ can be explained by an increased awareness (on one level) of the problems and a resultant desperation to deny the facts and put them out of collective awareness. Though people have an increasing sense of unease about these problems they will avoid talking about them or engage in some form of wishful thinking that solutions will be found. They refuse to let the scale of the pending catastrophe sink in and do everything to keep it at bay.

As we shall see later, in helping people move from denial to a more constructive stance, they need to discover a purposeful goal of how they can respond to the current challenges which points to constructive action they can take.

Over Optimism and Collective Denial

One of the most striking things about the response to the current predicament is the lack of leadership and/ or collective denial that is endemic across our mainstream institutions. Our political masters, the mainstream media and most of our economists all agree that we must continue the economic growth or our ‘business as usual’ model, despite the patent unsustainability of this pathway and the harm it causes. In the face of the world economic crisis, there is an almost across the board consensus in the mainstream that we must return to economic growth to solve these problems. This consensus extends from the political left to the political right from business leaders to trade unionists and no one in the mainstream is proposing an alternative. There is almost no political will to question this consensus and to really consider the short term nature of such 'solutions' which even if possible will have such long term devastating consequences. Focused solely on re-election in a year or two, the last thing a politician wants to do is to talk about the reality of challenges for fear of making people despairing and fearful and vote not to re-elect them.

When denial is punctured

> *Crisis can be a time of opportunity and change, as well as trauma, and fracture.*

The fact the climate change is relatively a slowly emerging phenomena and that we are out of touch with the environmental destruction we cause, it is easy for most people to continue to deny these problems. This is likely to change once society is beset by an unending set of crises and catastrophes. Even though early change or adaptation is far more preferable to emergency change and forced adaptation, it is likely that until our addicted society experiences catastrophes, will the penny finally drop and our collective denial be punctured. Once this happens this will of course be a very perilous time. People, who have been hitherto in comfortable denial, will become fearful and desperate and may embark on desperate actions leading to social unrest, war and society breakdown. We need to be prepared to manage these social difficulties in the future which is likely to be as significant as managing the economy.

The famous psychologist Kubler Ross[85] proposed a model of the individual's response to bereavement or pending loss as going through the stages of denial, anger, bargaining, depression and finally acceptance. Once denial is passed a person may experience great anger at their loss, which is often accompanied by seeking to apportion blame and even seek retribution. This can be followed by bargaining or engaging in wishful thinking or unhelpful

85 Elizabeth Kubler-Ross, 2005 On Grief and Grieving London: Simon and Schuster

strategies to mitigate the loss and then by depression and grief as the impact of the loss finally comes to bear. Kubler Ross argues that once this grief work is done, the person can reach some level of acceptance and integration. Interestingly, many writers in the environmental field describe their own personal journey of awareness in similar terms. They describe a period of denial, before having a 'climate change moment' when they realise that the world on which they depend is unsustainable. This if often followed by a period of despair and finally by some acceptance and a commitment to constructive action.

Such a grief model may also give us some indication as to the stages we will collectively go through as the denial about the un-sustainability of our current lifestyles is punctured and we are beset by crises and consequences. If the first half of the age of oil has been characterised by exuberance, ever-increasing expansion, and an almost manic consumption of the world's resources, the second half will be characterised by contraction, scarcity and depression. Once the denial falls away and it becomes clear that the decline of our western industrial economies is chronic and long-term, collective anger in likely to be widespread. People will seek to blame someone for the situation they are in, and there will be many looking for easy answers or scapegoats. It is at these times that people can choose radical and extreme political views. Just as the economic turmoil and the great depression of the 30's led to the rise of dictatorships and totalitarian states in Europe, when the Nazis seized power by galvanising the public's anger, around easy scapegoats and negative ideals so these times will be fraught by similar dangers. In addition to anger, there is also likely to be widespread depression and despair. This is just as dangerous and has the potential to cause people to feel helpless in the face of negative forces within society, disabled them from taking action and to miss the positive opportunities in their midst.

Responding Constructively

In collectively, preparing for the many challenges ahead it is important to take into account the associated psychological, community and societal problems that will emerge. Once the crises occur, community and society leaders will have a particular responsibility to manage the public anger and despair that will emerge in order to avoid the destructive paths of social disorder. The twin challenges will be to help people channel their anger into constructive rather than negative courses of action and to present a vision that inspires hope in the face of widespread difficult circumstances. Such plans will be as crucial as economic and technological ones in helping people navigate a new future.

As a mental health professional my work is all about helping people face serious life problems such as addiction, disability or relationship breakdown and then in the face of such problems to live with meaning and purpose. I find it useful to conceptualise four stages to help individuals change which may provide a helpful framework in considering how we might collectively face the serious problems of resource depletion, climate change and economic collapse that are ahead of us. These four stages are

1) Honestly accepting the reality in which we find ourselves
2) Creating a meaningful vision/ purposeful goal of how to live in the face of such reality
3) Focusing on constructive action
4) Building a community of support

Honestly Accepting Reality

> *We must let go of the life we have planned, so as to accept the one that is waiting for us.*
>
> \- Joseph Campbell

At heart of addiction is fear. The addict fears that he cannot live without the drug or addicted object and will do anything to hold on to it. The antidote to this fear and the first step to overcoming addiction is to honestly accept the reality of your addiction and to take responsibility for your actions. Such honesty requires great bravery as you have taken responsibility for the harm your actions have caused. Using a second metaphor, our response to our collective predicament is similar to person facing a life threatening and potentially fatal illness. It requires great bravery for a person to face this new challenging reality and to allow the difficult feelings of anger and depression that might follow. Adjusting to accept a new much changed reality often requires a period of mourning, whereby a person experiences grief at the ‘loss’ of the future they were expecting and as they learn to live with very different expectations.

For us to face the hard reality of our collective predicament won't be easy. Most people avoid thinking about it and those that do maintain a theoretical understanding. Scientists will talk about how we are committed to 2-4 degrees of warming, but may be reluctant to describe in detail what these facts will mean (inundation of major cities, killer heat waves, collapse of agriculture, social disorder). Some economists will talk about coming shortages in oil and other resources but few will visualise the food shortages, and the potential economic and social collapse that this will bring. Further, while many people recognise there are serious environmental challenges, such problems are minimised and not seen as a personal threat to their own existence. The melting of the Arctic ice is seen as a problem for polar bears, and climate change as one only affecting the third world, rather than both being seen as heralding serious threats to their own personal and national security. There is a disconnect from the obvious fact that we are utterly dependent on nature and the environment – its demise spells out our own destruction.

For us to wake up to the sheer scale of the problems we face will indeed require great honesty and bravery. It will be particularly hard for us to accept our responsibility – that is it was our actions which caused all these problems in the first place through our refusal to abandon a harmful economic model. Hardest of all will be to accept that the problem is not fixable, that much of what we have done is irreversible. While there is a lot we can do to arrest some of the problems and to mitigate some elements of disaster it is very likely that we are gone beyond the point of no return in many arenas. At best, we are looking into a period of long term decline and managed collapse. There is no way to sugar coat these hard facts, though the psychological acceptance of this reality is the first step to health. After denial, the Kubler- Ross model proposes the hard steps of anger and despair before reaching a stage of acceptance when people can learn to live again in a meaningful way.

Creating a Positive Vision

> *Grant me courage the change the things I can change, the serenity to accept the things I can't change and the wisdom to know the difference.*
>
> - Serenity Prayer

> *Hope is definitely not the same thing as optimism. It is not the conviction that something will turn out well, but the certainty that something makes sense regardless of how it turns out.*
>
> - Vaclav Havel

Once a realistic and grounded appreciation of reality is achieved the next step is to create a vision for living in the face of this reality. There are two parts to this new vision that are illustrated by the wisdom of the serenity prayer. On the one hand, our new awareness should motivate us to individual and collective action to create change. Anyone realising the facts of climate change and resource scarcity should indeed feel alarm about our current collective path and then throw themselves into action to change course. Like the philosopher in the story at the beginning, we need people to try to 'shout stop' and to work to get us to pull back from our course of ecological (and self) destruction. This is the work of the many groups that campaign for reductions of CO2 emissions and those that work to conserve and protect wildlife.

Setting realistic and specific goals is important in this area of work, whether this is achieving a definite limit on carbon emissions when tackling climate change or aiming for food and energy security when building nationals resilience.

While these goals are absolutely necessary to create a future for the next generation, some of these changes are inherently beneficial and can make sense as choices in their own right now. For example, setting goals for more community oriented sustainable living, where people rely on their own resources to live, can be a more healthy and happy choice than the choice to live in our isolated, individual consumer societies.

Such important actions require great courage in the face of powerful vested interests which seek to thwart them. There is indeed a lot at stake. Unless we inspire people to act immediately, even a chance of a sustainable future will be lost. Every day that is passed without changing course makes a survival future less likely. We also have to be realistic about what is achievable. While we cannot avoid two degrees of warming, (which though catastrophic might be survivable) we can do a lot now to avoid four degrees (which will result in wide-spread collapse for human society).

As well as a vision focused on change, once we understand the reality of our predicament there is also another vision for living that is focused on acceptance and serenity. Such a vision recognises that though we are facing into a difficult future of decline and collapse – we can still construct a purposeful and meaningful life in spite of this. This vision is not constructed out of optimism but one that is wrought out of hope. Such a vision might have many components. It can entail a refusal to go down the path of despair nor to give into misdirected outrage that can lead to enemy formation, scapegoating, totalitarianism. Central to this vision might be a commitment to hold onto values such as justice, fairness and compassion in order to preserve a future worth living for. Such a vision might also contain a commitment to appreciate and value the life we have, and a decision to reconnect to the wonder of nature as it is. In his work with people facing death, the great existential psychotherapist Irvin Yalom proposed a 'golden' stage of death awareness[86], whereby people move beyond a simple acceptance of death to a point where such awareness makes their current life all the more precious and vital – each moment that remains is to be savoured and lived well.

Taking Constructive Action

Taking constructive action is crucial to managing and overcoming problems. A person with an addiction may first accept the reality of his addiction and then envision a positive life without being dependent, but unless he takes action to create a new way of living he will never move beyond the addiction the long term. Even a person who has experienced an irreversible loss such as a bereavement can find a new purposeful way of living such as dedicating oneself to a cause that is important to the loved one they have lost.

Taking constructive action in the face of a difficult reality is crucial to psychological health. Positive action in itself is an antidote to fear, channels anger in positive directions and turns the person away from debilitating despair.

Facing the current economic and environmental crises, there never has been such an urgent need for constructive action. Such action is both about arresting our business as usual path to destruction and finding alternative pathways as well as trying to adapt and build resilience in the face coming crises. Despite this urgency, most current global effort is on continuing the business as usual path with CO2 emissions continuing to soar and the environment continuing to be depleted). Even those with some understanding of the issues propose action that is far too little to have any

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86 Irivin Yalom 1999 Momma and the meanting of life William Morris Agency, Inc

impact on the sheer scale of the problems. Alternatively, other people adopt a 'wait and see' attitude – we understand problems are coming but we will change only when we have to. However, if we wait until major crises hit and our economies are shattered then not only will our action be too late, it will also be impossible as we will have little economic infrastructure to put plans into action. You won't be able to build flood walls or alternative energy sources if your economy is in chaos. Early preventative action, to build resilience or to reduce future problems, is always preferable and the sooner we act the better.

It can be useful to consider constructive action as taking place on four levels 1) personal, 2) community, 3) national and 4) international. Let's look at what might be possible on each of those levels.

Personal resilience and preparedness

While it is easy to doubt what a single individual can achieve, one must not under estimate the power of individual leadership. Certainly, as they realise the unsustainability of our present world most people in the environmental movement go through a personal journey of alternating despair and fear as they reach a stage of acceptance of the facts. Such acceptance and psychological preparedness for what is to come is a very important stance going forward. Certainly, a lot of time is unnecessarily wasted by people holding on to out-dated worldviews that no longer fit reality and which cause further harm to the planet.

At the end of this journey is the challenge of personal action. What am I to do in the face of these challenges? What is my responsibility now that I know the facts?

There is a responsibility to communicate what you know and to campaign our leaders for the more sustainable use of the resources as well as to start emergency preparation for the coming crises. There is also the choice to build personal resilience and to learn how to help your family survive in a future world that may be devoid of the many comforts on which our survival depends. Simple things like prioritising one's health, getting fit, learning useful skills and accumulating resources that will be of enduring value in challenging times all create personal resilience.

Building personal resilience is not just about building capacity to deal with future crises, the benefits also extend to how you live your life now. Take for example, the 'Growing It Yourself' movement, which has huge current popularity. Learning to grow your own vegetables not only teaches the useful future skill of self-sustainability, but it also provides you with physical exercise, a connection with nature (often lost nowadays) and the personal satisfaction of creating your own food. In addition, done as a family project, gardening can help improve your relationships with your family and has the potential to increase your connectedness with your local community if you share and exchange produce and ideas.

One of the most important benefits of a personal acceptance of the more challenging future we face is how it can alter a person's appreciation of their current life. Realising the potential losses in the future, many people choose to live more deliberately and with great appreciation of what they have as they sense none of this may be available in the future.

Community resilience

> *If we wait for the governments, it'll be too little, too late. If we act as individuals, it will be too little. But if we act as communities, it might just be enough, just in time.*
>
> - Rob Hopkins

While the current economy is global, the future one is most likely to be local. As economic problems and future shocks come to bear this is likely to unhinge the global industrial machine and people are more likely to depend on their local communities and towns. This is the basic premise of the Transition movement[87] pioneered by Rob Hopkins, which encourages people to come together in local groups to act now to build community resilience. These communities have initiated small-scale projects around energy, agriculture, transport, waste disposal, housing and education that all promote local supply and sustainability.

[87] Rob Hopkins (2008), The Transition Handbook: From oil dependency to local resilience, Devon: Green Books

Whereas in the past villages and towns depended more on locally produced food and energy, currently now locally grown food makes up less and 2% of produce and local energy production amounts to even less. This means that towns are extremely vulnerable to any global disruption to energy or food supply. Everyone is completely dependent on international supermarkets and oil suppliers for the basic necessities of existence. The Transition projects that encourage project such as community farms, local cooperatives and community energy projects, all reduce the dependency on outside sources and have the potential to build the local economy. Instead of most of people's money flowing out of the community to pay energy and food bills, the money can stay in the local community and build local jobs. Indeed, as future shocks rock the international economy such local economics will become much more important.

Grassroots movements such as Transition towns are about galvanising local people and communities into positive constructive action. Rather than sitting back, complaining about what is wrong or being fearful about the future, the Transition movement puts people in touch with like-minded people who can act together to make a difference. These projects connect people with their neighbours, provide meaningful community work and build social capital within communities. The personal psychological benefits of such constructive community action are enormous.

In addition, while these community projects are still small-scale and not yet on national agendas, in the future they have the potential to lead the way. Once economic and environmental shocks occur and the current system begins to break down people will increasingly look for guidance from on the ground communities that are better prepared for what is happening. In his most recent book 'The power of just doing stuff' Rob Hopkins[88] describes a myriad of small scale projects that have the potential to provide signposts for future action and sustainability.

National Resilience

While currently national politics is completely in denial about the unsustainability of the current economic system, this could change quickly in the face of serious crises. Such a change would be similar to complete

88 Rob Hopkins 2013 'The power of just doing stuff' Devon: Green Books

transformation of the UK during World War 2. Politics became unified and focused on a single major goal of survival in the face of the Nazi threat. Out of necessity and within a short period the entire domestic economy was reorganised into a largely local one where communities returned to growing their own food and rationed their consumption of imported products. With the common enemy of the Nazis, political leadership was strong and communities were galvanised into action. The ‘Dig for Victory’ campaign to encourage locally produced food was extremely successful.

In the face of crisis, it is possible to conceive that current national politics could be transformed and reoriented in a similar way. Climate change and carbon emissions could become common enemies and national goals could be set for energy and food independence. Networks of cooperatives could be set up on regional and national levels that could support such projects. Having clear national goals such as growing 100% of our own food by a certain date, or building a renewable energy infrastructure, will be easier to explain to the public and to ensure national buy in.

While currently it may be difficult, to persuade such a national reorientation, it will become more necessary as economic, resource and environmental shocks hit. As a result, early preparation is crucial. Even if most people do not fully accept the unsustainability of the current economic model, it still makes sense to create national plans now as to how we will deal with such potential shocks and emergencies. Some effort should be put into thinking how will we deal with a currency crisis? What will we do if oil/ gas supply is interrupted? How could we ensure food security for the population if world trade was interrupted? National ‘think tanks’ could be commissioned to plan a range of adaptive responses and emergency policies that can be enacted during crises. This can include plans for dealing with energy and food scarcity, mass unemployment, population migration, currency and financial collapse etc. Even in the face of large scale denial, there is a strong rationale for starting such preparation. Moving the discourse from an environmental one to one about national security is important in making progress. This is not about saving the environment, it is about saving ourselves.

International Cooperation and Resilience

One of the one most striking things about the global economic model is how interconnected it is. Most nations are bought into this co-dependent system and which our livelihoods depend. Whereas 30 years ago, countries like china and the soviet bloc seemed to possess some independence and to be following separate economic paths, this has all changed in the last few decades and these countries have fully joined the global economy thrown their hand into the consumerist lifestyle and the pursuit of economic growth. As a result, no nation is economically independent of another – shocks in one country quickly transmit across the system. The health of the European economy depends on that of US as well as on the economy of China and Russia and vice a versa. This co-dependence is particularly striking in the financial system – a collapse in one banking system has the potential to bring down every financial system.

As a result the problems associated with unsustainable growth such as climate change, environmental damage and resource destruction are all truly global problems. Any potential solutions or large scale mitigation strategies would only have a chance of working if they are international projects with buy in on a global level. Indeed, much effort has been put into broker international and global solutions such as the IPCC, in the large international meetings in Rio and Copenhagen.

Sadly, however, very little progress on the scale needed has been made. Nevertheless, while our global institutions exist we must continue to work hard to secure international agreements that might reduce CO2 emissions, limit environmental damage and share resources equally. When global crises start to hit hard in the future, it will be interesting to know how our global institutions will respond. While is possible that the stress of reduced resources and climate chaos could lead to fracture and conflict between nations, there is also the possibility that this could lead to more global awareness and force agreed global solutions as people work harder together to survive.

Building a Community of support

> *Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has.*
>
> - Margaret Mead

In my work as a mental health professional rarely do people overcome big personal problems on their own. It is usually in the context of support from family, friends or even a professional that people turn their lives around.

While there is a myriad of future challenges facing humanity that are already beginning to impact, the future still is unpredictable and open to choice. While few people yet take the long term view and see the direction towards which we are heading, it is incumbent on those who are aware to prepare and act now. If we do survive and continue to live purposely it will be down to our personal and collective choices. While we don't know what exact questions will be asked of us in the future, let alone begin to fully answer them, we can build resilience and a state of preparedness for whatever future challenges are to come. If we strive now to honestly face the reality of our predicament, set meaningful goals that bind us together and take constructive action, then we can build a future worth living for.

The EU is at a major turning point in its development. In recent years the economy has been its central concern and most of its policy focus and effort has been on securing economic growth. To this end the social dimension of the EU has been neglected. Despite some rhetoric to the contrary and a few relatively small-scale initiatives, the well-being of its people has been defined in terms of economic benefits principally. Social policies in areas such as education, health, public transport and welfare have been supported principally on the basis of their contribution, or otherwise, to economic growth. The President of the European Central Bank has gone as far as to say that the European Social Model is dead.

This perspective has also guided Ireland's policy development in recent years. Now that Ireland's bailout has run its course it is essential to look at the future we wish to build and how we propose to get there. It is essential that the shape of the future be discussed. Key questions include:

- *What are the major challenges facing Ireland at this time?*
- *Is it possible to build a future that would be both desirable and sustainable?*
- *What would the foundations and underpinning frameworks of such a future look like?*
- *How might such a future be developed?*
- *How might it be financed?*
- *How could different policy areas be balanced to work towards a future that would promote the wellbeing of all?*

The chapters in this book, which were first presented at a policy conference on the topic of '*A Future Worth Living For*', seek to address these key questions and related issues that arise.

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