

## 5. Time for a New Social Compact

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### Introduction

As societies and economies across the globe respond to the Covid pandemic, Ireland has the opportunity to execute a strategy which can address the major structural challenges from both the present and past. To meet this challenge we in Ibec, Ireland's largest business representative organisation, launched a Reboot & Reimagine campaign to set out this strategy and a blueprint for a better Ireland.

The campaign aims to galvanise all stakeholders on a set of actions and aspirations to create a sustainable future for Ireland. In effect the mechanism we envisaged to deliver this is a new Social Dialogue model with the potential to deliver a new Social Compact within that. What this Compact might contain is an open question but the compact I would contend in the former Social Partnership agreements in their initiation in the late 1980s was moderate wage growth, with reduction in personal taxation alongside industrial stability to enhance productivity.

This previous compact was directed at the individual to facilitate the opportunity to not just remain in Ireland but to thrive and prosper here, to build a career and begin household formation reversing the economic necessity to emigrate. A new compact would need to address the challenges of the Ireland of today and into the future. The standout issues of today are not merely standards of living issues but quality of life factors. Ibec sees these as better lives, better business addressing the need for better planning, better infrastructure and housing and doing these sustainably. The future of work will bring other challenges from automation, remote working and the absence of income continuance factors which even if coverage is nominally high, adequacy however might be low particularly when dealing with unforeseen shocks giving rise to precariousness.

The Developmental Welfare State work of the National Economic and Social Council may have another opportunity as the global trends are swinging towards social democratic inclinations after the half century swing towards conservative liberalism and focus on individualism. A favoured topic of the Social Justice Ireland conference has been the notion of a Universal Basic Income, I will reflect on how this may or may not be part of a New Social Compact.

Ibec sees the priorities falling into six themes:

1. Engagement and crisis management
2. Fiscal policy and stimulus measures
3. Get people back to work
4. Use the National Development Plan (NDP) review to stimulate investment
5. Reimagine a better Ireland
6. Seize international opportunities and respond to Brexit

Action has demanded leadership and courage from Government, as well as societal stakeholders as we continue to find ourselves in this crisis longer than had originally been anticipated.

## **Ibec Reboot & Reimagine Campaign**

### ***On Fiscal policy and stimulus measures we set out the following recommendations:***

**Roll out a multi-billion reboot plan:** Whatever it takes should be the mantra of Government policy to restore the economy and endeavour to offset the collapse in GDP with increased public spending, tax supports and investment.

**Continue to enhance the suite of liquidity supports for business and households:** The scale of public supports provided to address the liquidity crisis for business and households need to provide stability for both. For households this might involve a move towards a long-discussed topic of this Social Justice Ireland conference on a Universal Basic Income, a topic I will return to later. For business, further measures such as low or zero cost loans, export credit insurance and extended state guaranteed loans are urgently required.

**Write down some debts and provide cash grants to SMEs:** Many businesses will need further support such as extended write-down of commercial rates debts; enhanced direct grant payments and State support to resolve commercial rents disputes.

**Provide stimulus measures for consumers and impacted business sectors:** These should include tax changes to support employee voucher benefits, additional social welfare payments, grants to aid required social distancing investments and the reintroduction and expansion of the 9% hospitality VAT rate.

**Establish a Commission on Taxation and Social Welfare:** This should address both the immediate tax revenue challenges of the crisis and a range of other long-term issues such as environmental taxes and the sustainability of the wider tax base along with addressing the multiple welfare factors like income continuance from pensions, redundancy, layoffs or various parental leave periods.

***On getting people back to work we set out the following recommendations:***

**Increase employment support funding through JobsPlus scheme:** This scheme is a proven way to get people back to work and supports should be increased and targeted at the most impacted sectors and regions.

**Ramp up support for labour market activation programmes:** Building on the lessons of the last crisis, increased supports and new programmes should be provided to support jobseekers.

**Reform the social welfare and social insurance systems:** Long-term reform will be needed for both the social welfare and social insurance systems through the Commission on Taxation and Social Welfare.

**Increase funding for training and up-skilling and safeguard the National Training Fund (NTF):** In addition to funding available through NTF, targeted training and learning programmes will be needed for SMEs and incentives required to support industry uptake of apprenticeships.

**Substantially increase funding for higher education:** The wider higher education sector requires €400 million to support core, programmatic funding and infrastructure needs and to address the losses incurred as a result of the crisis. It must also see its long-term funding model put on a sustainable basis.

***On stimulating investment with National Development Plan (NDP) review Ibec has made the following recommendations:***

**Refresh the NDP and increase its lifetime budget by €25 billion:** A timely and effective review of the NDP can support a major investment stimulus across the economy and in all regions.

**Deliver quality and affordable homes:** Fast track the legislative passage of the Land Development Agency Bill before the end of 2020 and develop a new public procurement strategy to accelerate the delivery of social housing and support innovation by using modern construction methods.

**Reduce capital project delivery timelines by 50%:** Planning systems and timelines, procurement processes, and project delivery timescales need to be streamlined and improved to deliver projects rapidly and ensure that investment plans, such as the National Broadband Plan and the wider NDP, benefit the economy as quickly as possible.

**Encourage non-Exchequer finance for infrastructure and publish a new Public Private Partnership (PPP) pipeline:** The existing NDP is excessively reliant on Exchequer funding and fails to optimise the benefits of other financing options. The NDP review must include the publication of a new PPP pipeline to include major transport, housing, education and health projects.

**Ramp up regional development investments:** The National Planning Framework should be fully delivered to support regional investment and a new €200 million annual town growth fund should be rolled out to support the revitalisation of town centres. Funding for urban and rural regeneration should also be accelerated.

***To Reimagine a better Ireland, we set out the following recommendations:***

**Support remote working:** A combination of tax relief and other supports should be put in place in order to incentivise greater levels of home and remote working.

**Develop a social progress indicator model to measure national well-being:** Ireland should be a global leader in seeking to supplement measures of economic prosperity with a wider social progress indicator model.

**Improve quality and deliver greater funding for childcare:** The Early Learning and Care Services (ELC) needs to be put on a sustainable funding footing and requires a more effective and streamlined inspectorate model. These changes are essential in order to deliver a higher quality childcare service.

**Prioritise and resource the digital opportunity:** A whole of Government approach, led by a new Minister for Digital Affairs, should prioritise cybersecurity, digital innovation, adoption of digital in education and public services, and include adequately resourced digital and AI roadmaps.

**Step up our sustainability ambition:** The Climate Action Bill should be adopted immediately by the new Government and it should work with social partners to build consensus for an ambitious, cost-effective and equitable emissions

reduction pathway. Through a new Circular Economy Action Plan Ireland should aim to become a world leader in resource efficiency and innovative value creation.

**Roll out an ambitious national deep retrofit programme:** Deploy a new delivery and financing model, increase annual funding to €600m, and use the recovery phase to begin upgrading large sections of our building stock to B1 and A BER ratings.

*To seize international opportunities and respond to Brexit, Ibec has recommended the following:*

**Advocate for open and progressive EU policies:** Further developing the EU Single Market, particularly for digital and other services, will be important to boost economic recovery.

**Ensure flexibility in EU rules to support recovery:** This should include revisions to the EU fiscal rules in order to support investment and ongoing flexibility in the EU State Aid rules in order to facilitate targeted sectoral recovery plans.

**Leveraging EU funding sources to finance recovery and growth:** Government must ensure business has clear pathways to the supports available through the European Investment Bank (EIB) and other funding sources.

**Promote internationalisation and the benefits of free trade in a post-Brexit context:** Key priorities must be a successful conclusion to negotiations on a Future EU-UK relationship and removing tariffs imposed on transatlantic trade.

**Protect and develop the all-island economy:** Our post-Brexit relationship with the UK must facilitate both North-South and East-West trade.

## Social dialogue

The list of priorities are extensive but the first priority in Reboot and Reimagine focuses on engagement is of most significance for this particular discussion. Within this, Ibec advocates for the establishment of a more extensive social dialogue model as we specifically call on Government to reset Ireland's engagement with employers and other stakeholders in a more structured

consultation and engagement model which can support recovery, address Ireland's long-term societal issues with inclusive and sustainable outcomes.

Social dialogue is a mechanism through which business and key societal stakeholders are engaged and consulted on the major challenges facing society to influence meaningful outcomes. It is a structure and process involving all actors in society for involved and influential discussion on policy outcomes. The backdrop for a new social dialogue model is both international and domestic. The international backdrop includes:

1. Rising populism, polarized societies leading to extreme collectivism and political outcomes, civil unrest and instability
2. Rapid acceleration of change and disruption impacting globally
3. Ensuring the recovery from the pandemic crisis doesn't create greater inequality and marginalization
4. Creation of longer-term value for stakeholders as well as shareholders by business
5. Established tradition of social dialogue and insurance models within Europe

The domestic backdrop includes:

1. Major challenges facing Irish society requiring consensus, resources and mechanisms to find solutions
2. The wealth that is held privately has dwarfed the public sector and finances
3. Election trends giving rise to greater political fragmentation
4. Sequence of political crises eroding trust and confidence in public policy
5. Stakeholder communications and engagement structures are siloed and ineffectual
6. Need to Reset Government engagement with employers and employees for a contemporary economic context. Given trade unions represent 15% of the private sector workforce how are employees best represented in a contemporary context for instance?
7. Private wealth out of kilter with public sector investment
8. Quality of life greatly compromised due the legacy of the financial crisis and subsequent underinvestment in infrastructure and services
9. Ireland an outlier in Europe with no social insurance model

There are many examples internationally of social dialogue models and the OECD provides a comprehensive overview but given our traditions in Ireland we can surely bespoke a framework to suit our competencies and stakeholder formations.

What challenges can be addressed by social dialogue?

1. Climate change and a Just Transition to low carbon future
2. The impact of a post Brexit political and economic order
3. The future of work
4. Globalisation and digitization
5. Covid and a Just Recovery from social and economic scarring
6. Leveraging private wealth for public good
7. Underinvestment and quality of life constraints
8. Future demographics – both rising and aging population
9. Political fragmentation as well as populist and extremist trends.

### ***What can be achieved through stakeholder dialogue?***

A social model reflective of today's socio-economic circumstances where there can be mediation of policy outcomes to deal with the big challenges we face. Consensus on a Just Transition can be formed towards the allocation of resources and leveraging the private wealth accumulated in the last half decade. A mechanism to help the country progress through effective policymaking by breaking the cycle of making the same mistakes once more. It would offer the timely and meaningful discussion and scrutiny of policy options.

The key policy priorities for stakeholder dialogue would include:

1. Fiscal and budgetary policy, including coordination of work from Commission Taxation and Social Welfare.
2. Capital investment priorities including housing and public private partnerships
3. Social policy including childcare, pensions, social welfare and the wider social model including the social security system
4. Low carbon transition and climate challenge
5. Education and skills, to include investment in higher education and upskilling and reskilling initiatives

6. Policies to support the Shared Island agenda and the all-island economy
7. Labour market regulation and legislation
8. Diversity and gender balancing
9. Work/life balance
10. Employment rights and employee responsibilities.

## **Has a universal basic income a role in a new social compact?**

A Universal Basic Income (UBI) on first description sounds like something that would be impossible to be against. Indeed, just like pension provision the desire to advance the necessary goal of full coverage looks like it is merely a set up for the more important discussion on the sufficient goal of adequacy. This might ultimately be so but it needs to be placed in the context of the multiple objections of social dialogue to ensure it doesn't prove a constraint on other objectives like competitiveness or participation.

I am regularly asked how would business in Ireland respond to a Universal Basic Income, a guaranteed income for all citizens of Ireland? My view is that business - in that catch all term for many heterogeneous types of enterprise and lifecycles - remains open to debate on the merits of UBI but given that the model has yet to be successfully implemented internationally, lots of further research and dialogue is needed before business would be in a position to support its introduction.

Initial research indicates that it could be positive for entrepreneurship, innovation and the creative economy and could help reduce inequality but without other reforms it would result in significant increases in public spending and the tax burden. If it is seen as a means to reform tax and welfare system then it potentially is either that the amount of the UBI would have to be unrealistically low or the tax rate to provide it unacceptably high. USI has been in the ether for about 40 years and commitment in the Programme for Government to pilot it.

To my limited knowledge, no country has a UBI - Finland, Canada, Spain, India and parts of the US have been looking at the measure in different ways but pilots have been inconclusive and it would appear that no one has moved from pilot to UBI so far.

UBI operates as a standard payment to every individual that is resident in the State without reference to their means or their ability/availability for employment. It is non-means tested and does not increase or decrease as someone's income



changes. Much like Ibec's issue with universal child benefit there are issues with this universal payment, as those not requiring supports benefit further leaving less resources for those in real need.

It is believed that UBI would encourage greater entrepreneurship, support farmers, and artists to thrive as it would give them space to innovate. It is also seen as an antidote to the job losses caused by automation. However, Ireland has invested in an effective model of upskilling and reskilling to create jobs for those in obsolete roles or sectors and enabling the growth of new opportunities in growing sectors like the low carbon or green economies.

There are pitfalls of UBI for businesses directly. UBI would undermine our current active labour market policies which seek to provide targeted supports in job search advice, counselling and upskilling in order to help the unemployed back into the labour market. This would result in labour supply challenges and could diminish overall labour cost competitiveness in the economy. A basic income model in isolation would also leave many with lower income levels as it doesn't take into account specific issues or challenges in relation to housing or family size etc.

Given that its expressed intent is to eradicate poverty, the business community universally believes that employment is the route to sustainably eradicate poverty and the impact of decent jobs on families. A view clearly contested by many in this conference I am sure.

In jurisdictions where UBI has been trialed it has created happier citizens under less mental strain but it's not a sustainable model for boosting employment levels or encouraging those who aren't working to seek employment. This is a form of Static versus Dynamic observation differences, perhaps even the difference between a truism and a truth.

This would appear to be at odds with the ethos of our model of labour market activation which aims to provide job search advice, counselling and monitoring backed by the threat of a benefit sanction, short-duration specific skills programmes, work placements, and recruitment subsidies to support people who can work into employment.

Again, while a UBI is aimed at eradicating poverty and inequality, the reality is that it would not provide sufficient supports for those with high level needs due to disability or housing costs. Therefore, without premiums for those individuals the result would likely see increased poverty and inequality. In May 2019, The

Financial Times cited the extremely costly calculation for the U.K. of a UBI. It found that if the UK gave every citizen the equivalent of 20% of average income – about £120 per week – they would have to raise an additional 20% of national income in taxes, costing £400 billion per annum – the equivalent of new taxes that raise as much as the combined revenues of income tax, national insurance and corporation tax.

The dynamic behind the introduction of a UBI would further raise the question too of whether it would raise wage expectations further for industries with particularly strong impacts for low margin, productivity industries employing many lower paid employees to start with. The impact of a UBI for small business has been speculated upon. Could there be benefits in how small businesses could operate without needing to provide the same level of safety net for their workers. A UBI could potentially have implications for statutory minimum wage levels which would result in labour cost benefits for smaller firms, however it would also likely lead to higher tax burdens which would impact on businesses and consumers across the economy. This impact would need to be tested and lies at the heart of my earlier comment on the heterogeneity of businesses.

The debate on a USI inevitably drifts into the more vogue Living Wage as a possible alternative in terms of protecting lower-paid workers. The replacement of the minimum wage with a living wage is considered in the Programme for Government and no doubt would emerge in a nascent social dialogue context. The ‘living wage’ is a fundamentally flawed concept and does not take any account of a business’s ability to pay. If an organisation is to stay in business, it must keep customers and wages must be set against the price that the business can charge those customers for goods and services. Housing costs and rent make up much of the calculation of the ‘living wage’ concept. These very high costs are a result of failures of public policy over many years. It is entirely unreasonable to expect individual employers to bear the cost of these. This does however flag that may be alternative ways than non-productivity justified wage to address the problems of social infrastructure and service provision through the labour market between employers and employees. A new Social Compact could reflect that.

If there are some good aspects of a UBI but too many identified problems, what would be a better alternative to protecting citizens vulnerable in society? The Covid crisis legacy is likely to result in an important and much needed review of our entire social model and how we provide income supports for workers of all income levels right across the economy. A thorough examination of UBI should be part of that review which needs to consider all aspects of our tax and social

welfare system and this work must be led by the new Commission on Tax and Social Welfare. A comprehensive social dialogue model could ensure that all the enterprise, social and employment aspects of a UBI proposal is examined in a structured way by the key stakeholders.

- There is a limited pot of money and UBI undermines the goals of tackling homelessness, inequality, unemployment and poverty as it is paid to everyone regardless of their need meaning those in real need get less. Instead, we need to have strong interventions to support people and tackle this through an effective social protection system.
- Ibec acknowledge that long-term reform will be needed for both the social welfare and social insurance systems. We have faced two crises in just over a decade during Ireland has had to weather a major economic crisis without a fully functioning social insurance model to adequately support those who lost their jobs or had to change how they worked.
- The inability of the economy to insure against economic or social risks (such as the reduction of lower skilled jobs), demonstrates the need for fundamental re-thinking of the existing model of social insurance and its ability to enable the delivery of adequate income continuance for all.

Ibec would like to see:

- 1) Reform in the systems, processes and payment structures of the social welfare system:** This will enable an increase in efficiencies and innovations and reduce waste.
- 2) Evaluate the social insurance fund (SIF) model and its ability to provide adequate incomes for all citizens:** This will enable consideration of reform to meet the demands of changing demographics and provide us with greater security in the face of future crises, similar to our European counterparts.

After the coronavirus pandemic and the change in the nature of business and work, Government can both protect business but also look out for the health of citizens. Ibec has highlighted in recent months the devastating impact that Covid has, and continues to play, on many sectors of the economy including the domestic experience economy, encompassing the tourism and hospitality sector and its diverse supply chain. Business welcomed the measures announced in Budget 2021 to get people back to work as the costs of high levels of

unemployment, both in social terms and to the Exchequer, is unsustainable and can leave damaging scars on our labour market and society. It is welcome to see policymakers building on the lessons of the last crisis and deliver commitments of increased supports and new labour market activation programmes to support jobseekers.

The scale of Budget 2021, the largest in the history of the State, was ambitious but appropriate given the magnitude of challenges facing the Irish economy. The Budget announcement of a planned increase in capital spending is a positive move given the scale of the deficit in both social and physical infrastructure. This investment will be central to collective efforts in enabling the economy to resurge more competitively and sustainably.

## **Concluding remarks**

In concluding, my reflections on the need for a New Social Compact as an outcome of a New Social Dialogue stem from what's different from when Social Partnership emerged in the 1980s to now. Social Partnership was aimed at the individual even if not expressed as so. The individual who had no prospect nor expectation to even stay in Ireland to find a job, build a career and a life, begin a family and look forward to a prosperous retirement. The building block for all this was economic stability. Social Partnership may have gathered a tripartite of collective interests with Government, employees and employer representatives but its focus was to build a platform for the individual. It was pivoted on a Construct of centralised bargaining to determine wage, tax and industrial relations with the aim to secure the public finances, industrial peace whilst boosting disposable incomes through moderate wage increases and personal tax cuts. The backdrop was that households were relatively poor in international comparisons.

Today the households are wealthy on average compared to international peers and the individual has the choice to stay and live in a more tolerant, progressive Ireland. The failures to be addressed by a Social Dialogue model are now more about collective or public goods and services, specifically access to affordable housing, childcare, transportation and concerns for sustainability. A new compact can be delivered not through centralised wage bargaining as it relates to the individual's disposable income but now must reflect a more diversified set of factors by negotiating on the social welfare model financed through the social insurance scheme.

A future dialogue will ultimately revolve around the level of Pay Related Social Insurance (PRSI) paid by employees and employers on their behalf rather than limited to direct wage rates. If PRSI becomes the instrument of change to address social welfare provisions, it will need to be agreed between the representative agents of employers and employees. Given that PRSI rates are calculated on the basis of wage and salaries bills it has some comparability to Social Partnership though now the change for the levers is the opposite direction. Wage growth would be moderated with taxes or more specifically PRSI levies rising and the revenue raised paid into the social insurance fund for the benefit of the employee. The larger social insurance fund could address income continuance factors such as short time working, pensions, sick pay and additional parental leave arrangements and so on towards a proportional or adequacy response to an individual's income rather than flat basic rates that generally apply now. A variant of a universal basic income might be chosen as part of the Compact, but the drawbacks are probably too high and the interaction effects with the labour need more serious reflection. A similar comment applies to the concept of a living wage.

The response of the State and society in Ireland towards income continuance responses during this Covid pandemic augur well for undertaking the necessary changes to underpin our economy and society with a better interaction between our tax and welfare system to handle contingency events for individuals and businesses. The opportunity to reimagine our social compact is now and my reflections here are I hope a modest contribution to starting the dialogue for change.

