Beyond the Boom: Towards an Economic Policy for Welfare and Security

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The Irish economy has been booming in recent years and, although the gains have not been evenly spread, the vast majority of people have enjoyed a significant improvement in their material standard of living. Gross National Product (GNP) has risen by about 46 per cent in the past five years – and that's after allowing for the massive outflows of profits, etc., to the foreign-based owners of much Irish enterprise. Gross Domestic Product (GDP), which includes those profit outflows, rose by about 54 per cent.

By either measure we have been doing reasonably well. But they shouldn’t be the only measures. Economic performance is not necessarily a good indicator of social well being. A certain degree of material wealth is essential for human welfare, but there is no direct correlation between the two. Maximising welfare in a society involves much more. Welfare involves a sense of place, of security, of participation, of personal fulfilment.

In Ireland the growth in wealth has undoubtedly been accompanied by a decline in welfare. There has been a reduction in the areas over which the Irish people can exercise democratic control. And, at the same time the cohesiveness of Irish society has been weakened by a widening divergence in both levels of income and ownership of wealth.

Some diminution of our national sovereignty is inevitable given the globalisation of the economic environment. But, in many areas, control that could be exercised by democratic mandate has been ceded to an imperfect market mechanism in compliance with an ideological belief in the primacy of the market place.

The promotion of greater cohesiveness within our society is well within the control of the Irish people, but progress can not be measured in terms of growth in GDP or GNP. They are not even perfect yardsticks of economic progress. New benchmarks are needed as an expression of objectives, a guide to policymakers, and a measure of human progress.

GDP and GNP only measure that which people can put a price on, not what people put a value on. Every economic student knows the story of the man who reduced national income by marrying his housekeeper – the work of a paid housekeeper is included in GNP, while the work of unpaid mothers is not.

But the anomalies and shortcomings go well beyond that. National income takes no account of the distribution of income – a key element in promoting welfare. Greater inequality is likely to make many people more grasping, greedier, more socially disruptive, and less happy – even if all are wealthier.

GNP is actually increased by extra spending on security and prisons, even though the spending reflects an increase in criminal activity that actually reduces human welfare. The depletion of national resources is treated as income rather than as consumption of capital. The creation of pollution is not seen as a cost, although spending on cleaning up is included as income.

The problems are recognised by the economists, but since agreement can't be reached on assigning values to such items, they'll continue to be ignored in the national accounts.

As material wealth increases, the divergence between wealth and welfare widens. It is impossible to quantify that divergence in money terms. There is no acceptable measure of welfare or human happiness and fulfilment. Such measures will only be devised when national objectives are set in terms of something more than growth in national income.

The objectives must reflect a growth in society rather than a growth in wealth, a growth that may be encapsulated within the concept of nationhood; not of a nation as an entity in itself, but rather as a collection of individuals with common interests and common concerns, i.e. a community. Nationhood has been lauded as a political ideal for centuries, but its promotion has never been very evident in economic policies or management. And that divergence between stated ideals and actuality predates the establishment of the state.

One obvious example was the push for peasant proprietorship in the 1880s. At the time there were three classes based on the land, the landlords, the tenant farmers, and the labourers. Michael Davitt recognised that peasant proprietorship offered benefits only to one of those classes – the tenants. The landlords had to go, but under peasant proprietorship so too did the labourers.

'Human nature being the same in all classes' he said in 1882 'we are forced to reason that if the landlords, having the tenants in their power, treat them unjustly, the tenants, when they have the labourers in their power, will deal with them in the same way'.

'I consider', he added, 'that all alike should share in the benefits to be derived from the abolition of landlordism'.

But that wasn’t to be. The great 'victory' of Parnell and the Land League was far from a victory for the million and more landless labourers. They often found the Irish peasant proprietors no more sympathetic to their plight than many an absentee landlord had been to the plight of the proprietors in their earlier existence as tenants.

Agricultural labourers had all but disappeared as a class by 1922. Between the censuses of 1871 and 1926, the rural population of Ireland fell from 4.2 million to 2.6 million. Most of that fall was due to emigration. The urban population rose by only 355,000 over that period, to 1.6 million.

Another Land League leader, Matthew Harris, warned that when tenants got ownership of the land they would look to the boundary of their farms as the boundary of their country because, he said, 'farmers as a rule are selfish men'.

Both he and Davitt were right, of course. The British solution to an Irish problem created a conservative and reactionary force in Irish society. The interests of individual farmers were not at one with the interests of the country. There was no pressure on inefficient or incapable farmers to pass the land onto someone more efficient or capable.

Agriculture should have been the main engine of growth in the new state, but output remained stagnant. In 1954 it was estimated that the volume of agricultural output was no higher than it had been at the turn of the century.[1] About the same time, an agriculturalist reporting to the Irish government wrote of the excellence and potential of Irish land, but added that he had seen 'hundreds of fields growing as little as it is physically possible for land to grow under an Irish sky'.[2]

A stagnant agricultural sector was not the only reason for the dismal economic performance of the new state, but it was a major factor. Even if the new government had wanted to live up to the republican ideals expressed in the Democratic Programme of the first Dáil Éireann, the task would have been made difficult by the general economic stagnation.

The Democratic Programme is worth reproducing in full. It encapsulates a view of nationhood and community that is still occasionally articulated by some politicians but, unfortunately, the sentiments expressed are not as obvious as they might be in social and economic policies.

> We declare in the words of the Irish Republican proclamation the right of the people of Ireland to the ownership of Ireland, and to the unfettered control of Irish destinies to be indefeasible, and in the language of our first president Pádraic MacPhiarais, we declare that the Nation's sovereignty extends not only to all men and women of the Nation, but to all its material possessions, the Nation's soil and all its resources, all the wealth and all the wealth-producing processes within the

> Nation, and with him we reaffirm that all right to private property must be subordinated to the public right and welfare.
> We declare that we desire our country to be ruled in accordance with the principles of Liberty, Equality and Justice for all, which alone can secure permanence of Government in the willing adhesion of the people.
> We affirm the duty of every man and woman to give allegiance and service to the Commonwealth, and declare it is the duty of the Nation to assure that every citizen shall have opportunity to spend his or her strength and faculties in the services of the people. In return for willing service, we, in the name of the Republic, declare the right of every citizen to an adequate share of the produce of the Nation's labour.
> It 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 as Citizens of a Free and Gaelic Ireland.
> The Irish Republic fully realises the necessity of abolishing the present odious, degrading and foreign Poor Law System, substituting therefor a sympathetic native scheme for the care of the Nation's aged and infirm, who shall not be regarded as a burden, but rather entitled to the Nation's gratitude and consideration. Likewise it shall be the duty of the Republic to take such measures as will safeguard the health of the people and ensure the physical as well as the moral well being of the Nation.
> It shall be our duty to promote the development of the Nation's resources, to increase the productivity of its soil, to exploit its mineral deposits, peat bogs, and fisheries, its waterways and harbours, in the interests and for the benefit of the Irish people.
> It shall be the duty of the Republic to adopt all measures necessary for the recreation and invigoration of our Industries, and to ensure their being developed on the most beneficial and progressive co-operative and industrial lines. With the adoption of an extensive Irish Consular Service, trade with foreign Nations shall be revived on terms of mutual advantage and good will, and while undertaking the organisation of the Nation's trade, import and export, it shall be the duty of the Republic to prevent the shipment from Ireland of food and other necessaries until the wants of the Irish people are fully satisfied and the future provided for.
> It shall also devolve upon the National Government to seek co-operation of the Governments of other countries in determining a standard of Social and Industrial Legislation with a view to a general and lasting improvement in the conditions under which the working classes live and labour.[3]

The ideal that really informed economic and social policy during the 1920s, 1930s and 1940s was a good deal different. It was articulated best by Alexis Fitzgerald in a reservation to the majority report of the Commission on Emigration published in 1954. He wrote:

> I cannot accept either the view that a high rate of emigration is necessarily a sign of national decline or that policy should be over-anxiously framed to reduce it. It is clear that in the history of the Church, the role of Irish emigrants has been significant. If the historical operation of emigration has been providential, providence may in the future have a similar vocation for the nation. In the order

> of values, it seems more important to preserve and im-prove the quality of Irish life and thereby the purity of that message which our people have communicated to the world than it is to reduce the numbers of Irish emigrants. While there is a danger of complacency I believe that there should be a more realistic appreciation of the advantages of emigration.
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> High emigration, granted a population excess, releases social tensions which would otherwise explode and makes possible a stability of manners and customs which would otherwise be the subject of radical change. It is a national advantage that it is easy for emigrants to establish their lives in other parts of the world not merely from the point of view of the Irish society they leave behind but from the point of view of the individuals concerned whose horizon of opportunity is widened.

Long before John Kenneth Galbraith outlined the concept in his book *The Culture of Contentment*, that culture was very obviously alive and well, and operating in Ireland. Alexis Fitzgerald had the courage to say what others thought. Emigration was acceptable as a means of ensuring the living standards of those who remained. And that failure to pursue the greatest benefit for the greatest number didn't go away despite the economic initiatives of later decades, beginning particularly with Dr. T. K. Whitaker's *White Paper on Economic Development* and the subsequent *First Programme for Economic Expansion*.

In 1967 there was another study on full employment, prepared this time by the National Industrial Economic Council chaired by Dr. Whitaker. The final paragraphs pointed out that:

> A national endeavour as long-range as full employment, which is backed by no compulsive national or personal need, can only succeed with the active support of the whole community.
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> In the last resort, then, the questions raised in this report concern the will and conscience of the whole community. To harden the will and arouse the conscience of the community will require dynamic leadership and sustained backing from political and religious leaders, from trade unions, from employers' associations, and from all the other organisations and institutions which influence and form public opinions and public attitudes. Without such leadership, particularly in the political field, the policies which will raise living standards and expand employment will not be chosen and implemented.

It would be nice to think that the employment advances of recent years owe something to the type of leadership called for in the NIEC report. But the evidence is against it. Not much has really changed.

- People are still viewed as an economic input – one that has to be managed like any other resource to maximise wealth production.
- Distribution of income and wealth is becoming more inequitable – often as a result of government policies.
- The ideological belief in the market has intensified. The market is increasingly seen as a near replacement for the state as a manager of the economy and a shaper of society.

There are plenty of examples to confirm these contentions. While the Democratic Programme envisioned a participative citizenship where everyone contributed to the common welfare and, in return, enjoyed the right to an adequate share of the wealth created, today's reality is far different.

Many economists, businessmen and politicians see the shortage of labour as a threat to our economic growth. Some advocate importing skilled labour – and only skilled labour – from abroad. Others urge cutting taxes on the low paid, not in order to increase their incomes, but so that their employers can encourage more people to work for less.

Instead of being seen as the potential beneficiaries of economic growth, people are seen as just another economic input. People are, of course, essential to generating wealth. But creating wealth is not an end in itself. The common view of people as simply an economic resource ignores that crucial fact.

Some would claim that creating wealth is simply one side of the coin. Dividing it is another. That is undoubtedly true, but it is the same coin and since workers tend to get their share through wages, the two sides are far from independent of each other.

The workers who, it is often claimed, have been the main engine of economic growth in recent years have been losing out.

A growing proportion of the extra wealth generated by our buoyant economy is simply flowing out of the country. It highlights a vulnerability in our tiger economy and suggests that the workers who are feeding it may not be getting a fair share of the extra wealth being created.

Between 1994 and 1998 profits more than doubled – rising by about 120 per cent. Over the same period the national wage bill rose by only 49 per cent. In each of those four years profits rose much faster than wages. And the national wage bill, of course, overstates the increases enjoyed by individual workers since it also reflects the growing numbers at work.

Wages are spent for the most part within the country, but a growing proportion of the profit is going abroad. The net outflow of money during 1998 was £7,454 million – up a sharp 18 per cent on the 1997 figure, and more than double the net outflow recorded for 1994.

While workers as a whole have been losing out, some have been faring far better than others despite the operation of national wage agreements.

In the ten years to 1998 GNP rose by 117 per cent, but average industrial wages – the male adult rate – rose by only 56 per cent. Since consumer prices only rose by 27 per cent over the ten years, that represented a very real improvement in living standards. But the gains to workers have been very unevenly spread. The belief that national wage agreements favour low paid workers who may lack industrial muscle is not borne out by the figures.

The pay of top civil servants jumped by 74 per cent over the ten years, while shop assistants only managed an increase of 32 per cent.

There is little hard data on income distribution in Ireland, but what there is suggests a widening divergence of incomes with those at the bottom of the pile – the growing number of part-time and atypical workers – losing out.

There is even less data available on the distribution of wealth. But there is no doubt that the spiralling rise in asset values has greatly widened the gap between the haves and the have-nots. Those who own their own homes, and that's 80 per cent of all households, are doing very nicely, thank you. More than half of those – 45 per cent of the total – own their houses outright while 35 per cent have mortgages. But the average mortgage is less than £40,000.

Included in national income is a notional figure for the benefit enjoyed by those homeowners. They've invested in their home and enjoy a tax-free benefit in the form of rent-free accommodation. The value of that benefit has been going up rapidly in line with house prices, and now stands at over £2,500 million.

That massive tax-free benefit enjoyed by existing homeowners doesn't include the capital gains accruing from soaring property values. And, of course, the more valuable the property you own, the greater the benefit enjoyed. It's indefensible, of course, that the benefit is enjoyed tax-free, but of more immediate concern is the extent to which house price inflation is widening the gap between the haves and the have-nots.

And, of course, owner-occupied houses are only one small element of wealth holdings. Other assets have also spiralled in value. Soaring profits have produced additional accumulations of wealth. This increasingly unequal distribution of wealth stands in stark contrast to the vision in the Democratic Programme, and to some extent in the constitution, that private property must be subordinated to the public right and welfare, and that each citizen is entitled to justice, equality and an adequate share of the wealth produced.

Far from attempting to create a greater equality, successive governments have moved in the opposite direction. Inheritance taxes on business and farm assets have been effectively abolished, while the rate of capital gains tax has been halved to 20 per cent. In the December 1999 budget Charlie McCreevy abolished inheritance tax on all family homes – a measure that went far beyond what was needed to redress the anomalous situation that affected cohabiting couples and the hardship previously faced by a small number of individuals who were left valuable family homes. Official Revenue Commissioner figures indicate that even without that change, only about 17 per cent of family homes would have attracted Capital Acquisitions Tax if left to a single child. Far fewer would attract the tax if left between two or more children.

Charlie McCreevy also greatly increased the thresholds for Capital Acquisitions Tax, abolished the higher rates of tax, and eased the aggregation rules in a way that only benefits people who get two or more inheritances.

There is little opposition, even from the Labour Party, to the prevailing ideologically based view that the state should tax as little as possible and spend as little as possible. The state hasn't always got it right. Indeed, it has made some disastrous spending decisions over the years. But so too has the private sector, and the costs of its blunders are often passed on to the exchequer.

The plain fact is that there are spending decisions best left to the state. A private company will take account of only very short-term considerations. At best it will base a decision on the likely impact on its own profitability over the course of time. That, at least, has some economic rationale. But it is just as likely to base a decision on the likely short-term impact on its share price or on its bottom line.

It doesn't make sense for the private company to take account of the broader impact on the society in which it operates. The state can, however, take that broader and longer-term view, so its decisions are more likely to maximise the welfare of society as a whole.

Unfortunately, Irish governments have progressively relinquished their ability to make such decisions at both the macro and micro economic levels. Economic sovereignty has been partially ceded to Brussels and Frankfurt, while at the micro level state enterprises are being passed out of state control for no other reason than to satisfy some right-wing ideological premise.

Monetary policy was ceded to Frankfurt with our entry to the European single currency, the euro. So neither exchange rates nor interest rates will in future be set in Dublin. But the loss of control goes further. The Central Bank is unable to force mortgage lenders to comply with guidelines on maximum mortgage levels – even when exceeding those levels simply pushes up house prices.

We still have control over fiscal policy but this government is intent on curtailing its powers in this regard. The intention is to put a set portion of revenue each year into a state pension fund. That must reduce budgetary flexibility each year. In addition, the money in the fund is to be managed with an eye to maximising the return to the fund, rather than the return to society as a whole.

It's a clear case of a government abdicating its role in economic management.

A similar abdication is evident in the sell-off of state assets. There are three possible reasons for selling off a state company. One is to promote competition. Another is to encourage greater efficiency. And a third is to raise money for the exchequer. None of those reasons could apply in the case of Telecom Éireann.

There was already competition in the telecommunications business. The company had already trimmed itself down and the exchequer was awash with money.

Telecommunications will play an increasingly crucial role in the overall development of the Irish economy and Irish society. Yet control over the major player in that market is likely to pass into the hands of shareholders interested only in bottom line profit – and not profit necessarily within Ireland but within an international grouping.

National, social and environmental objectives can rank equally with monetary profit in the decision making of a state company. A private company, on the other hand, will view national, social and environmental considerations as costs and constraints hindering progress towards the real goal of shareholder profit.

These arguments are strong in the case of Telecom, and overpowering in the case of Coillte, which is another possible contender for privatisation. No other corporate entity controls so much of the Irish environment. It owns over a million acres. That's six per cent of the land mass of the country - equivalent to the size of two average counties.

Given that single fact, it is amazing that the privatisation of Coillte has even been suggested. Maybe the possibility of the largest estate in the country passing into foreign ownership hasn't really sunk home yet. Many farmers, in the west particularly, have little time for Coillte and the advancing Sitka spruce forests. They'd have a lot less if some foreign-controlled company owned the land.

It's not all that long ago that the transfer of agricultural land required the permission of the now defunct Land Commission. Farmers were willing to let that protection go for the gains of EU membership, although elsewhere in Europe, the Danes managed to insert in the Maastricht Treaty a special protocol protecting laws limiting foreign ownership of second homes along their coasts.

There is another overpowering objection to the sale of Coillte. Its value to the state is undoubtedly higher than the value that any private investor would put on it. The state can take a long-term view. A private company discounts future benefits to present day values. In some circumstances the state should give equal weight to future benefits. Retaining ownership of over a million acres of land is undoubtedly one of those circumstances.

The value of land, including the maturing trees, is currently put at a little over £1,000 million in the Coillte balance sheet. That's about £1,000 an acre. On the basis of current profitability the company might be valued at much less. It made £15 million last year.

But whatever price Coillte would make on the market, it would never be enough to convince our children's children in a hundred or two hundred years time that the right decision was made.

Another national asset has already been effectively sold for a pittance. That's the natural gas field discovered by Enterprise Oil off the County Mayo coast. The find doesn't significantly improve the security of energy supply in Ireland and it will be a long time before any tax revenue flows into the exchequer. Nothing much will be gained during the development stage either. Very little of the money spent on exploration ended up in Ireland. The rigs were for the most part serviced from Scotland and the same is likely to be true during the development phase.

So although the Irish people own this valuable natural resource, they are going to gain very little from its exploitation. It can all be blamed on a lack of foresight when the licensing terms and tax provisions for offshore exploration were last revised in 1992.

There will be no royalties, and before any tax revenue starts to flow, Enterprise will be allowed to write off all its exploration expenditure in Irish waters, the development costs of this field, and the likely future costs of decommissioning when the gas runs out.

And Enterprise hasn't got to even land the gas in Ireland. It would cry foul, no doubt, if the tax rules are changed at this stage, but then the Irish people have an equal right to cry foul if the rules aren't changed.

We've come a long way since the First Dáil agreed its Democratic Programme, but unfortunately not always in the right direction. The rhetoric is sometimes still the same, but the reality is different – much more akin to the one-sided thinking that endorsed the movement for peasant proprietorship in the 1880s.

Notes

[1] *Reports of the Commission on Emigration and other Population Problems* 1948-1954.

[2] Holmes, G.A., *Report on the Present State and Methods for Improvement of Irish Land* (p No. 9248)

[3] According to Dorothy Macardle in *The Irish Republic,* a draft for a social and democratic programme was prepared by Thomas Johnson, then secretary of the Irish Labour Party and William O'Brien, of the Dáil. About half of the draft, she says, was included in the programme as reproduced above. It was written by Seán T. O'Kelly.

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