

**Can we get back to being competitive again?**  
**Address by David Begg, General Secretary, ICTU**  
**to MacGill Summer School – July 2009**

Since October 2007 the value of the world's stock market has halved. The banking system has imploded. Inflation of four and a half per cent has turned into deflation of the same magnitude. Global Capitalism, on the precipice of collapse, has been rescued by the state. In Ireland the crisis has been exacerbated by the exposure of a nexus of bankers and developers whose activities have mortgaged the future of our children, perhaps of several generations.

Against this background the question for debate, "Can we get back to being competitive again", seems a tad incongruous. It implies a return to business as usual. This is illusory. The world of the last three decades has gone. Neo – Liberalism has failed. The important question is what will replace it.

In any event much that is expounded by way of competitiveness theory is suspect. This was eloquently explained in a book entitled 'Just Capital' written by the then head of the Confederation of British Industry (CBI) and current chairman of the Financial Services Authority (FSA), Adair Turner, some years ago. His sceptical view of the subject was stated thus:

"By 1995 the CBI had carved out a name for itself as an advocate of competitiveness: In becoming its Director General, in a sense I became the high priest of a cult whose beliefs I thought rather confused, but which I could not reject outright without causing more confusion, ineffectiveness and indeed, offence"

(Turner, 2001:41)

Further on he wrote:

" ..... The use of the word 'competitiveness' pollutes and confuses real, important debates about real, important issues of Public Policy. It confuses the debate about the appropriate size and functions of the state, about the economic implications of different levels of tax and public spending"

(IBID: 42)

Similar scepticism has been expressed by Paul Krugman who wrote in *Pop Internationalism*:

"Its time to start telling the truth: Competitiveness is a meaningless concept when applied to National Economies. And the obsession with Competitiveness is both wrong and dangerous"

(Cited in Turner, 2001:44)

Speaking specifically about the Irish economy Sean O' Riain notes that:

“The Difficulties of the Irish economy are less a matter of ‘competitiveness’ than of the failure to build a deeper and more inclusive form of autocentric development around the development network state”

(O'Riain, 2004:234)

Nevertheless the solution canvassed by establishment figures in Ireland for our current economic troubles is focused on competitiveness. The argument made is we must reduce our cost base by cutting wages across the board by 15 per cent and by imposing swingeing cuts on public expenditure. If we do, so the argument goes, we will not only compensate for our inability to devalue our currency in line with Sterling but we will be poised to increase our exports when the recovery begins.

There are a few problems with this analysis.

In the first case the implementation of retrenchment on this scale would be hugely deflationary. I am not aware of any country ever having deflated its way out of a recession.

Personal consumption typically amounted to about 60 per cent of GNP over the years. It rose at a rate of 9 per cent each year between 2005 and 2007. In 2008 it rose by 2.1 per cent but in quarter 1 of 2009 it fell by 10 per cent. The competitiveness solution being canvassed, through wage and public spending cuts, will impart a further dangerous deflationary shock to the domestic demand side of the economy.

One of the lesser known statistics of this global economic crisis is that shipping rates between China and Europe temporarily fell to zero dollars in early 2009. As consumer demand in the west dried up and exports dwindled, brokers actually waived the transport fee and only charged a minimal handling cost. According to the World Bank exports from China, Japan, Mexico, Russia and the United States fell by 25 per cent in the year leading up to February 2009. In this bleak trading environment it is difficult to see how we could get even a dead cat bounce out of our exports by cutting wages.

Actually when compared to other countries Ireland's export performance anyway does not indicate that we are uncompetitive. Our exports dropped by 5.9 per cent this year as against a drop of 16.5 per cent in Germany, 15.9 per cent in Italy and 9.8 per cent in the UK. Moreover, we are heading towards a balance of payments surplus in 2009. According to the Global Competitiveness Index for 2008 – 2009 both Germany and the UK have higher ratings than Ireland.

The point is that we know that pro-cyclical deflationary policies will drive down the domestic demand side of the economy but there is no evidence to suggest any immediate boost to exports.

But what about the prospects of benefiting from a recovery in world trade by improving competitiveness? There is much talk about ‘Green Shoots.’

It is necessary to understand that there are two major causes for the collapse in world trade. One is the implosion of the Global Financial System. If it is the brain of the global market then the whole system is still in intensive care. The other is the imbalances in trade, savings and currency reserves that globalisation has built up between East and West. In reality we are in a space where Europe is depending on America to create the recovery and America is waiting on China to redress the imbalances by fostering domestic demand in its own economy.

Consider, for a moment, how realistic a prospect this is?

Chinese policy is to peg its currency against the US dollar, allowing a microscopic rise in the value of the renminbi over time. To change that policy, and allow a massive fall of the dollar against the renminbi, would be massive act of self sacrifice by China and a massive signal that it intends to move away from an export – led strategy towards developing its home markets.

Many academic discussions of the imbalances tend to assume that the US, or the IMF, would in some way dictate to China the course of rebalancing. It is now clear that the dictating will be done in the other direction. China has already unleashed the world’s biggest state spending programme in response to the crisis, pitching 15 per cent of its GDP into a stimulus package in November 2008. But creating a mass consumer market in China to buy the goods that were once exported to the US and Europe would involve turning Chinese workers from the low- paid wage slaves of the world into the consumer spenders of the world.

It seems to me to be a big ask which at best is unlikely to resuscitate global trade any time soon. So when economists make these demands for sacrifices by ordinary mortals they need to be interrogated as to the practicality of what they propose.

Why should we take any notice of these people anyway? What credibility do they have? None of them predicted the recession and now we know that one of the most vocal was actually encouraging the banks in their irresponsibility.

Insofar as the McCarthy report is seen to be a blueprint for the type of public expenditure cuts which would aid competitiveness I want to make a passing reference to it.

It will hardly be disputed, I assume, that its impact too will be highly deflationary contributing to the difficulties I have outlined.

But there is a more fundamental point to be considered. A very astute observer of my acquaintance described the report as being like watching Plato's Guardians redesign the Republic from a blank slate.

There is something of an anti politics feel about this. Without wishing to question either their integrity or their ability it is a fact that the two key figures on this committee are a banker and an economist of the neo – classical school. Their approach seems to embody the key features of the system which has just failed us. If pro cyclical fiscal policies were a cause of our compounding the crisis in the first part of this decade it is difficult to see why we should expect to find our salvation in them now.

For me there is also a philosophical issue. I believe that affairs should be organised in such a way that the economy is embedded in society and not the other way round. The propositions contained in the McCarty report appear to be concerned solely with economic issues and have little regard to their social consequences. It is an approach therefore which is the very antithesis of what I think it should be.

To sum up then I believe with Krugman that competitiveness is an important issue for individual companies, perhaps even for sectors of the economy, but it is a meaningless concept at the level of a country. However a country can assist its industries in a number of ways and Ireland could do more in this regard.

First of all we could correct the infrastructural deficits which are legacy of a previous period of disinvestment in the 1980s. These include public transport, roads, hospitals, schools and broadband. We will never have a better opportunity to do this in a cost effective way and at the same time save a significant part of the capacity of the construction sector which is fast unravelling.

Secondly it is clear that normal commercial activity cannot take place without a functioning banking system.

Thirdly, we have to try to keep people in employment and upgrade their skills. In this regard it is instructive to note that the consistently most successful countries are the Scandinavians who make the highest investment in human capital.

Fourthly we need to broaden our tax base to fill the gap left by property related transaction taxes and for the purpose of sustaining public services.

This approach is encapsulated in a proposal for a social solidarity pact constructed by Congress several months ago. It is a matter of regret to us that it failed to gain sufficient traction so far. It is only by uniting the country behind a vision of the common good that we can begin to rebuild. Unless we can achieve this restoring competitiveness will be the least of our problems.

What happens from here on in is a political question of the highest importance. The Trade Union movement in Ireland, like in the rest of Europe, is founded on social democratic principles. In the developmental state model which Ireland has followed there are tensions between neoliberalism and social democracy. This is captured well by Prof. Sean O’Riain of NUIM:

“Development states expose more clearly the political choice between Neoliberalism and social democracy. In a time when Neoliberalism promises financial speculation, impoverishment, corporate criminality, and permanent war, the choice is clear between ‘social democracy and barbarism’

(O’Riain, 2004:242)

It is a sentiment with which I entirely concur.

But how does this translate to the present context? Well take for example statement made by the Minister for Finance here yesterday about reviewing the minimum wage downwards. Consider also the general exhortation to welfare, wage and public service cuts made here all week. In general these propositions do not affect their authors but they certainly impact on the bulk of the population and particularly those on the lower end of socio – economic structure.

I believe that the political glue which holds a country together is made up of three components, economic efficiency, individual freedom and social justice. The propositions are not economically efficient because they relate to non discretionary spending capacity. In other words people on the minimum wage or social welfare spend all the money on essentials because they have to. If it is restricted it will directly translate into reduced domestic consumer spending. It is not money that would be saved or spent on imports. The propositions offend against individual freedom in that they further restrict the capacity for a full life in the manner describe by the Nobel prize winning economist, Amartya Sen. Finally, and most important, it offends against social justice to make the poorest people pay for the irresponsibility of the banker/ developer nexus.

There must be some threshold of decency beyond which we will not go.

All this week the elite have decamped to Glenties to offer their collective wisdom on the solution to the country's ills. There is a remarkable uniformity of thinking in their prescription. They seem unaware of the chasm that is opening up between them and the population at large.

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