

Unemployment may be heading for 450,000 and for the first time ever, there is no place to go. The emigration 'safety valve' is closed. This crisis is different to anything we have experienced before.

Therefore, the solution must go far deeper than simply addressing the public finances. This explains the Social Solidarity approach taken by Congress in negotiations with Government, primarily our insistence that the cost of any adjustment is shared across all of society. We require a fundamental realignment of our economy and society.

And if/when we resolve the crisis there can be no return to business as usual for Corporate Ireland: for the banks, builders and Government policies that combined to bring our economy to its knees.

This global mess was generated by privatised, deregulated and ultra-free markets. All countries, including Ireland, must now abandon this redundant economic model.

However, ongoing commentary from many Irish economists demonstrates that most are still wedded to neo-classical economics, adhering faithfully to the theory of 'efficient markets.' But the world moves on. The market is not working. It was not even working when it appeared to be booming.

In fact, areas of the 'market' now need public subsidies to function. And when the market comes out of rehab, it must be fundamentally reformed and learn to operate under greater public oversight, or we will have learned nothing. Contrary to myth, 'markets' are always shaped by man-made rules.

Some of us warned against the buccaneering, tax cutting, free-spending, pro-cyclical policies of Charlie McCreevy, when Minister for Finance, and the huge subsidies to property investors. These actions greatly inflated the bubble and exacerbated the bust.

It seems we had "too much privacy and not enough enterprise", as Noel Browne famously remarked. Several businessmen who built up fine firms have been found playing casino capitalism with vast sums of money, borrowed from 'friendly banks'. New laws are urgently necessary on financial disclosure, on unlimited companies, on regulation, and especially on corporate governance. Ireland has to shift rapidly from Boston to Berlin: from the Anglo 'shareholder value' system, to the European 'stakeholder' model.

To find solutions, we must learn from history. Some argue we should not look back and scapegoat. But it was the bankers, and developers, their professional advisors and economists who 'pimped up' the boom. They almost destroyed what is still fundamentally a sound economy and government policy greatly assisted. No wonder people are angry.

Today's bust would not be so bad if, during the boom, the Government had taken its foot off the growth accelerator and not reduced taxes so much - we pay virtually the lowest income taxes in the developed world, have the lowest taxes on corporate profits and none on property. In addition, it would have helped if they had conserved revenue and been far more vigilant on financial regulation.

Credit would have been tighter, thus the boom would have been reduced and the bust would have been less dramatic. Had direct taxes not been cut so much, we would now have a big pile of cash

to maintain public services. But Government chose the US way, of de-regulation and privatisation.

Further privatisation would be folly. Selling *productive* family silver in a bad market would be naïve in the extreme. These are key, Irish-controlled companies that deliver vital services and profits. We privatised a highly profitable, debt-free, heavily investing Eircom and the result - on prices, services and broadband - has been disastrous.

On the positive side, the NTMA currently holds borrowings of over €21bn in cash. Thus, Ireland will not be forced to borrow for a while, at prevailing premium rates. The net National Debt to GDP ratio is now only 20 percent.

Congress has accepted that the country is in a double crisis with both the banks and tax revenue in freefall. Thus cuts in public spending will have to be made BUT only if the pain is shared.

Conservative economists simplistically advocate cutting public sector pay - some even want to cut Social Welfare and Fuel Allowance! But there are regressive state subsidies we should target.

For example, over €3bn in tax has been lost in 'incentives', to wealthy investors in area-based property schemes alone, with some €473m foregone in 2006.

More importantly, Ireland runs a massive but hugely unreported Corporate Welfare Programme, with billions given to the enterprise sector annually, in tax breaks, incentives and subsidies, all of which is run by a vast network of public servants who deliver free services

to the sector: IDA Ireland, Forfas, Enterprise Ireland, SFADCo, Udaras, Teagasc and BIM are but a few examples. Businesses should be more careful in what they wish for in public spending cuts, as they might now have to pay their own bills.

Similarly, the IFA demands a 20 percent cut in wages. Yet public subsidies and price supports to Irish farmers under CAP are equal to their total net incomes, annually. Some 118,000 farmers will have received a staggering €53bn in CAP subsidies by 2013. They cannot talk of competitiveness. They bite the hand that feeds, pun intended.

Over €1.5bn a year could be saved in cutting subsidies to business, farmers and investors - overnight.

We have also heard unsubstantiated claims that labour costs are a big problem, this being the basis in arguing for big cuts in all employees' pay. It is asserted that 'we' are paying ourselves too much, as if we are all uniformly well paid. For Professors of Economics on €150,000 to €170,000, this is correct. For dentists, solicitors, accountants and medical consultants, many businesspeople and some farmers, it is correct.

But it is not correct for average workers. Two-thirds of the workforce earn less than €44,000. Conservative economists do not seem capable of distinguishing between differing incomes and wealth.

As the table shows, the cost of employing the average Irish worker is 22<sup>nd</sup> from a list of the world's 30 richest countries.

## Comparative Total Labour Costs

<u>Country</u>	<u>Labour Costs \$ppp</u>
Germany	59,526
Belgium	57,141
Austria	56,630
United Kingdom	56,612
Luxembourg	54,000
Norway	52,048
Netherlands	51,828
France	50,260
Sweden	48,763
Switzerland	48,489
Japan	46,916
Korea	46,604
Finland	45,302
United States	44,347
Greece	44,304
Austria	42,579
Denmark	41,252
Canada	38,627
Iceland	38,232
Italy	36,692
Spain	36,329
<b>Ireland</b>	<b>34,379</b>
New Zealand	29,037
Portugal	27,453
Czech Republic	23,604
Hungary	21,552
Turkey	20,182
Poland	19,847
Slovak Republic	18,215
Mexico	11,766

1. Single individual without children at the income level of the average worker
2. Countries ranked by decreasing labour costs
3. Dollars with equal purchasing power

*Source:* Country submissions; OECD Economic Outlook, 2007

It is clear that total labour costs are way below those of the UK, Germany and other Eurozone countries. The loss of cost competitiveness we are experiencing is due to the strong Euro, not pay levels.

Competitiveness is a very complex issue and involves far more than costs, either labour costs or even unit labour costs. Yet our productivity is amongst the highest in the world and has risen at over three times the average rate in the Eurozone for the last decade.

A further major flaw in the conservative argument on pay cuts is that they will automatically translate into overall lower costs and will not lower consumer demand. That is untrue.

Congress is seeking a major Keynesian-style stimulus package. We accept the need for an adjustment in the public finances, with progressive public sector reform and tax increases for the well-off, action on tax exiles, a termination of tax shelters and a broadening of the tax base.

We seek increased investment in education, our key competitive advantage, with a national *No Child Left Behind* programme for all pre-school children, which will create thousands of jobs. Above all what any agreed plan must do is protect existing jobs and maximise employment levels.

We propose reshaping our social welfare system around the concept of Flexicurity, along with a *Jobs Scheme* for vulnerable firms, as unemployment soars. Congress wants real bank reform, not rewards for bad behaviour, and concrete measures to help those threatened with repossession. Other key issues are: better regulation, curbing executive remuneration, progressive health care reform; a Green Deal for renewable technology and a National Recovery Bond.

In this newspaper on October 31<sup>st</sup> last, I called for a new public/private paradigm. We have it today, with the public sector bailing out the private banks, the car industry and Irish *business* seeking even more subsidies because of the working of the 'efficient market' in currencies.

While a dependent private sector is not what I had envisaged, blaming public sector employees for the crisis is wrong. It has deep roots in the private sector, but was combined with major errors in public policy, in its failed system of regulation, massive regressive subsidies and pro-cyclical economic policies.

But it is unfettered capitalism and ultra-free markets that lie at the root of this deep crisis. And yet it is the 'state' so reviled by the neoliberals that has come to their rescue.

To solve this major crisis, all will have to contribute, according to their means. This includes cuts in the vast array of subsidies to the enterprise sector, to banks, to corporates, to investors, to wealthy farmers, with the well-off digging deepest. There can be no more 'business as usual'.

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