

## **THE ILLUSION OF FAIRNESS:**

### **THE SOCIAL AND ECONOMIC CONSEQUENCES OF INEQUALITY**

**Speech by David Begg, General Secretary ICTU to 2014 Biennial Delegate**

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In 1979, when I began to work full time in the trade union movement, the world was a different place.

There was no internet or mobile phones. Most people did not travel by air. Most of the advanced medical technologies in common use today did not exist. Only a minority of people could access third level education. Between a quarter and a third of the occupations that exist now did not exist then and, indeed, many others, like car assembly for example, have disappeared.

We did not realise it at the time but the 1980s brought to an end a golden age of post-war economic expansion that existed in Europe since the end of the war. For a variety of reasons Ireland did not do as well as other European countries, suffering severe recession in the 1950s. Nevertheless it began to catch up again in the 1960s, although it did not draw level until the late 1990s.

The post-war period was one in which the dominant economic orthodoxy was Keynesianism. It was an era of high union density and a more consensual approach to industrial relations epitomised in this country by the establishment of the Labour Court and its ancillary institutions such as the Joint Labour Committees and the facility to Register Employment Agreements.

But this was not to everyone's liking and business began to push back against Keynesian economics using the economic downturn associated with the two oil crises and the resultant 'stagflation' as a basis for claiming that the post-war settlement and the New Deal on which it was based, had failed.

The alternative was the radical monetarist doctrine of Milton Friedman and the Chicago School of Economics. Suspicious of the ever expanding role of

the State, Friedman's work created the climate in which the conservative revolution of 1979–1980 ushered in a new neo-liberal era.

Taken in conjunction with the collapse of the Soviet Union and the decision of China to become capitalist by decree this all changed the balance of power between capital and labour and we have all been trying to grapple with the consequences ever since.

The most significant factor was probably that the addition of one and a half billion new industrial workers undermined the collective bargaining strength of unions almost overnight. Capital could go where it wanted to find new workers.

Technology and the deregulation of capital markets exacerbated this freedom. Footloose MNCs have been able to demand deregulation of labour markets and have forced the pace in tax competition, not least between European Union member states. Ireland has the second lowest rate of corporation tax in Europe and, as we know, has only recently and reluctantly abandoned the 'double Irish' device by virtue of which some of the richest multinationals could avoid paying any tax. We know too that Irish companies, such as Glanbia, were not slow to exploit tax avoidance facilities in Luxembourg.

The cumulative effect of the 1980s counter revolution has been to:

- Change the balance of power between capital and labour to our serious disadvantage.
- Hollow out the labour market such that reasonably good middle level jobs – like crafts people for example – have diminished leaving a workplace polarised between high level well remunerated employment and a growing level of precarious and low paid service jobs.
- Reduce high marginal tax rates to further boost the real income of people who benefit from high salaries, bonuses and stock options.

- To shift taxation increasingly from progressive taxes on income to indirect taxes on consumption which is highly regressive i.e., it hits poorer people disproportionately.

This leaves us with societies, in Ireland, Britain and the United States particularly, which are becoming more and more unequal as has been set out in detail by the renowned French economist, Thomas Piketty, in his recent critique of the state of modern capitalism.

His core thesis is that if the rate of return on investment continues to exceed the rate of economic growth, which broadly determines wages, then levels of inequality could become extreme, with implications for social cohesion.

Indeed, it is clear already that the world is settling in to a prolonged period of low growth and low inflation. According to Piketty this is largely to do with demographic change – low birth rates and retiring baby boomers. The Eurozone is not growing and inflation is only 0.3 per cent. If action is not taken soon we face deflation.

You may recall that back in 2008, Congress warned that the consequences of austerity could be deflation and slump similar to that which beset Japan in the 1990s and with which it is still wrestling. Indeed Japan is officially back in recession again.

That the 1980s neo-liberal counter revolution was a disaster is well demonstrated in the fact that the new economic orthodoxy it invented failed to deal with the 2008 financial crisis. Somewhat paradoxically the country which rejected this orthodoxy in favour of Keynesian stimulus is the United States, which has recovered and is growing strongly.

Nevertheless, it remains one of the most unequal countries and it is growing inequality which is the road to perdition for all developed countries.

In my opinion we have reached a critical juncture.

If you have free trade and free circulation of capital and people but destroy the social state and all forms of progressive taxation, the temptations of defensive nationalism and identity politics will very likely grow stronger than ever in Europe and the United States. Is that not the evidence suggested by the victories of the Tea Party Republicans in the US mid-term elections and UKIP in Britain and a similar pattern can be discerned with FN in France and many other European countries too?

And let's be honest, the drift away from mainstream politics is not an exclusively right-wing phenomenon. It's happening on the left as well with Podemos in Spain, Syriza in Greece, the SNP in Scotland and Sinn Féin in Ireland. The interesting thing is that these parties have largely come from outside the traditional left and labour movement – and are reacting to economic policies imposed from outside the country by the Troika.

Crucially they are occupying a space that is left open by social democratic and left-of-centre parties who have not been able to advance a persuasive alternative narrative to austerity. Absent a believable narrative people just swing behind a populist message of opposition.

But anger, however understandable and justified, is not a policy. There are compelling reasons to argue that opposition and resistance alone will not be enough ultimately cut the mustard. It's worth considering some of these reasons in Ireland's case as we look to the future:

First, we will have to change our industrial policy. Long-term reliance on low corporate tax to attract FDI is too narrow. We have to find a way to build a strong indigenous industrial base and in the context of a transition to a low carbon economy. This is something that will be of vital interest to TEEU members everywhere, but particularly in the energy sector.

Second, all developed countries must confront the reality that post-war welfare states do not fully address the kind of social risks experienced by people in today's world of work and a growing elderly population. Whereas the post-war model was primarily geared towards protecting against

unemployment, child poverty and poverty for the few years a person might expect to live after retirement, this is different.

A highly feminised labour force creates acute caring needs, for children and old people. Most employment is now in services– not in manufacturing – and re–skilling is something that requires arrangements for lifelong learning. A passive male breadwinner welfare model must give way to an active model and a conscious policy of social investment. This will not come cheap. In fact such a social investment welfare model is entirely predicated on high levels of labour force participation in non–precarious secure employment. That is the only way a sustainable tax base to fund the model can be created.

Third, there is a real danger that, in the absence of a compelling social democratic narrative of the future, neo–liberals will so colonise the policy space that it will be difficult for centre–left Governments to make a difference at all. In truth we are close to that position even now.

But things may get even worse without people being even aware of it. Take the proposed Transatlantic Trade Partnership – known as TTIP – between Europe and America about which not many people are likely to be aware. There is real danger that this could align European labour markets with those of the United States with all the inequality and insecurity that this implies a kind of transatlantic ‘Race to the Bottom’.

Please do not misunderstand me. Ireland is a very small open economy and, generally speaking, it is in our interest to have a rules based trading environment. But it has to be fair, and TTIP is anything but fair. In fact the rules are stacked in favour of business from the beginning.

I am referring specifically to a proposal known as Investor–State Dispute Settlement (ISDS). The Treaty would allow corporations to sue Governments before an arbitration panel composed of corporate lawyers, at which other people have no representation, and which is not subject to judicial review.

This type of provision could, for example, allow a US multinational to sue a future Irish Government for raising the minimum wage on the grounds that such a policy decision affected its profits.

Consider the chilling effect that would have on Governments and civil servants. We would never again as a Congress be able to achieve legislative change to benefit workers.

If you think this is farfetched then just reflect on what is happening out there.

Already, thanks to the insertion of ISDS into much smaller trade treaties, big business is engaged in an orgy of litigation, whose purpose is to strike down any law that might impinge on its anticipated future profits. The tobacco firm Philip Morris is suing Governments in Uruguay and Australia for trying to discourage people from smoking. The oil firm Occidental was awarded \$2.3bn in compensation from Ecuador, which terminated the company's drilling concession in Amazon after finding that Occidental had broken Ecuadorean law.

The Swedish company Vattenfall is suing the German Government for shutting down nuclear power. An Australian firm is suing El Salvador's Government for \$300m for refusing permission for a goldmine over concerns it would poison the drinking water.

In short TTIP is a manifestation of an aggressive neo-liberalism aimed at so circumscribing the policy space for Governments that politics will be separated from economics such that it will matter little what kind of Government is elected. In other words it will complete the subjugation of society to markets.

This is profoundly anti-democratic. Karl Marx remarks somewhere that:

'Men make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past'.

For the sake of future generations we have to try to shape a better world. We have to engage with the challenges I have mentioned, and indeed many others I have not.

At its core what we are dealing with is a battle of ideas. The modern trade union movement was built on the ideas of the New Deal and shaped by the golden age of social democracy and Keynesian economics that lasted from 1945–1979.

Since then we have been trying to compete with a neo-liberal counter revolution which is aggressively intent on deconstructing every institution that gives labour oxygen. Indeed they have used the recession to consign the concept of 'Social Europe' to the grave and, in our own country, they have buried social partnership and deconstructed REAs and Joint Labour Committees, as you know only too well.

Because it so manifestly failed, the recession should have seen the end of neo-liberalism, but instead it gave it a blood transfusion. Why?

I think it is because the 30 year counter revolution has sapped the intellectual confidence of the moderate social democratic left. The mid-1990s dalliance with the so called 'Third Way' favoured by Tony Blair and Bill Clinton lacked credibility.

Trying to present austerity with a human face is a contradiction in terms. Our recent experience of the Troika – a technocracy of uncaring neo-liberal zealots in my experience – revealed that.

Indeed, what it brought into sharp focus is that economic and monetary union is designed in such a way that, in the event of an external shock, and absent the ability to devalue the currency, the whole burden of adjustment is carried by workers.

The proposed Transatlantic Trade and Investment Partnership (TTIP) is in the same mould.

To give Marx a second outing ‘The philosophers merely interpret the world, the secret is to change it’.

So, how do we go about changing the world? Slogans and marches are unlikely to ultimately make huge differences as we saw from southern Europe over the last few years.

No, it will take much more than that. We have to win the battle of ideas. We must be able to convince ordinary people that there is a Better Fairer Way of running the economy and society. We must credibly explain that this is about political choices, not the application of some iron law of economics.

Most particularly we have to assert the proposition that the economy subsists in society and not the other way around.

A couple of years ago, with your help, we set up the Nevin Institute for Economic Research (NERI) – named after my predecessor, Donal Nevin – to give us the capability to contest the battleground of ideas. It is now well established and accepted.

Until now NERI has had to do the job of giving us sharp elbows to get a hearing in public discourse. However, we can now move beyond that and early in the new year we hope to publish our view of what a better, fairer post crisis world would look like, and, more important, how to get there.

It is worth noting that the 2008 financial crisis was the fourth time since independence that Ireland looked into the abyss of economic desolation. It happened before in the 1930s, 1950s, and 1980s. That should be enough to convince everyone that we do not yet have a sustainable political economy model.

And yet there is no evidence of any thinking about the future in political circles beyond the Taoiseach’s mantra of:

‘Making Ireland the best little country in the world to do business in’



This conjures up an image of a kind of super 'competition state' in which the needs of business will always be privileged over those of citizens.

There must be more to it than that.

I have no illusion about our vision of a post-recession Ireland being embraced by everyone. It won't be, and if it was we would have got it wrong. But what it can become is a touchstone against which all other ideas will be judged.

There is no need to be unduly pessimistic about the future. The pressures which have caused the post-1980s change in the balance of power between capital and labour will abate somewhat over the next five to ten years. In a report published last year PWC suggested that the type of wage differentials that facilitated off-shoring of manufacturing to China would narrow to about 30 per cent by 2020 making off-shoring no longer compelling from an economic point of view. As well as that demographic changes – lower birth rates and an ageing population – will cause labour markets to tighten. We must of course change our movement to make sure that it is fit for the purpose of dealing with the challenges we have discussed today always remembering that, the long sweep of history, there have been many times when we have been:

- Knocked down only to rise again to continue the struggle.
- Beaten but never completely defeated.
- Bent but never broken.
- Shocked by events but never confounded by them.
- Alarmed but never dismayed.
- Imprisoned but never coerced.

- Vilified but never diverted from our goals.

And so it continues in our time. Have you ever wondered why the trade union movement is constantly attacked from both the right and the ultra-left?

The neo-liberal right resent us because they see our work as interfering with the operation of 'perfect' free markets. The Trotskyite left see us as being intent on reforming capitalism and, as such, an obstacle to its elimination through revolution. As such their mission is to enter trade unions and social democratic political parties – labour parties if you like – so as to destroy them.

The problem with these extremes of right and left is that they represent unachievable utopian ideals. There are no perfect markets and no perfect revolutions.

It falls to us to live in the real world. It falls to us to do the day to day drudge of fighting for improved wages and conditions, of preventing exploitation of workers and of improving social and economic conditions generally.

We are not too bad at it either. The reason why our opponents castigate us is that they know we are the repository of a set of values which, if ever adopted, would result in a democratic, free and just society.

We remain today the largest civil society organisation with 800,000 members on the island of Ireland. We have tens of thousands of men and women – dedicated lay representatives – . This is an enormous reservoir of human capital not available to any other body. More importantly perhaps, we subscribe to a set of values that offer at least the prospect of a better world.

It doesn't stop there either. We are part of an international bond of solidarity which joins us to 60 million colleagues in Europe through the ETUC and globally to 168 million workers in 155 countries who are part of the International Trade Union Confederation (ITUC).

At its most basic our mission is the pursuit of social justice by using our organisational strength within the market system to force a fairer distribution of wealth. We are the only market actor with a concern for equality or the capacity to act to achieve it.

For sure we are not the only people who work for justice. I often marvel at the number of commentators who predict that social movements will tame capitalism and bring about a fairer world. In reality most of these movements have single issue focus or lack the resources to achieve real change. Take the Occupy Movement which was so much to the fore a couple of years ago; It seems to have disappeared without leaving an intellectual trace.

As the noted historian, Emmet O'Connor, has written, organised labour has existed in Ireland for more than 200 years. It was an underground movement until 1824 when Westminster decriminalised trade unions by revoking the Combination Acts. By 1850 all trades were unionised.

The trade union movement went on to found the State's oldest political party in 1912. The 1916 Proclamation was printed in Liberty Hall and the Citizen Army was first into the GPO. Later in 1919 the Democratic Programme was the brain child of the trade union movement and its contribution to shaping the new State.

We have survived splits and divisions, famine, depopulation, emigration, de-industrialisation, social upheaval, economic depression, wars and revolutions. We are not about to leave the field any time soon. To the

contrary, we created an intellectual revolution in Ireland 100 years ago. We have the capacity to do so again.

So take heart. These are difficult times in which to be a trade unionist, but they will pass as all things do. Ours is not the work of a year, or a decade or even of one generation.

For now though it's time to move beyond the shadow of recession and crisis and to begin again imagining the future in its more promising terms. Our mission is captured in the words of the American poet, Robert Frost:

“The woods are lovely, dark and deep,  
But I have promises to keep,  
And miles to go before I sleep,  
And miles to go before I sleep.”