Working Notes Issue 47:
Preserving a Divided Society

Editorial

on Thursday, 18 December 2003.

Dear Reader,

We are happy to present to you with the December 2003 issue of Working Notes. We hope you find it helpful for your reflection and work.

In our opening article, Budget 2004: Small Change for the Poor, Robin Hanan of EAPN (European Anti-Poverty Network) Ireland, analyses the seventh Budget to be introduced by the current Minister for Finance. While welcoming the increases announced in social welfare payments, and the concentration of income tax cuts on the lowest paid, Robin Hanan suggests that, viewed in a broader context, the Budget is not so 'harmless'. It was preceded by the Estimates, published in November, which introduced welfare cuts that will save a comparatively small amount of money but have a devastating impact on the people affected, and by a year-long run-down of the Community Employment and Jobs Initiative Schemes. The Budget is critically considered in the light of fact that Ireland is the fastest-growing economy in the European Union, and the member country with the second-highest level of income, yet has the lowest spending on social provision and the lowest overall tax rates.He concludes that the Budget showed little indication of a willingness to undertake the type of taxation and spending measures that would be required to seriously address the tasks of eradicating poverty, reducing inequality and developing a level of public services commensurate with our wealth.

In the second article in this issue, Economics and Justice, economist Eithne Fitzgerald argues that the purpose of any economic system ought to be to serve the greater good of society and to ensure that the basic human needs of all its people are met in a way that is both fair and efficient. Ireland over the past decade illustrates some of the virtues and the vices of the market model. Its benefits, in terms of rising incomes and increased employment, are highlighted in public and political discourse. She suggests that even though mainstream economics acknowledges that there are important areas of activity where the market 'does not give the right answer', public debate on economic policy has become increasingly dominated by those adhering to a blind belief in market forces. She argues there is need for an alternative economic voice - one that places justice and redistribution at the heart of our economic values.

As a seasonal offering, we are privileged to have insightful Perspectives on Christmas from two people who have come to reside in Ireland from afar, Zhiyan Sharif, who is from Kurdistan in Iraq and Egide Dhala who is from the Congo. Finally, Cathy Molloy introduces a Christmas Reflection from an essay by Karl Rahner SJ.

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We thank you for your continued support and wish all our readers a very happy Christmas.

Eugene Quinn
Director, Centre for Faith and Justice

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Budget 2004 – Small Change for the Poor

on Thursday, 18 December 2003.

Robin Hanan

The day after Budget 2004, the Taoiseach, Bertie Ahern TD, was on the defensive. The Budget, he declared, would dispel the myth that this was a right-wing Government which cared only for its rich friends. He talked about the increase in social welfare payments and the concentration of income tax cuts on the incomes of the lowest paid, particularly those at the minimum wage.

In spite of the unpopularity of the Government, he might just get away with it. The media found so little that was contentious that it was the announcement in the Budget speech of the decentralisation of government departments that became the focus of attention.

The Year of Dampening Expectations

For several months prior to the Budget, we were treated to dire warnings of economic crisis and of the need for a 'tough' Budget to maintain competitiveness. From bitter experience, we knew that 'tough' meant 'tough on the poor'. This lesson was learned in the 1980s, when the poor were the main victims of 'tough measures' adopted to address the budgetary crisis that was largely created by earlier give-aways, such as the abolition of capital taxes, rates and car tax, which were of greatest benefit to the better-off, as well as by widespread evasion of tax.

This year's predictions of disaster turned out to be unfounded. As time went on, the predicted budget deficit of 2.4 billion euro evolved into a likely surplus of one billion euro.

In any case, in July the ESRI had argued that the economic slow-down was temporary and that after 2005 Ireland would return to a significant growth in GNP. It predicted growth above 5% each year between 2006 and 2010, with a commensurate increase in revenue so that in the second half of this decade there would be a small budget surplus.1 It argued for continued investment to "address the pressing need for an improvement in the infrastructure of the economy." 2

The assumption that public services and welfare would have suffered if the budget crisis had deepened is symptomatic of the Government's ideology and that of many media commentators. Ireland's extremely low tax rates for property-owners, businesses, and the higher paid, leave room for tax increases in these areas. A wide range of schemes which privilege the rich, from mortgage relief to SSIAs, could have been reduced to plug any gaps.

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In early 2003, the Government negotiators of what became the national partnership agreement, Sustaining Progress, made it clear that there would be no specific commitment of resources to social inclusion or equality or even to deliver what had been promised in the previous agreement or in the revised National Anti-Poverty Strategy (NAPS). As a result, most anti-poverty groups either could not sign the agreement or signed it very reluctantly.

Horses for Courses

The Estimates published in November included sixteen cuts in the area of social welfare. The thinking behind these now infamous measures seems to have been influenced more by ideology than by financial considerations. The cuts will have a devastating impact on the people affected but will save only 55 million euro. As the Community Platform has pointed out, this is less than the subsidy to the horse industry, which receives 67 million.

The Minister for Social and Family Affairs, Mary Coughlan TD, represented the welfare changes as part of a process of tidying up and reform. After the Budget, and in response to public outcry, she hinted that all or some could be reconsidered.

Most of the cuts did not involve abolition of particular benefits but were rule changes which would make claiming entitlement more difficult. The four changes in rent allowance, for example, would all either curtail eligibility or reduce the amount paid.

Since the cuts did not save much money, there was a definite suspicion that they were designed to make a political point which the Government felt would be popular. The emphasis at EU level on 'making work pay' can be achieved either by improving rewards for work and, more importantly, providing supports, such as childcare and flexibility in working hours, to facilitate participation in employment - or by making life on welfare even more onerous than it is already. The latter solution has the political value in some circles of being seen to be 'tough' on minorities such as lone parents. Frances Byrne of OPEN (One Parent Exchange and Network) said that the cuts would "further marginalize one parent families".

Patched-up Solutions

The Minister for Social and Family Affairs made a particular point that the rent allowance is, in effect, being used as a type of housing scheme, rather than as a last-resort safety net, as it was designed to be. Anti-poverty groups argued in return that it was nevertheless the only thing standing between many people and financial destitution or homelessness.

This discussion echoed concerns that had already emerged in the debate about another of the issues which provided the back-drop to the Budget, and one that reportedly provoked a revolt by some members of the Fianna Fail parliamentary party. This was the year-long run-down of the Community Employment and Jobs Initiative schemes. The Government argued that these schemes were never meant to become either a mainstream employment substitute or a form of support for community organisations. In fact, there would be general agreement in the community and voluntary sector that the schemes were often not the ideal mechanism for providing job training or for delivering community services. However, abolishing them without providing an adequate replacement would undermine both an important avenue of return to work and much-needed services.

In the case of both rent allowance and employment schemes, then, anti-poverty groups found themselves defending existing imperfect systems because of the damage that would be caused by removing them without introducing better, but more expensive, solutions.

Mostly Harmless

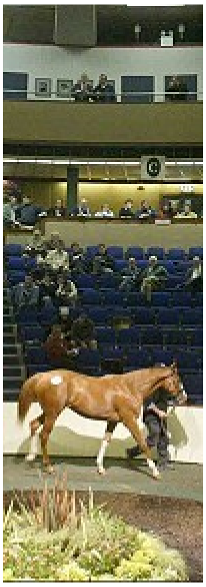
In this climate, many anti-poverty groups approached the Budget cautiously, anxious to defend existing social provisions and services and to make progress on some of the commitments in NAPS and national partnership agreements.

On first sight, the Budget was almost a relief. A fairly neutral Budget with some increases in social welfare in real terms was a lot better than expected a few months ago. Taken in isolation, one could apply to it the true but misleading description of the Earth in the Hitchhiker's Guide to the Galaxy: 'mostly harmless'.

The Minister for Finance, Charlie Mc Creevy TD, made much play of the nominal 7% increase in social welfare spending overall. This increase is welcome, but after inflation it represents a very small step towards the Government's own NAPS social welfare targets for 2005 and 2007. The one billion euro promised for school buildings over five years is also welcome, but spending generally does not recognise the scale of the challenge of educational disadvantage.

The Children's Rights Alliance, the Community Platform and the Combat Poverty Agency all responded particularly strongly to the Budget measures as they affect children. Once again there was no increase in Child Dependant Allowances, which have been static since 1994. Neither was there any response to the calls from many groups for an examination of how to provide a new second-tier child support mechanism, to replace Child Dependant Allowances and Family Income Supplement with a payment which would be directed at the lowest income families and be neutral in regard to the employment status of parents.3 Similarly, failure to increase the Back to School Clothing Allowance and small increases in Child Benefit do not fit with the Government's stated commitment to end child poverty.

The concentration of income tax cuts on the very lowest paid means that 90% of those on minimum wages are expected to move outside the tax net. On the other hand, the fact that people on the average industrial wage will now pay tax at the same rate as people on the very highest incomes shows how far we have moved from the aspiration that income tax can be a measure for redistribution of income and for fair 'burden-sharing'. With the maintenance of a wide range of exemptions, allowances and loopholes which disproportionately benefit the well-off, many of the rich will continue to pay very little tax.



Welfare State for the Rich: Subsidies to the Horse Industry exceed savings from the 'Savage Sixteen' welfare cuts

Second Richest Country in the EU

The Budget does not look nearly so harmless when we see it in its broadest context. In spite of the economic slow-down, Ireland continues to be the fastest growing economy in the EU and is now the second richest country after Luxemburg.
Ireland has the lowest overall tax rates, the lowest spending on social provision and the highest poverty rates in the EU. This is not a coincidence. It is the result of conscious political decisions which long pre-date the present Government or the 'Celtic Tiger'.
The historic under-investment in public services has led to well-recognised crises in the health and education systems, which are comprehensive and free only in name and do not serve well the needs of the poorer sections of society. John Kenneth Galbraith's classic description of the United States in the late 1950s, when he referred to private affluence existing alongside 'public squalor', could have been coined for Ireland today.

This is the real scandal of successive Governments. Despite statements to the contrary in national agreements and anti-poverty plans, we have not used our new wealth to eradicate poverty or inequality. In fact, relative poverty has grown and inequalities have deepened while the rich contribute relatively little to the Exchequer.

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Targets Need Resources

It should be clear from the years of EU Poverty Programmes and NAPS that good ideas and community structures are not enough, in themselves, to eradicate poverty. We need also to commit resources on a scale which we have not seen to date. This can be achieved only through a higher level of overall taxation or through re-allocating resources away from middle and upper income groups within the existing budget.

In spite of nice language and ambitious but not very specific commitments in successive partnership agreements and anti-poverty plans, there is not much prospect of either option being taken up by the present Government.

The current Minster for Finance sees himself as a radical reforming minister. He would like to be remembered as the Minister for tax cuts, particularly cuts in income tax. Like his PD colleagues, he would like this Administration to be remembered as the Government of low taxation.

This is a popular position, reflecting the fact that Irish PAYE taxpayers contribute a vastly disproportionate share of public revenue. While PAYE rates have reduced dramatically since the days of the tax marches of the late 1970s, low-income earners still pay tax above the EU average. The problem with the tax cutting policy being pursued is that the Minister and his colleagues want to achieve income tax cuts without addressing the inequities in the tax system.

The battle for the hearts, minds, wallets and purses of PAYE tax-payers is fought between those who argue for low taxation, and therefore poor services and a more unequal society, and those who argue for a more equitable tax system and greater social solidarity. In the old days, this would have been called 'right' and 'left'; nowadays, most commentators are happier to pick up the Tanaiste's phrase, 'Boston or Berlin'.

There is a genuine fear that any increased spending will fall on the shoulders of the PAYE tax-payers who already pay more than their share of tax. This accounts, to some extent, for the contradiction between opinion poll results about social solidarity and about taxation. Large majorities in the annual 'Eurobarometer' polls prioritise social inclusion and action against poverty as political issues. On the other hand, an Irish Times opinion poll, published in September 2003, showed that when asked to choose between increasing taxes, borrowing more, or cutting spending, as ways of paying for existing public services and capital projects, only 9% choose tax increases and 48% favoured spending cuts.4

Of course, the relationship between public social spending and social equality is not exact. The way money is targeted is important. Subsidies for investment schemes or private healthcare cannot be seen as helping social inclusion. In addition, the overall level of social spending is clearly influenced by factors such as demographic structure and levels of unemployment.

Nevertheless, a recent study for the Combat Poverty Agency underlines the fact that countries which spend the most on social provision have the lowest poverty rates and those, like Ireland, which spend the least have the highest rates.5 This is hardly surprising but is not much debated in Ireland.

Our extremely low rate of tax and social spending do, at the very least, show that we have scope to raise the resources to begin to tackle the massive gaps in services and social provision inherited from decades of under-investment.

Stealth Taxes
To avoid income tax increases, the Government has opted to continue massive tax breaks for the rich and try to balance the budget through a combination of restraints in public spending and increases in what are becoming known as 'stealth taxes'.

The term 'stealth tax' is useful in highlighting the range of important changes in taxes and charges which do not appear in the headlines about cuts or PAYE increases. The problem with the phrase is that it can be misleading because it covers such a range of taxes. Some politicians use it to refer to the increase in PAYE or other tax receipts from not adjusting bands in line with inflation and this year IBEC is using it to attack service charges on business development land.

For people on low incomes, the most damaging 'stealth taxes' are increases in VAT on essential items and increased charges for utility services, both of which absorb a much higher proportion of their income than is the case for better-off households. A recent Combat Poverty Agency Policy Statement on charges for waste collection notes that these vary considerably across the country, ranging between 150 and 500 euro per annum.6 A waiver of waste charges for low income households in granted in most but not all local authority areas; no national guidelines have been set down regarding the operation of waiver schemes so there is no automatic entitlement and individual local authorities decide their own regulations on this matter. In contrast, tax relief on charges is available to all income tax payers and once approved is provided automatically in future years.7

Tax and Taboo
The question of Ireland's low corporation tax levels has been something of a taboo in public debate for quite a while. The media and public have largely bought the argument that the 'Celtic Tiger' is a very fragile creature which could panic and run if faced with higher corporation taxes.

Ireland's policy on corporation tax is seen as predatory by some other EU governments because it undercuts countries with higher rates and threatens to start a 'race to the bottom' which can only benefit multinational investors at the expense of countries and their people. Perhaps the strongest campaign fought by Irish government ministers at EU level is to keep tax harmonisation, particularly in relation to corporation tax, off the EU agenda.

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Minister Mc Creevy specifically took time in his Budget speech to attack "those who mistakenly call for us to increase our tax burden towards the level of some other countries in Europe," arguing that low tax levels are the basis of our competitiveness and, therefore, underpin our jobs. This was a reference to groups such as the Community Platform and CORI who argue that Ireland needs to move towards the EU average level of taxation if we are to become a more equal society.

We also need to think about where we want to place ourselves, competitively, in the global market. The crux for the 'Tiger' economies in South-East Asia, from whom our own Celtic Cub got its name, came when they could no longer compete in the low-cost end of the market. Economic growth is only useful if it raises incomes and this means higher labour costs. In addition, tigers breed competition, and soon there are leaner, meaner animals in the jungle.
The week before the Budget, David Begg, General Secretary of ICTU, questioned the Government's policy of low corporation taxes and its total resistance to any moves in the direction of EU tax harmonisation. A few years ago, this would have been seen as heresy or treason, but in the new Europe it makes sense.

We cannot hope to undercut the new accession countries, much less lower-cost economies with fairly open access in the globalised market. We need to build on new strengths in the higher value-added sectors, using the technical and professional know-how built up in recent years to find a more sustainable niche.

The low-tax model in some ways carries the seeds of its own destruction as the gaps and inadequacies in public services ultimately make life difficult for everyone.

These arguments need to be faced head-on. There has been relatively little discussion, outside academic circles, about what kind of economic model is feasible and desirable for Ireland in the near future and where Ireland wants to position itself in the global economy.

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Public spending biased towards the rich diverts resources from where they are needed

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Welfare State Welfare State for the Rich

The low rate of taxation and spending is only part of the story. In addition, much public spending is itself biased towards the rich, and to a lesser extent, towards those on middle incomes. This can be seen in health and education, where spending heavily subsidises private provision which adds insult to injury by asset-stripping the public sector. It can be seen in many other areas of public spending - in, for example, grants to private arts and sports clubs which, because of cost, are inaccessible to most people.

The public subsidisation of private services and the absence of universal social services serve to break down the feeling of solidarity. In countries with comprehensive services, almost everyone sees a benefit for their taxes and gains some identification with the welfare system. In Ireland, many people on middle incomes who pay for 'private services' do not see themselves as welfare recipients, in spite of the level of state subsidy they are receiving. This leads to resentment of tax for welfare spending, which is seen as being directed to the poor only.

In a more blatant way, forms of spending which massively subsidise wealth, such as the SSIA savings subsidies and the range of tax incentive schemes, continue with minimal public debate at a time when we are told that the country is short of money for basic services.

The tradition of local clientalism makes it possible and even popular to divert large amounts of money to private, profit-making enterprises, such as hotels and golf courses, which may have only a small spin-off benefit for the rest of the community. Many people will be more interested in whether grants 'come to our town' than in the question 'whom do they benefit'?

The spending of the rich is also subsidised through the extraordinary mesh of tax reliefs. Some of these have been cut back and made more equitable in recent years, particularly since the introduction of tax credits: most reliefs are now set against the lower rate of tax. Nevertheless, these subsidies transfer more resources to the rich than to those on middle incomes and virtually nothing to the poor.

In Good Times and Bad

In trying to influence budget decisions, we in anti-poverty groups often find ourselves talking up the strength of the economy and the resources potentially available for our causes. This comes from a recognition that most of the country's resources are earmarked for the better-off and we can only hope to gather up some of the crumbs of growth. It also comes from anger at the fact that a country which is so rich, in overall terms, excludes so many of its people from the fruits of growth.

In the longer term, however, we cannot build a more inclusive society and eradicate poverty simply by spending when the economy is strong. There will always be cyclical down-turns in the economy and we can never absolutely rule out longer-term decline or even economic collapse. In such circumstances, it is essential that social inclusion is at the top of the agenda in bad times as well as good.

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Community development, public services and welfare systems need consistent, long-term investment to be effective; they cannot be built in a stop-go way depending on the rate of economic growth. This approach is recognised in industry, but seldom in the area of social investment.
It is often forgotten that countries which have made serious efforts to create greater equality, such as Sweden in the 1930s and Britain, Germany and France after the second world war, did so in difficult economic times, and against warnings from economists and resistance from the rich.

We need also to reclaim the language of 'hard choices' which has been taken over by monetarists. In a submission on the National Action Plan on Social Inclusion made to the Oireachtas Committee on Social and Family Affairs, the European Anti-Poverty Network (EAPN) Ireland and the Community Platform argued that harder economic times need tougher decisions. We cannot achieve the anti-poverty targets agreed by the Taoiseach and his colleagues at successive EU summits unless we take tough decisions to prioritise the interests of the poor.

What Type of Country?

The Budget debate is the highest-profile economic planning event of the year and the main opportunity to call the Minister for Finance to account. It gets much more public attention, and involves more detailed policy work, than longer-term planning exercises such as the National Development Plan which are arguably more important nowadays.

Unfortunately, this means an over-concentration on the here-and-now and little thought about bigger issues. There is virtually no debate about the constraints placed on the Budget by global forces or powerful pressure groups. There is even less on the value choices available to Ireland as a society and how to promote these through economic and fiscal policy.

Many people in Ireland would prefer to live in a less divided society and would be willing to sacrifice some economic growth for this. There is also strong support for developing better public services. Even the relatively well-off are aware that a good public transport system would be worth more than a second car, and that services such as health and education need serious investment if our quality of life is to be improved.

People concerned about poverty and inequality need to develop and sell coherent workable alternatives to the 'low-tax, low-spend' policies which have left us with such a deeply divided and dysfunctional society.

Notes

1. A. Bergin et al (2003)*Medium Term Review*2003-2010, Dublin: Economic and Social Research Institute, p.55.
2.*Ibid*., p. 86.

3. See for example,*Natio*nal Economic and Social Council (2003) *An Investment in Quality: Services, Inclusion and Enterprise*,Dublin: National Economic and Social Council, pp. 329-333 and p. 340; End Child Poverty Coalition (2003) Budget 2004: Contributing to Social Inclusion, Dublin, p. 2.
4.*The Irish Times*, 29 September 2003.
5. V. Timonen (2003)*Irish Social Expenditure in a Comparative International Context*, Dublin: Institute of Public Administration and Combat Poverty Agency.
6. Combat Poverty Agency (2003)*Waste Collection Charges and Low-Income Households:*Policy Statement, Dublin: Combat Poverty Agency, p. 22.
7.*Ibid.*,p. 13.

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Economics and Justice

on Thursday, 18 December 2003.

Eithne Fitzgerald

Economics - Value Free?

Economics is central to public policy and economic policy affects centrally the lives of citizens. Economics allows us to explore the likely outcomes of particular economic activities and to examine how policy impacts on different groups in society - who benefits and who loses - and to come up with proposals for change.

However, economic policy analysis is rarely value-free, but is shaped by the values we hold and the goals we want to achieve. So it is important to understand the value judgments underlying economic policy recommendations and to critically examine the implicit assumptions. The answer that is provided to any economic question is influenced by the underlying assumptions. As a toolkit, economics is only as good as the assumptions underlying the particular model - the simplification of human behaviour - which underlies economic theory.

At present, both world-wide and in this country, the competitive market model dominates and is largely unchallenged in public discourse.

It is important to recognise the strengths and weaknesses of the market model. Its strengths are its ability to generate economic growth, consumer choice, and freedom.

The weaknesses of the market model lie in its propensity to produce inequalities in income and wealth and regional imbalances in economic development, the insecure position of employees, and the inadequate attention to the environmental consequences of economic activity.

Over the past decade, Ireland has provided a case study of both the virtues and the downside of the market model. On the one hand, our economy has produced unprecedented growth which has dramatically raised average incomes and reduced unemployment. By 2001 Ireland was exactly twice as rich, measured in real terms, as it had been in 1990; its income per head is now higher than the EU average. However, this increased income is very unevenly distributed. In 2000, the share of ‘equivalised disposable income’ of individuals which went to those in the highest income group (the top 20% of the population) was 39.2%. In contrast, the share received by the bottom 20% was 7.7% and this had actually declined from 1994 when it was 8.7%.1

Current social spending as a share of GNP has declined and remains substantially below that of many EU countries. There are serious inadequacies in many of our public services - in health care, early education, public transport, support services for families, and long-term care for groups such as the elderly.

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We are challenged not just by the inequalities in our own country but by even starker figures which highlight how profoundly unequal is the world in which we live. The UN Human Development Report for 2003 refers to the "grotesque" level of global income inequalities. "Incomes are distributed more unequally across the world's peoples .. than in the most unequal countries.. The richest 5% of the world's people receive 114 times the income of the poorest 5%. The richest 1% receive as much as the poorest 57%."2

Equity and Wider Human Well-being Must be Central Concerns

In the face of domestic and global inequality and of the environmental threats arising from our current model of development, it is important to challenge the assumption that the concern of economics should be with maximising profits and satisfying consumer demands to the exclusion of the social goals of redistribution, or of overall human well-being.

The currently dominant economic theory assumes that individuals try to maximise income and consumption, and that companies are motivated only by profit. Although these may be significant influences on individual and corporate behaviour, human motivation is not purely economic: we are guided also by moral, social and cultural values. Many of the most important aspects of our lives - personal relationships, civic and spiritual values, culture - cannot be reduced to commodities which are bought and sold. Economic justice demands that we go beyond the individualism of the marketplace and recognise the values of mutual support and solidarity.

A just economics, therefore, will address issues of equality and the distribution of income, resources and economic power, alongside the issue of economic efficiency. Who pays, who benefits, who loses, who owns and who controls must be central questions.3 Economic liberalism stresses freedom and choice, and these are important concerns. However, when access to resources is profoundly unequal, when people are struggling on minimal incomes, there is no real freedom and neither is there any real choice.

Market Effectiveness - Why Markets May Give the Right Answer

Economic theory posits the notion of perfect competition which serves to maximise the benefits of market operations.4 While the simplified conditions of perfect competition are rare in the real world, for many goods and services this model is a reasonable approximation of reality. Competition in the market between alternative suppliers helps keep profits and prices in check, produces higher quality goods, promotes innovation and prevents collusion between suppliers. Competitive conditions ensure availability of a choice and variety of goods and services, for those who have the income to pay for them. Few today would quarrel with the efficiency of the market for products and services such as clothing or coffee shops.

There are, of course, areas where competition is ineffective or absent, where there is a monopoly or a small number of dominant firms who collude. Dominance in advertising budgets or in distribution can create effective barriers to real competition even if the underlying product is easy for new entrants to copy - Coca Cola and Microsoft are examples of strong brand monopolies.

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Powerful vested interests such as lawyers, doctors and publicans have successfully restricted entry, limited competition, and maintained price levels artificially high. Professions may argue these restrictions maintain quality where in reality they just sustain high prices. Introducing more competition where there are artificial monopolies or oligopolies brings gains to consumers in terms of lower prices.

Market Failure - Why Markets May Give the Wrong Answer

The Acknowledged Failures

Classic economic theory recognises that there are certain goods which the market may fail to supply in sufficient quantity or will supply only at too high an economic or social cost. These are:

1. Goods which of their nature we share collectively - what are called 'pure' public goods, such as policing, public lighting, clean air.

2. Goods where the benefits to society are greater than the benefits to the individual, or where the costs to society are greater than the cost to the individual - here the market gives the wrong answer, over-producing pollution or traffic congestion, or under-producing education, or health and care services. Subsidies or taxes are needed to adjust for these externalities. The familiar 'polluter pays' principle requires individuals and firms to pay for the social costs they impose on others.

3. Natural monopolies - where economies of scale mean that competing small-scale producers would be a costly and inefficient solution so that one or two large-scale producers provide a much more efficient response. For example, electricity transmission is a natural monopoly. These goods are best retained in public ownership. Liberalising markets is not a workable strategy where there is a natural monopoly but this is sometimes not acknowledged and there is an imposition of competition merely for ideological reasons. However, natural monopolies may change with new technologies, as, for example, when mobile phones replaced fixed land lines.

To prevent publicly-owned monopolies being run for the benefit of insiders rather than the public or the taxpayer, it is important to have independent oversight and to ensure competitively priced inputs. That can be achieved either through competitive tendering for inputs or by ensuring that internally-sourced services cost no more than the competitive market price.

Lack of Information

At its heart, the model of the perfect market assumes a well-informed consumer who can always spot the best value. That requires information on both price and quality. While it may be easy to work out the best value for standard items on the supermarket shelves, it can cost time or money to work out the best value in a mobile phone billing arrangement, in a pension plan, in a second-hand car. Professions like doctors or dentists have been slow to advertise their prices, and in any event shopping around is not easy for personal services of this kind. Markets are imperfect where the costs of acquiring information, and the risks in acting without it, are significant.

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Risk

We cannot know how long we will live, what illnesses we will experience, or what inflation will do to our pension savings after retirement. Some of this risk may be spread through pooling of risks through insurance. But insurance itself is a flawed market, where the existence of insurance changes behaviour, allowing us be less careful. Another flaw is termed adverse selection. People who feel they are high risk are more likely to take out insurance, whereas people who are low risk may take a chance. Older people are more conscious of the need for health or care insurance because the risks are more immediate. Insurers try to price their services in proportion to the known risk; however, since this could make health insurance prohibitively expensive for the elderly, the law requires community rating, or a pooling of risk over generations, by health insurers.

There are certain contingencies that no private market will insure against - the risk of unemployment, or the risk of relationship breakdown. No effective insurance is available against the costs of getting Alzheimers. The state fills this gap in the market through compulsory social insurance and welfare programmes.

State Intervention

Since markets so often do not satisfy the stylised conditions of perfect competition, the state has an important role in overseeing and regulating markets - and at times intervening directly in them - to ensure that wider social ends are achieved. Whether the right answer is more competition, greater regulation or public ownership depends on whether competition is naturally absent because of economies of scale or whether it is absent due to artificial restrictions on entry. Regulation may take the form of encouraging greater competition where that is appropriate; of ensuring minimum standards of food, accommodation, or worker safety; ensuring consumers are properly informed; or levying taxes or charging subsidies where there are external benefits or costs.

Indeed, according to the economic theory of the second best, developed by Lipsey and Lancaster,5 government intervention may be preferable to trying to bring about a freer market, where this is not in practice attainable. As markets for different products and services are interdependent, the optimal result for the system as a whole may be to intervene with corrective taxes or subsidies rather than pursue an unattainable goal of free unfettered competition. In other words, competition, with corrective government intervention may work out better than competition which is almost but not quite like perfect competition. Whether more competition or a ‘second-best’ correction is appropriate must be studied on a case by case basis.

Why Government too May Fail

While market failures point up the need for government intervention to achieve better social outcomes, it has to be acknowledged that, no more than markets, government intervention may also fall short of the ideal.

Regulators may be effectively 'captured' by the industries or interests they are supposed to regulate, so that they act less objectively and with less attention to the wider public interest that they should. Self-regulation of professions is at particular risk of regulatory capture - can solicitors or dentists really regulate themselves in the public interest or are they trying to keep potential competitors out? Government departments may be captured by particular interest groups - do teacher interests dominate the Department of Education and Science, or farmer interests the Department of Agriculture and Food? Licensing arrangements intended to guarantee quality standards may give rise to cartels who fight to retain the premium value of their licence - as occurred in the case of the taxi service.

Powerful vested interests may succeed in securing or maintaining subsidies which serve to distort the market rather than correct market failures. For firms and sectors, subsidy-shopping may be an easier and more profitable strategy than seeking new markets, a major criticism of industry levelled by the 1992 Culliton report.6 Under the Common Agricultural Policy, incentives have encouraged farmers to chase subsidies or intervention to maximise their incomes rather than concentrating on getting the best market for their products. Monopoly state services may be captured by producer interests, become characterised by bureaucracy, offer little choice, or provide poor quality services. Ghost power stations, fully staffed, show the strength of producer interests. For years the telephone monopoly was characterised by long waits for new phones and unsatisfactory customer service.

Vulnerable public service users may have little voice - for example, the homeless or mentally ill. They have little alternative where services or facilities are below standard. It is important, therefore, to have mechanisms to ensure accountability and underpin an ethos of genuine public service. Such mechanisms include freedom of information, efficiency audits, consultation with users, consumer representation, and economic instruments such as competition. Introducing competition between alternative public sector providers on quality, service and cost may enhance performance.

Income and Wealth Distribution

While the market system is broadly effective at creating wealth and distributing goods and services, it is less effective at distributing incomes fairly. With widely unequal incomes, people come to the market with widely different buying power.

In the stylised world of perfect competition, each unit of labour or capital or land is used in production up until the point where the return from the last unit used is exactly equal to the value of additional output produced by that unit. In the real world, economic rewards reflect not just hard work, effort and talent. Earnings reflect differences in education and skills which in turn are highly skewed by differential class participation and achievement in education. Much work of immense social value remains underpaid or unpaid because the market system puts little value on it - care of the sick and elderly, child care. The Community Employment scheme has supported work of social value to communities who could never afford to pay for it. In a world of market rewards, those who cannot sell their labour - people who are retired, unemployed, ill, or have caring responsibilities - remain on the outside.

Inequality in incomes derives not only from differences in productive capacity and economic efficiency but also from differences in ownership and control of resources. Major wealth ownership usually has its origin in exceptionally profitable business or ownership of assets which have risen sharply in value. Business acumen, effort, and a willingness to take risks may yield exceptional returns, but luck also plays a part in determining which risky investments pay off and which go under. An unanticipated surge in demand for a good will bring excess profits to those already in the business of producing it, that is until new entrants come in and start increasing supply. Such excess profits can be capitalised into sizeable gains in share values for the firms concerned.

Asset ownership has the potential to generate sizeable windfall gains - for example, when population growth and rezoning decisions put up the value of potential development land. Wealth can generate further wealth which can then accumulate across generations. Inequalities in wealth lead to inequalities in income and market power.

The state has an important role to play in redressing the inequalities in income thrown up by the market, and the inequalities in wealth which may cumulate over generations. The main instruments for redistribution are the tax and social welfare systems. In Ireland, taxes on wealth and its transmission have been substantially diluted in recent years. For example, capital acquisitions tax has been halved from 40% to 20%, probate tax has been abolished, and capital gains tax rates have also been halved. The trade-off between lower income taxes and moderate pay increases was at the heart of social partnership, and improved competitiveness which resulted has played its part in the economic growth of the Celtic Tiger years. The scale of tax cuts, however, has gone way beyond what was agreed under social partnership, and the benefits of tax reductions have disproportionately favoured those on higher incomes. Social welfare increases, while exceeding inflation, have grown slower than earnings. The result is that tax and welfare policy during the boom years have actually served to widen the gap between rich and poor.

Expenditure on education, often seen as promoting equality of opportunity, disproportionately benefits students from higher-income backgrounds whose participation levels are greatest. Any long-term strategy to redress inequality of income should include successful measures to address the substantial class gradient in educational participation and performance.

Public Services

There are goods and services which we see as fundamental to human well-being and dignity, which should not depend on ability to pay - access to a good education, to health care, to housing. There is widespread agreement in principle that it is morally and ethically unacceptable to leave provision entirely to a market system which would see many go without. We consider it is wrong that life-saving medical treatment should only be available to those who can afford to pay. We think it unacceptable that educational opportunities should be restricted by the ability or willingness of parents to pay. We believe that those who cannot afford accommodation should not be forced to live on the streets.

There are, however, sharp political differences as to where the line defining adequate provision should be drawn. There are sharp differences as to whether social services like these are made available as a right of citizenship or are tightly restricted.

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I see quality public services as an essential part of social and economic infrastructure, part of social citizenship. We can build solidarity through services we all share, and achieve redistribution through the tax system.

The alternative view on the right emphasises the value of self-reliance and, despite the recognised failures of the market system, seeks the maximum use of private markets to achieve social ends.

This is a world of low taxes, limited public services, means tests and personal responsibility - the minimal welfare state. While it is claimed that this focuses more resources on the poorest, in practice selective systems achieve less redistribution because selective services tend to be the least generous, redistributing less income than the encompassing welfare states.7

Business and Power

The dominant economic power today is exercised not by small owner-run businesses but by major corporations. Large multinationals are often bigger than many nation states. Many of these owe their market power to strong brand names backed by heavy advertising, creating wants, not just meeting demand. Global media companies dictate aspects of a global culture. Global media in turn promote global brands for sportswear, soft drinks or other products. In a world where many go hungry, the power of these corporations to shape global tastes and direct spending power towards meeting such created needs is enormous.

The power of individual nation states to regulate or restrain mobile companies is limited - they may simply move elsewhere. Only a number of governments acting together, for example EU regulation of environmental standards, is likely to form a successful counterweight to the economic power of large business.

The dominance of business funding of politics may help secure the election of pro-business parties and frequently places elected governments under a compliment to major corporations or the business sector as a whole. Thus governments may be reluctant to take on cartels. Governments may skew tax breaks and incentives towards the business sector in a way which protects inequalities in income distribution or distorts economic performance.

Shareholders and stakeholders

The theory of the market is that the search for profit drives competition in goods and services and the creation of new goods and services. The search for shareholder value is thus seen as directing resources towards where they will yield the highest return.

Most frequently, the shareholders are divorced from those who run the business, who work in the business, or the customers. 'Investment' in the stock market is only occasionally about lending risk capital to new ventures or for business expansion. More often it is the purchase of pieces of paper based on expectations of capital gain. The value placed on these pieces of paper should in theory reflect the underlying profitability of the business and its prospects. The roller-coaster markets we have seen during the last decade suggest that market sentiment rather than underlying realities frequently dictates what a business is worth. This is well-illustrated in the dramatic - if short-lived -

increase in the price of dot com companies during the stock price rises of the late 1990s. Speculative share trading which is divorced from business realities may be unsuccessful in directing resources towards where they are most productive.

Conclusion

The purpose of any economic system ought to be to serve the greater good of a society and to ensure that the basic human needs of all its people are met in a way which is both fair and efficient.

Economic success on its own is not enough unless it contributes to achieving a fair and equal society. Economic policies are the means to an end, not ends in themselves. Economic success may sometimes come at too high a price - in terms of human relationships, in terms of the environment, in terms of social justice. Increased prosperity can provide the means to tackle poverty or deliver better public services, but only if the fruits are fairly distributed

Mainstream economics acknowledges that there are significant areas where the market does not offer the right answer. This, however, tends to be ignored by those who hold an ideological view that private is good, public is bad and so advocate that the priorities in policy should be liberalising markets, privatising public assets, cutting taxes, and deregulation.

In Ireland over the past decade an ideology with a blind belief in market forces has progressively permeated public debate on economic policy. This has supported a rolling back of the state and a decisive swing against public services during the fastest growing period of economic growth in our history. It has supported tax cuts on a dramatic scale which has been sharply skewed towards the rich.

There is room for an alternative economic voice, one which places justice and redistribution at the heart of our economic values. This is a voice which acknowledges and supports what markets do well, but wants intervention to correct market failures. It is a voice which recognises that sometimes the state is best placed to pursue the public interest, and which has no preconceptions that the private solution must be best.

Notes

1. B. Nolan (2003) "Income Inequality During Ireland's Boom,"*Studies*, 92, 366 (summer), p. 136.

2. United Nations Human Development Programme, *Human Development Report 2003*, New York: Oxford University Press, p. 39.

3. In asking the questions, ‘Who pays’? ‘Who benefits’? it is important to distinquish the *actual* effect of any policy from the supposed effect, on paper - to examine what economists call the incidence of a tax or subsidy. For example, subsidies to new housing may ultimately benefit owners of building land, because in a tight market housing prices tend to rise by the full amount of the subsidy.

4. The idealised model of perfect competition assumes: large numbers of producers and consumers so that no individual consumer or company can affect the market price; free entry into and exit from the market; identical products; well-informed consumers.

5. R. G. Lipsey and K. Lancaster (1956) “The General Theory of the Second Best,” Review of Economic Studies, 24, pp. 11-32.

6. Industrial Policy Review Group (1992) *A Time for Change: Industrial Policy for the 1990s* (The Culliton Report), Dublin: Stationery Office.

7. W. Korpi and J. Palme (1998) “The Paradox of Redistribution and Strategies of Equality,” *American Sociological Review*, 63, pp. 0661-687.

And so this is Christmas...?

on Thursday, 18 December 2003.

Cathy Molloy

Amidst the hustle and bustle of Christmas many people find themselves drawing breath now and again and wondering what it is all about. On the one hand, there is the exhilaration of the 'season of goodwill', the decorations and seasonal music to brighten all our lives, the getting together with friends or colleagues or family, the special food and present-giving that lifts us right out of the ordinary humdrum existence of short days and long winter nights. Where would we be without it? On the other hand, there are constant reminders that Christmas is not a joyous fun-time for everyone. Loneliness and poverty, homelessness, isolation, hunger and sickness can be exacerbated at Christmastime and we are fairly bombarded with requests to include others at home and far away in our way of celebrating the great Christian feast. And so we should be.

But what is it all about? What is the meaning of Christmas? What does the Christian feast celebrate? In an essay entitled Understanding Christmas, German theologian and Jesuit priest, Karl Rahner, invites readers to an understanding of the meaning of this important Christian celebration. In celebrating the birth of Christ we celebrate the birth of the one in whose death and resurrection Christians have discovered hope and God's 'irrevocable promise of salvation'. The meaning of Christmas is that the emptiness of death is filled with the 'nameless incomprehensibility of God' (Karl Rahner, “Understanding Christmas,” in Theological Investigations, Volume XXIII, New York: The Cross Road Publishing Company, 1992 pp 140-148).

We offer the following extract, the concluding paragraph from Rahner's essay, as a meditative piece, a Christmas 'gift' to you who are busier than ever because it is Christmas, to you who are exhausted and wondering how it has come to this, to you who are delighted or disaffected, enchanted or alienated, by the excitement and the drama of Christmas.

Those who in the quiet of peaceful recollection, of docile resignation, in the silent Christmas of their own heart, let the press of things, of people, of desires fall back, which would otherwise obstruct their view of infinity, those who for a while at least extinguish the earthly lights that prevent them from seeing the stars in the sky, only those who, in a silent night of their heart, allow themselves to be called by the ineffable, wordless nearness of God speaking through its own silence, if we have the right ears for it, only they celebrate Christmas as it should be celebrated, if it is not to degenerate into a mere worldly holiday. We should feel as we do on a clear winter night, when we walk under the starry sky: far away the lights of human nearness and the security of home are still calling us. But above us stretches the sky, and we feel the silent night, which may at times impress us as uncanny and frightening, like the quiet nearness of the infinite mystery of our existence that is at once sheltering love and wide expanse.

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The eternal future has entered our time. Its brightness is still dazzling, so that we believe it to be night. But it is a blessed night, a night that is already warmed and illuminated, a beautiful night, cozy and sheltering, because of the eternal day that it carries in its dark womb. It is silent night, holy night. But it is so for us only if we allow the stillness of that night to enter our inner person, then in our heart too 'all is calm.' And that is not difficult. For such a loneliness and stillness are not heavy. Its only heaviness is that which belongs to all sublime things that are both simple and great.

Yes, we are lonely. There exists in our heart an inner land, where we are alone, to which nobody finds the way except God. This innermost unreachable chamber in our heart exists. The question is whether we, in a foolishly guilty way, avoid it, because nobody else and nothing of what is familiar to us on earth can enter into it with us. Let us enter there ever so quietly! Let us shut the door behind us! Let us listen to the ineffable melody that fills the silence of that night. Here the silent and lonely soul sings for the God of her heart her finest and most personal song. And she may be sure that God hears it. For this song no longer has to seek the beloved God beyond the stars in that inaccessible light where he dwells and where no one can see him. Because it is Christmas, because the Word was made flesh, God is near, and the faintest word in the quiet chamber of our heart, the word of love, reaches his ear and his heart.

We must be quiet and not fear the night, else we will hear nothing. For the ultimate message is uttered only in the night's stillness ever since, through the gracious arrival of the Word into the night of our life, Christmas' silent night, holy night came down among us.

Karl Rahner

Integrating Perspectives on Christmas

on Thursday, 18 December 2003.

by Nadette Foley, Zhyan Sharif and Egide Dhala

Nadette: Christmas is a time for home coming. In many different parts of the world people make enormous efforts, and travel long distances, to spend Christmas-time with their families, even if only for a few days. But just as in the past thousands of the Irish people who emigrated to North America, Australia or Britain, had to spend their Christmases away from home, so also many of the people who have come to Ireland in recent years as migrant workers, as refugees and especially as asylum seekers, do not have the option of going home for Christmas. Returning may not be possible because they cannot afford the money, or the time, or if they leave they will not be re-admitted or the conditions in their home country make going back dangerous.

Ireland's new residents come from over one hundred countries in every continent. Our current level of resources and wealth mean we are able to offer them valuable opportunities - to rebuild their lives, to gain employment, to obtain training and qualifications. And they in turn have a great deal to offer Ireland - they bring talents and skills, initiative, resourcefulness, a willingness to work hard to create a new life for themselves and their families. They can give us insights into cultures different from our own, a view of how global forces operate, a picture of the wider world and Ireland's place in it. Provided we are willing to listen, they can also give us refreshingly different perspectives on life in this country. Coming as they do from different cultures, they see this country with fresh eyes and they can help us to look more searchingly at ourselves, to examine our values and re-assess what are the things to which we accord priority.

Their perspective is very often not just that of a person coming from a different part of the world to a strange country. Rather, it is that of someone who is vulnerable, lonely and perhaps traumatised, who is without financial resources and the knowledge and experience necessary to negotiate the administrative systems, or the workplaces, with which they must deal. It is also that of someone who has displayed great resilience, strength and courage in reaching this country. How they are treated, whether as an applicant for asylum or as a migrant worker, is a profound comment on our society.

'Christmas' in the modern western - and secularised - world has become a season that occupies one sixth of the year and absorbs a sizeable proportion of our consumption. However we look on it and however we celebrate it there is no doubting its significance in our lives.

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As we try to respond to the annual appeals to 'think of others this Christmas' we do well to consider how Christmas is experienced by our immigrant workers, the asylum seekers who await decisions about their future and the refugees for whom Ireland has provided safety and the chance of a new life.

Zhyan: I am from Kurdistan. I am married and have three Irish children, all born in Dublin. I left Kurdistan in 1988 during the Iran-Iraq war and I have been nearly seventeen years living in Dublin. It has been a second home for me. Irish people are very friendly and helpful. My children and I like living in Dublin.   My boys consider themselves Irish because they were born and grew up here and they speak only English and some Irish.
The only thing I do not like about Ireland is Christmas-time because the Irish people spend an awful lot of money in the run-up to the festival. It seems to me to be a very bad custom. I feel sorry for the poor people who cannot afford to spend. Like their Irish friends, my children have been asking for expensive gifts. I feel terrible because sometimes it is difficult for me to get them what they want.

I think Christmas should be about gathering families and being together, not about spending on and on. And Christmas should surely mean thinking about the poor and their needs. My opinion is that instead of spending all this money on presents and gifts, people could donate to those who are in need and send help to countries were there is war and starvation.From my experience of Irish friends, I know the pressure that is put on them. Some of them take loans to pay for the cost of Christmas.

At this time of year as a Muslim woman, I celebrate Eid and this does not put pressure on us.   We do not have to spend money on gifts. We buy our children new clothes and inexpensive presents or give them some money. We visit families and friends   It is all about the gathering.

In the morning of the first day of Eid, we go to the mosque and pray. For Muslims, Eid is about gathering with friends and families and also about bringing peace, and forgiving those who hurt us. A week before Eid we must give Zakat, a donation, for the people who are in need.

However, I do enjoy looking at the city with its Christmas lights and decorations. It breaks up the long dark Irish winter.

Egide: I am from the Congo. I have been in Ireland for five years - quite a long time away from my country. In my opinion, Christmas has departed from its original meaning for many. I would argue that for a great number of Irish people, and indeed in the general context of the modern western world, Christmas is a traditional feast rather than a celebration of the birth of the Saviour- perhaps an opportunity for gaining or spending a fortune! I am not surprised, however, since we are living in a very secularised world.

Reaching the end of the year, my mind goes back again to my native land where popular festivities bring a new dimension to life. Luckily, Christmas happens almost at the same time as the end of the year/beginning of a new year. Popular celebration starts from December 24th, by participation in religious ceremonies followed by a family meal, and continues until the end of January. The most important moment is the transitional time between the end of the year, 31st of December, and the beginning of the New Year, 1st of January. This marks a key moment where any African would bring the past and the future together, then try to offer it to ancestors who will make provision to the integrity of life at individual, family and community level.

Jesus Christ, whose birth is celebrated a week before, has taken the place of those ancestors as Spiritual Guardian. The deep sense of spirituality in the life of Africans finds echoes in the Christ-Event! The importance of his date of birth, not only a birthday but also a real birth, reaches its fullness in the night of passing over to the New Year. A special meal, usually a goat, is shared amongst family members in order to celebrate the joy of a New Year dawning. Meals are shared between families, children in their new clothes crowd the streets and music is played loudly in every house.

I will always be nostalgic when celebrating Christmas - "Good New Year" far away from home!