Editorial

In a Statement issued prior to the General Election in February of this year, the Jesuit Centre for Faith and Justice noted that in public discussions in Ireland on how to address the economic crisis reference was frequently made, by politicians and commentators, to 'the common good', 'solidarity' and 'sustainability'. The Statement said that while this was welcome, the reality was that the mere articulation of such values was in itself of little consequence, unless there was 'a corresponding determination to take the decisions and measures necessary to give effect to these values'.

The Programme for Government of the new Fine Gael–Labour Party Government includes many references to values such as social solidarity and equality; indeed, at the outset, the Programme states that both parties in Government are 'committed to forging a new Ireland that is built on fairness and equal citizenship'.

There is no doubt, however, that the Government faces an extremely difficult task in attempting to bring about such a society – while at the same time responding to what the Programme describes as our 'unprecedented national economic emergency'. It will require deep commitment and resolve not just by Government but by the whole of Irish society if the promise to 'modernise, renew and transform our country' is to be fulfilled and if the following statement of intent in the Programme is to be realised: 'By the end of our term in Government Ireland will be recognised as a modern, fair, socially inclusive and equal society supported by a productive and prosperous economy'.

This issue of *Working Notes* deals with a number of themes that will be key challenges over the lifetime of the new Dáil. In the opening article, P.J. Drudy suggests that 'the pre-eminence of economic growth as a goal and the dominance of the market as a philosophy have served us badly', and says that the broader concept of 'development', which would take into account factors such as education, health, employment opportunities, and equality, would provide a better measure of the progress of a society. He advocates the adoption of a human rights-based approach to legislative and policy development – pointing out that Ireland has already ratified a series of international human rights treaties covering economic and social rights, and has thereby committed itself to implementing their provisions in its policies, plans and budgets.

Ray Kinsella and Maurice Kinsella outline the origins and key features of the crisis in Irish banking and argue that this has to be seen primarily as an ethical crisis, one spawned within a relativistic and consumer-driven form of corporate capitalism, which excluded any understanding of the common good. They suggest that in responding to the crisis there cannot be a reliance solely on new legislation and regulation: the real challenge is 'to embed a sense of ethics within organisational structures, incentives and relationships' and bring about an alignment between commercial practice and the common good.

Eugene Quinn shows how major flaws in taxation policy during the economic boom contributed to the fiscal crisis which the country now faces. The erosion of the tax base, the reliance on volatile consumption and transaction taxes, and the notion of 'spending it while we have it' were all features of an approach whose unsustainability quickly became apparent once the downturn occurred. However, he says that, despite the severity of our fiscal problems, the crisis could be the opportunity for Ireland to adopt an approach to collecting and spending public money that is based on equity, sustainability and an appropriate balance between different forms of taxation.

In the final article, Bríd O'Brien highlights the scale of the unemployment crisis facing Ireland, with the number of people out of work having almost trebled since 2007. She argues that policy measures in relation to both social welfare payments, and the provision of training, education and work experience, must be able to offer unemployed people not only adequate supports in the short term but hope for the future, and says there is need for a comprehensive and integrated Jobs Strategy that could both address the immediate crisis and fully explore the possibilities in every sector of the economy for the creation of employment.

Unemployment: The Need for a Comprehensive Response

Bríd O'Brien

Introduction

There is no doubting that nearly everyone who stood as a candidate in the February 2011 General Election saw employment – its maintenance and creation – as a critical issue to be addressed by the in-coming Dáil. Now that a new Dáil has been elected and a new Government appointed, what should be the focus in tackling unemployment? What is needed to give unemployed people hope for the future as well as proper income and social supports to meet their needs?

This article draws on the perspectives and experiences of the Irish National Organisation of the Unemployed (INOU), a federation of unemployed people, unemployment centres and groups, community organisations, and trade unions. The core aim of INOU is to represent and defend the interests and rights of those who want decent employment and cannot find it, and to campaign for an acceptable standard of living for unemployed people and their dependants.[1]

The previous Government's response to the unemployment crisis was open to the criticism that it was limited and driven by the need to ensure that all new initiatives were cost or revenue neutral. However, the scale of job losses since the beginning of the economic crisis has been such that it is simply not possible to tackle unemployment effectively without investing additional resources.

The previous Government claimed that education and training provision had been substantially increased in response to the growth in unemployment but, in reality, what happened was that existing courses were modularised and split into shorter courses. Such a policy might have been acceptable if job losses had been limited and job creation had been maintained but given the scale of the losses, and the lack of employment growth, there emerged a significant gap between the demand for education and training places and their supply on the ground.

Unemployed people and front-line service providers are very clear that it is inadequate provision, and in particular the lack of jobs, which constitutes the real barrier to unemployed people moving from welfare to work – in other words, to their being able to participate effectively in the process of 'activation', which is now a key aspect of the policy response to unemployment.[2]

What is urgently required is the development of an integrated employment and social service which has at its heart the specific needs of individuals and which engages proactively with them, ensuring that they are given access to their entitlements as quickly as possible and that they are provided with the very best advice and support in relation to training, education and job search.

People who are unemployed have been looking for such an approach for a long time. It is therefore critically important that the development of the new National Employment and Entitlement Service, promised in the Programme for Government of the Fine Gael–Labour Party Government,[3] responds appropriately to these needs and is informed by principles of inclusion, equality, effectiveness and efficiency.

The Growth in Unemployment

Two sets of official data give us a picture of trends in unemployment in Ireland: one is the Live Register published monthly and the other is the Quarterly National Household Survey. The Live Register includes all claimants of job seeker payments as well as those who are registering for credited social welfare contributions; both groups are considered to be available for work. However, since the Live Register includes people who are part-time, seasonal and casual workers it is not deemed to be the source for the official unemployment figure: that comes, instead, from the Quarterly National Household Survey.

The Household Survey for the fourth quarter of 2007 – that is, at the end of the year in which the previous General Election was held – showed there were 2,138,900 people in employment in Ireland. By the fourth quarter of 2010, however, the number had dropped by well over a quarter of a million (315,700), so that the total number in employment was 1,823,200.[4]

This precipitous fall in overall employment is reflected in the unemployment statistics. Whereas at the end of 2007, there were 101,000 people unemployed, by 2010 the number had grown to 299,000 – *an increase of 196 per cent*. The unemployment rate in the final quarter of 2007 was 4.5 per cent; by the corresponding period of 2010 it had more than trebled and stood at 14.1 per cent.

Long-term unemployment (defined as being out of work and seeking work for more than a year) grew even more dramatically in the three-year period, increasing by *423 per cent*: the numbers rose from 29,400 in late 2007 to 153,900 in late 2010, with the rate increasing from 1.3 per cent to 7.3 per cent. By the end of 2010 – and for the first time since the late 1990s – long-term unemployment accounted for more than half of unemployment, with 51.5 per cent those unemployed out of work for more than a year.[5]

In February 2007 there were 159,399 people on the Live Register but by February 2011 the number had risen to 442,677, an increase of 283,925 or *177 per cent*.[6] The rate of increase in the Live Register has slowed over the past year; however, the number of people on it for more than a year has continued to increase and this group currently makes up 37 per cent of the total. In fact, the number of people on the Live Register for a year or more is now greater than the overall total number on the Register just three years ago.

In terms of age profile, people under twenty-five represent 18.6 per cent of those on the Register, with those over twenty-five representing 81.4 per cent. People in the 25–34 year old age category make up the single biggest group on the Register, at 32 per cent: this is the age group which has been hit the hardest by this recession in terms of job loss and over-indebtedness.

Policy Context

It is important to note that the policy context within which unemployment in Ireland is addressed is strongly influenced by European Union developments. For example, innovative responses in the past have evolved from European-wide programmes. The National Employment Action Plan is Ireland's response to the EU's 'Employment Guidelines' – within which there is a growing emphasis on activation. Ireland reports to the European Commission on the implementation of the Plan through the National Reform Process.

In the current crisis, the influence of the EU has been strengthened as a result of the financial assistance given to Ireland through the joint International Monetary Fund (IMF)/EU bailout agreement,[7] and this is reflected in the underpinning documentation and the related *National Recovery Plan 2011–2014*.[8]

Activation Programmes

Budget 2011, introduced in the Dáil on 7 December 2010, included four specific measures to address unemployment:

- 'Refocusing' the National Employment Action Plan to ensure that State agencies 'interact early and often to provide opportunities for education, training and work experience placement as appropriate'.
- Provision of an additional 15,000 'activation places' for unemployed people.
- Extension of the Employer Job (PRSI) Incentive Scheme to the end of 2011.
- Transformation of the Business Expansion Scheme into a new Employment and Investment Incentive to boost job creation by small and medium-sized enterprises.[9]

National Employment Action Plan

In regard to the first of these measures, the reality is that the implementation of the National Employment Action Plan at present means little more than the Social Welfare Local Office referring unemployed people to their local FÁS office for discussion of their employment, training and education options. Feedback from unemployed people reveals very mixed reactions to this process.

Under the Programme for Government of the Fine Gael–Labour Party Government, FÁS will be replaced by the proposed National Employment and Entitlements Service (NEES), the aim being that 'all employment and benefit support services will be integrated in a single delivery unit managed by the Department of Social Protection'.[10]

This development will be much broader in scope than merely replacing FÁS and is potentially more far-reaching than the initiative undertaken by the previous Government under which FÁS Employment and Community Services have been moving into the Department of Social Protection since the beginning of 2011. It is vitally important that the creation of NEES results in a consistent and well-informed frontline service for people who are unemployed.

Additional activation places
Even as an additional 15,000 'activation' places were announced in the Budget, FÁS training places were being reduced by 15,410 – effectively a net loss. In the Programme for Government 2011–2016, the coalition Government is promising a Jobs Fund within 100 days which will include 'an additional 15,000 places in training, work experience and educational opportunities for those who are out of work'.[11]

The additional activation places announced in Budget 2011 were split between three schemes, two of which are under the Department of Education and Skills and the other under the Department of Social Protection.

Highlighting the Scale of Unemployment *© Derek Speirs*

One of the two schemes controlled by the Department of Education and Skills is called the *Skills Development and Internship Programme*, to be implemented ideally within sectors with reasonable prospects of job growth. A welcome feature of this scheme is that a weekly 'top-up' of €100 will be paid to participants (that is, in addition to their social welfare payment). Opportunities for education and training will also be made available – either provided directly by the employers availing of the programme or supported through their contribution to a training fund. This programme sets a standard in terms of conditions that should also exist in other activation measures.

The second Department of Education and Skills initiative is the extension of the Work Placement Programme to allow placements in the public service. While the extension of the scheme is welcome, a key concern regarding it still remains – namely, there is no additional payment to support people to work on what is a full-time, nine-month programme.

This approach represents a regression from the position under the Back to Work Allowance scheme, introduced in 1993, under which long-term unemployed people were able to take up employment and maintain their jobseeker's payment on a sliding scale for up to three years.[12] As this was allowable under social welfare legislation, it is open to question why an additional payment cannot be made to participants in the Work Placement Programme, even without amending legislation. Many employers who avail of the programme are uncomfortable with the existing arrangement.

The new Department of Social Protection scheme, called *TÚS – Community Work Placement Initiative*, is currently in the process of being rolled out. It will provide work opportunities in the community and voluntary sector. Like the existing Rural Social Scheme,[13] this programme will be implemented through the Local Development Companies. The pay and conditions under *TÚS* will be similar to those under the long-established Community Employment scheme: €20 in addition to the personal jobseeker's payment for a 19.5 hours working week.

There is, however, one very serious cause for concern regarding the new scheme: participation will not be by choice. The Department of Social Protection will identify those in receipt of a jobseeker's payment who have been unemployed for more than twelve months, and from those identified will select potential *TÚS* participants by lottery. This is in contrast to the situation in both the Rural Social Scheme and the Community Employment programme where participation is by choice and potential participants apply for jobs advertised through FÁS or the Local Development Company.

In the interest of best practice, the principle of choice should be maintained for the new *TÚS* scheme also. On a practical level, the selection system for the scheme is likely to create logistical nightmares. Local community and voluntary organisations will register the jobs they need to have filled with their Local Development Company: the Company will then have to match up the person with the right job. Obviously, it is of crucial importance that the community and voluntary organisation is happy with the prospective new employee – and especially so if the work involved is in the area of social care or youth work.

The potential for frustration inherent in the lottery system for selecting candidates for the scheme is immense. It will limit the pool of people from which local and community organisations can recruit, potentially excluding highly suitable people. It will also be very frustrating for unemployed people who would welcome the opportunity to participate but find that they cannot because they are not picked through the lottery. The lack of a training budget for this programme is also a cause for concern.

The Memorandum of Understanding between Ireland and the EU/IMF states:

At each subsequent review of the programme, the government will submit reports containing an assessment (including by means of quantitative indicators) of the management of activation policies and on the outcome of job seekers' search activities and participation in labour market programmes.

The production of more comprehensive data on activation would be very welcome: this is an area which has not been adequately addressed up to now and the EU should long since have challenged Ireland on it, through the National Employment Action Plan and related National Reform Programme processes. However, the INOU is very concerned that in the interests of 'being seen to be doing' unemployed people will continue to be sent on the merry-go-round that is the current employment services/social welfare system. Feedback not only from unemployed people but from officials on the ground is that there are insufficient places to meet current demand, let alone manage increased activation.

Incentives to employers
Budget 2011 also extended the Employer Job (PRSI) Incentive Scheme to the end of 2011.[14] Another initiative of this type is the Revenue Job Assist (RJA) scheme, which has existed since 1998, but has not received the same degree of publicity from the State.[15]

Under RJA, employers may claim a double deduction in calculating their taxable income on the qualifying employees' wages and on the employer's PRSI contributions for these employees for up to three years. Unlike the Employer Job (PRSI) Incentive Scheme, there is no upper limit on the number of qualifying positions. The attraction of the RJA scheme for unemployed people, in particular for those with dependent children, is that they get additional tax credits for up to three years – though it should be noted that these are on a sliding scale. The Programme for Government 2011–2016 promises to 'halve the lower 8.5% rate of PRSI up to end 2013 on jobs paying up to €356 per week'.[16]

Acceptable Standard of Living

An emphasis on placing the burden of the necessary adjustment in the public finances on the less well-off – through measures that reduce already low social welfare payments and wages – has been a notable feature of policy over the past three years. This approach is also evident in the Memorandum of Understanding between the European Commission and Ireland, in the sections dealing with social welfare and unemployment. It is proposed that, in order to 'reduce the risk of long-term unemployment':

The government will reform the unemployment benefit system in such a way as to provide incentives for an early exit from unemployment. This reform of unemployment and social assistance benefits will be part of overall reforms in the welfare system designed to reach budgetary savings of €750m in 2011.[17]

Furthermore, legislation is to be introduced with a view to:

Taking steps to tackle unemployment and poverty traps including through reducing replacement rates for individuals receiving more than one type of benefit (including housing allowance).[18]

Elsewhere, it is stated that 'changes will be introduced to create greater incentives to take up employment'.[19]

As one unemployed participant in a recent activation workshop run by the INOU asked: 'what jobs?' Unemployed people and those working on the ground are crying out for increased supports and options; the 'big stick' approach so strongly promoted not just in the Memorandum of Understanding but in the *National Recovery Plan 2011–2014*, and reflected in a number of election manifestos, fails to address this reality.

Proponents of the argument that welfare payments are too high invariably use examples of families which have two or more dependent children and are living in accommodation that attracts the maximum level of support available under the Rent Supplement scheme. However, what is not taken into account in the resulting public discourse is that only a very small proportion of the registered unemployed are living in households of this type.

With long-term unemployment already standing at over 150,000 and amounting to over 50 per cent of the overall unemployed figure, proposals focusing on the supposed need to induce unemployed people into jobs read as if they come from another era – the era of technical full-employment.

It is vital that social protections for unemployed people are maintained and developed, otherwise social exclusion and poverty will deepen. Budget 2011 cut jobseeker and other social welfare payments to people of working age by 4.1 per cent; the previous Budget did likewise. These cuts have brought the personal social welfare rate under most schemes down to €188 – almost back to 2007 rates.

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Over the past few years, a number of cuts have introduced a range of anomalies into the social welfare system. There are now three different age-related payments for people in receipt of the means-tested payment, Jobseeker's Allowance. Young people aged between eighteen and twenty-one who qualify for this payment receive a maximum rate of €100; those aged between twenty-two and twenty-four receive a maximum of €144; and those over twenty-four receive €188. Furthermore, the weekly personal rate of Supplementary Welfare Allowance, which had been the equivalent of the adult rate of Jobseeker's Allowance, has now dropped below this, having been cut by 5.1 per cent in Budget 2011.

The promise in the new Programme for Government to 'maintain social welfare rates' is to be welcomed; the implementation of this is crucial if another of the stated commitments of the Programme is to have any meaning:

The elimination of poverty will be an objective of this Government. We are committed to achieving the targets in the National Action Plan for Social Inclusion to reduce the number of people experiencing poverty.[20]

The commitment within the Programme for Government to reverse the cut in the minimum wage is also to be welcomed.[21] This reduction was included in the EU/IMF financial assistance documentation, as well as in the *National Recovery Plan 2011–2014* and Budget 2011. The cut of €1 or 11.6 per cent took effect from the beginning of February 2011.

It was nothing short of perverse to cite such a measure as necessary to 'reform' the labour market and to 'remove barriers' to job creation. The introduction of the Universal Social Charge compounded the impact of this cut: for example, someone on the minimum wage working a forty-hour week would have seen his or her net wage reduced by 13.5 per cent. Yet there is no 'inability to survive clause' available for low paid workers! The Programme for Government also promises to 'review the Universal Social Charge'[22] but to what end is not yet clear.

Concluding Comments

A striking feature of the new Programme for Government 2011–2016 is the continuing absence of an integrated and inclusive Jobs Strategy. Given the focus in the Programme on jobs and enterprise development this point may appear to be nit-picking. However, the 'smart' or 'knowledge' economy will not of itself meet the employment needs of all those now out of work. An integrated and inclusive Jobs Strategy is therefore required to provide the vision, clear goals and ambitious targets needed not only to address the immediate unemployment crisis but to identify where and how jobs can be created. Such a Strategy is necessary to ensure that all aspects of the labour market are explored and that the role of all potential employers, from the private sector to the State to the community and voluntary sector, is fully realised.

It is notable that the Ministers of State in the new Government do not include a Minister of State for Labour Affairs or Activation. A Minister designated specifically to this area could play an important role in linking together the work of the three key relevant Government Departments – Social Protection; Education and Skills; Enterprise, Jobs and Innovation – to ensure that the work of each one complements that of the others in the overall task of getting unemployed people, and others distant from the labour market, into a decent job.

An integral part of a Jobs Strategy would be the development and roll-out of a person-centred employment service. The current emphasis on public sector reform offers many opportunities and challenges: such reform must seek to provide the very best service to all, including those who have lost their job or who find accessing the labour market particularly difficult. If Ireland's recovery is to be 'smart, sustainable and inclusive',[23] it is imperative that economic, enterprise and employment policies interact constructively with education and social protection policies. Furthermore, if Ireland is to meet its poverty targets by 2016 then social welfare payments to people of working age must be maintained and improved, and the interests of those working for the lowest wages must also be protected.

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Notes

1. For further information see the website of INOU (www.inou.ie).
2. For further information see INOU, *Activation: What's it all About?* (www.inou.ie/download/pdf/inou_activation_2010.pdf).
3. *Towards Recovery: Programme for a National Government 2011–2016*, March 2011, p. 8 (www.taoiseach.gov.ie).
4. Central Statistics Office, *Quarterly National Household Survey, Quarter 4 2010*, Dublin: Central Statistics Office, 15 March 2011 (www.cso.ie).
5. *Ibid*., p. 5.
6. Central Statistics Office, *Live Register February 2011*, Dublin: Central Statistics Office, 2 March 2011 (www.cso.ie).
7. European Commission, *Memorandum of Understanding between the European Commission and Ireland, Brussels*: European Commission, 2010.
8. *The National Recovery Plan 2011–2014*, Dublin: Stationery Office, 2010 (www.budget.gov.ie).
9. *Financial Statement of the Minister for Finance, Mr Brian Lenihan, T.D*., *7 December 2010* (www.budget.gov.ie).
10. *Towards Recovery: Programme for a National Government 2011–2016*, p. 8.
11. *Ibid*., p. 8.
12. The Supplementary Budget of April 2009 provided that from May 2009 onwards no new applicants would be accepted for the Back to Work Allowance scheme; this change was made in part to pay for changes introduced in the Back to Work Enterprise Allowance.
13. The Rural Social Scheme enables farmers and fishermen/women who are receiving a social welfare payment to work for 19.5 hours per week in the provision of services that benefit rural communities.
14. This scheme is described in the INOU information leaflet, *Employer Incentives to Recruit Unemployed People* (www.inou.ie/download/pdf/employer_incentives_to_recruit_unemployed_people.pdf).
15. This scheme is also described in the information leaflet, *Employer Incentives to Recruit Unemployed People* (www.inou.ie/download/pdf/employer_incentives_to_recruit_unemployed_people.pdf).
16. *Towards Recovery: Programme for a National Government 2011–2016*, p. 8.
17. European Commission, *op. cit*., p. 20.
18. *Ibid*., p. 20.
19. *Ibid*., par. 27, p. 10.
20. *Towards Recovery: Programme for a National Government 2011–2016*, p. 52.
21. *Ibid*., p. 8.
22. *Ibid*., p. 16.
23. These are the key concepts in the EU Strategy (published 2010) that is the successor to the Lisbon Agenda; see European Commission, *Europe 2020: A European Strategy for Smart, Sustainable and Inclusive Growth*, Communication from the Commission, Brussels, 3.3.2010 COM(2010) 2020.

Irish Banking: Rediscovering Values for Rebuilding and Renewal

Ray Kinsella and Maurice Kinsella

Introduction

This article explores the deconstruction of the Irish banking system. It discusses the 'pressure points' which are reshaping this system, and how these are likely to impact on the wider banking and financial community. This is an important issue in its own right because the *constitutive* purpose of banking is to support the wider economy, and especially job creation. But it is particularly timely to critique recent events and policies which in combination have served to subvert the development of modern Ireland.

That is hardly an overstatement. After all, the collapse of the Irish economy since 2007 has been on a scale that is unique among developed countries. Moreover, this collapse precipitated the intervention by the European Union (EU), in association with the International Monetary Fund (IMF), leading to a 'bailout' agreement that, in exchange for highly conditional financial support, effectively emasculates discretionary fiscal policy, as well as imposing very far-reaching cuts in living standards.

'Adjustment' *was* necessary: the Irish economy had, for some time, forgone the production of competitive goods and services and instead chosen to surf an extraordinary and unsustainable expansion in credit by domestic institutions, much of it diverted into the property and construction sector.

This 'asset bubble' was funded not on the basis of deposits or prudent orthodox banking practices but by massive external borrowing that was highly volatile. The result was a sharp deterioration in the key loan-to-deposit ratio in Irish banks, to levels that were completely unsustainable.

Once the wholesale markets lost faith in the credibility of Ireland's fiscal and growth policies, external funding washed out of the Irish banking system, precipitating an unprecedented implosion in institutions and in the markets and contributing to a sovereign debt crisis that still overshadows the economy. In effect, the collapse in confidence in the banking sector was, and remains, inextricably bound up with a sovereign debt crisis characterised by excessively high and unsustainable fiscal borrowing, generating a vicious circle.

The business model then prevailing in Irish banking – and specifically in Anglo Irish Bank – was at the epicentre of this crisis, and of all that it has precipitated in the lives of individuals and families, as well as the businesses which create employment and sustainable living standards.

That banking system, whose roots extend back as far as the eighteenth century, had grown up with, and contributed in no small part to, the development of modern Ireland, including the process of internationalisation, which was spear-headed by AIB in its acquisitions in the UK, the USA and, in particular, Poland. This process of internationalisation was exemplified in the key role played by the domestically head-quartered 'associated banks' in establishing the Irish Financial Services Centre (IFSC): through their commitment – and the autonomy which they had to make such a commitment – they gave 'traction' to the IFSC in its early stages, when credibility and visibility were the necessary foundation for the success that was to follow.

However, in the space of a relatively short period of time, something went dreadfully wrong in Irish banking and in the Irish economy – and the measure of this was the intervention of the EU and IMF, something which up to a year or two prior to its happening would have been considered inconceivable. These developments were played out not alone within the country itself, but also in the capital markets on which our government and our banks had come to depend simply to keep afloat. They were played out too within a euro zone that was racked by institutional deficiencies, and by a loss of vision as to what the whole European project was supposed to be about.

An Ethical Crisis

But, as we have previously argued,[1] this is no banking crisis. It is an ethical crisis rooted in, and *spawned* within, a relativistic and consumer-driven form of 'corporate capitalism', one which excluded any understanding of the common good. At the core was the erosion of banks' perception of themselves as essentially trustees of the public interest. This erosion happened under the pressures generated by deregulation and the commoditisation of banking and above all by the adoption of short-term shareholder value as the mantra of the industry.[2] Of course, the same developments are evident within the wider global banking and financial crisis. But Ireland's was home-grown. It was an ethical crisis precipitated not alone by the abandonment of objective moral norms but by the subversion of professional standards.

In the vast multi-disciplinary literature exploring different dimensions of the worldwide financial and economic crisis, Salter's critique of the collapse of Enron is a defining analysis of how corporate culture can be 'captured' and emptied of any substantive content, and of how, as it stumbles through the grey area between 'clear right-doing' and 'clear wrong-doing', it inevitably collapses.[3]

Salter also makes the point, which is worth reiterating, that the Enron crisis – which has precise parallels in the collapse of financial institutions, the defective ethos of organisations, and the 'idolatry' of power – is saying things not just about systems and ideologies, but about human nature, that is, about 'us'.

In this article, however, we focus on a specific number of themes that presuppose an understanding of the narrative of the collapse of the Irish banking sector and with it the economy, and also of the proximate 'causes' as identified in a number of reports.[4] In our conclusion, we focus on the present circumstances, while also seeking, as best as possible, to understand how these arrangements may develop in the coming years.

The Universe of Irish Banking

Before evaluating some of the key dimensions of the present – and projected – trajectory of Irish banking, we first provide a summary 'overview'. Figure 1 sets out, in a schematic form, the key 'pressure points' that are reconfiguring the banking sector in Ireland. The starting-point is right at the top of the diagram: namely, the EU/IMF-imposed restructuring of the banking sector.

Collapse of Anglo Irish

The first pressure point is the collapse of Anglo Irish Bank, a collapse that has been much analysed. The two key factors leading to the downfall of the bank were the 'business model' itself and a catastrophic failure in governance.

It is useful to recall the insightful critique of Salter in relation to Enron – a company which at a number of levels had exemplary corporate governance arrangements. Salter writes:

... we need not – and cannot – rely on legislatures to prevent the kinds of problems that destroyed Enron. Solutions to these problems lie not in drafting new laws but rather in the far more complex task of creating, in company after company, organizational pressures and structures that promote effective management and ethical behaviour.[5]

Alongside what was happening in Anglo Irish was, of course, the reality that other credit institutions had come to be characterised by the kind of deficiencies in governance and risk controls which were to lead to the undoing of Anglo. Furthermore, these institutions had allowed themselves to be lured into seeking to emulate the almost exponential growth of Anglo. They should have known better: certainly their experienced staff did. But there was an absence of a *listening* culture. There were institutions which, seeing signs of impending distress, and also informed by the brave analysis of informative commentators, backed-off – but not in sufficient time.

Government guarantee

The second 'pressure point' arises from the Government decision to guarantee the safety of retail deposits, *and* also all corporate liabilities – a scheme that was subsequently amended in 2010.

The wisdom of this initiative has been widely debated. On the one hand, the banking system of a small and open economy was threatened by seismic forces in late 2008, and some form of initiative was required to send a signal to the markets. There were other models – such as those introduced in the UK – which could have been used. On the other hand, the view of Professor Patrick Honohan, Governor of the Central Bank, comes closest to describing the reality of the pressures facing the authorities to respond to the freezing over of capital markets and to the prospective collapse of the global banking system, in the 'after-shock' triggered by the collapse of Lehman Brothers in the USA.

NAMA

A third pressure point was – and remains – the establishment of NAMA (National Asset

Management Agency) and prospectively the extension of this approach through the creation of a NAMA II, which would take additional assets off the banks' balance sheets.

It was clear from the outset that the Government had set its face against taking control of the banking system – in which regard, policy failed. However, a mechanism was deemed necessary to remove 'toxic' – largely property and construction related – loans from the balance-sheets of banks. These were absorbed by NAMA at a discount ('hair-cut'), ostensibly freeing-up the banks to resume normal lending after stabilisation. The problem was that the sheer scale of bad loans and impairments kept growing. Moreover, the greater the extent of the 'hair cut', the greater the amount of capital required to support the banks' newly-shrunken balance sheets.

Enforced recapitalisation

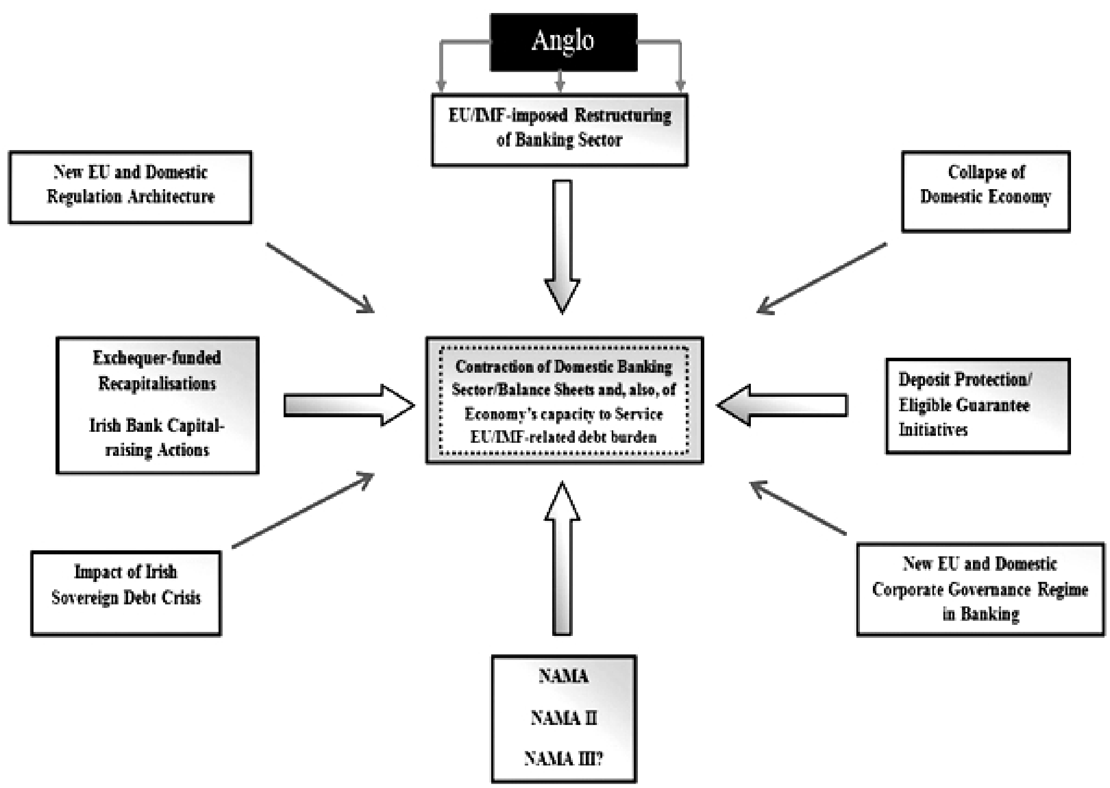
This takes us to a fourth pressure point – the enforced recapitalisation of the banks. In a normal banking environment, banks can raise capital by means of new share issues to existing shareholders, or from retained earnings, or even by significant reductions in costs/income ratios. None of these proved feasible in the circumstances which had overtaken Irish banks. For example, the crisis had led to a collapse in Irish bank shares – virtually wiping out the investment of individual shareholders and also impacting on pension funds.

The principal response to the need for recapitalisation was the direct participation by the Exchequer in the provision of capital to 'covered' domestic institutions. It is extraordinary now to reflect that in a Second Stage speech on the Bill to nationalise Anglo Irish Bank, the Minister for Finance envisaged that this might involve upwards of €10 billion. Policy was not merely being overtaken by events: it was being run-over by an avalanche of events and of misconceived policy responses to these events.

In addition, there were capital-raising actions by the two major banks – in the case of AIB, through the selling-off of what were deemed 'non-core' assets.

The scale of the task of recapitalisation increased when a wholly new regulatory regime was put in place by the Central Bank. This was to be a more prescriptive, forceful and robust rules-based regime. But it also set higher capital standards for

Figure 1: The New Universe of Irish Banking: 'Pressure Points'



covered institutions – standards that were, in fact, above the EU norm. Given the difficulties which the banks faced in raising capital externally, the Exchequer remained a source of capital of last resort, notwithstanding the enormous debt burdens – actual and latent – that were thus incurred by the Government.

There was a high price to be paid also in the disposal of overseas business units, notably by AIB, as a means of making-up the shortfall arising from the new capital adequacy standards enforced by the Regulator. The net effect for AIB was a shedding of robust, strategically important, and carefully nurtured overseas acquisitions at precisely the time when the domestic retail franchise was contracting rapidly and when the ownership of the bank was passing into the hands of the people. In retrospect, and with due acknowledgment of the difficulties facing the Regulator, it was not a good deal for the Irish people.

The Limits of Regulation

There were positive developments within this emerging 'new universe'. The diagonal (left to right in Figure 1) highlights the development around this time of new EU and domestic regulatory architecture, with a particular focus on *systemic* risk and also a strengthened corporate governance regime. This is the new environment within which Irish banks will be managed into the future.

The difficulty is this: the crisis, both in Ireland and globally, occurred within a detailed international regulatory regime, whose cornerstone was BASEL II – a Framework of 'supervisory regulations governing the capital adequacy of internationally active banks'.[6]

This Framework, more than a decade in the making, was published in 2004, but was simply swept away by the turbulence in the global financial markets, which completely undermined prevailing perceptions regarding what was an adequate amount of capital for banks to hold in order to absorb unexpected losses. The losses generated by the global financial crisis were on a scale never seen before, and BASEL II – now being reconstituted as BASEL III– was wholly overrun by the sheer volume of losses and by the general meltdown in the balance sheets of banks.

In any case, as Salter points out in relation to corporate governance, regulatory arrangements by themselves count for little: the real challenge is to embed a sense of ethics within organisational structures, incentives and relationships.

What this is telling us is that regulation is a necessary, but not a sufficient, condition for a market-based set of arrangements to ensure integrity and fair-dealing. Equally, the most eloquent descriptions of corporate governance arrangements are nothing if they are emptied of the lived example of ethics in action in transactions and in relationships. It is worth developing this point. The logical starting place is Deuteronomy and, in particular, the injunction of Moses:

See, I set before you today a blessing and a curse: a blessing if you obey the commandments of the Lord our God that I enjoin on you today; a curse if you disobey the commandments of the Lord our God and leave the way I have marked out for you today, by going after a god you have not known. (Deuteronomy 11: 26–28)

That's telling us something extremely important about the centrality of objective ethical values.

> *... the real challenge is to embed a sense of ethics within organisational structures, incentives and relationships*

Fast forward to the *Core Principles for Effective Banking Supervision*, drawn up by the Basel Committee on Banking Supervision after extensive consultation and issued in 2006.[7] These Principles state simply and incisively what banks should do over a whole range of areas which we have discussed. Extraordinarily, they were just ignored. Re-reading them, it is clear that had the banks adhered to the Core Principles there would not have been a crisis. This would suggest that even in a prescriptive regulatory regime, there is no way of guaranteeing that banks behave ethically within the prevailing business model.

A comparison with the principles of Islamic banking is instructive. To begin with, in this model the relationship between the borrower and the lender – particularly in terms of interest rates – is wholly different. Secondly, there is a very effective institutionally-based structure for 'screening-out' what are deemed to be unethical investments – for example, armaments, alcohol and pornography, and also the kind of leveraged structured financial products which played such a central role in the creation of the current financial crisis.

Moreover, there is a Council which oversees the application of these principles, not alone within banks, but also, for example, by institutional investors. This also displaces the possibility of a 'shadow' banking system of the kind that has grown almost exponentially alongside what was once the 'conventional' banking model. That growth has subverted what should be the constitutive purpose of banking, which is to service the needs of the real economy – not to facilitate speculation and the manipulation of markets and market capitalism.

The issue here is not whether Islamic banking is the perfect answer but to suggest that perhaps, together with Judeo–Christian principles, it takes us a lot further towards a sustainable banking system, one predicated on service, rather than on power and skewed incentives to achieve and sustain that power.

Overall Impact of 'Pressure Points'

Finally, with regard to Figure 1, we can summarise the net impact of all of these positive and negative pressure points embedded in the banking–political nexus.

The diagonal line from right to left highlights two points of particular importance. The first, and well chronicled, is the collapse of the domestic economy under the pressure of failures in the banking model, in regulation and in governance and, also, the policy reaction to these failures. The reaction took the form of four recessionary budgets that bled an economy already running on empty of business activity, jobs and confidence. This, in turn, reflected the impact of Ireland's gathering bank/sovereign debt crisis not only in its domestic domain, but also in respect of Ireland as a member of the peripheral economies of the euro zone.

A glance at the centre of Figure 1 shows the impact of these pressure points: the contraction of domestic banking activity, and the concomitant contraction in the balance-sheets of banks increasingly overwhelmed by loan losses, 'prospective impairments' and the difficulties of accessing funding from the markets.

By the first half of 2010, the proportion of non-performing loans within the Irish banking system had reached levels which were wholly exceptional relative to all but Greece and Spain within the euro zone. This, in turn, precipitated a funding crisis. As corporate deposits flowed out of the banking system in 2008 and 2009, but in a much more pronounced scale in 2010, the whole system became excessively dependent on the European Central Bank which, in effect, threw away its 'rule book' and exchanged 'cash' for Government IOUs.

At the same time, as already noted, the priority given by Government to resuscitating the banking system at the expense of supporting domestic businesses led to catastrophic rises in unemployment and, in particular, long-term unemployment.[8]

Legislation Insufficiently Examined

It is useful to look behind the curtain of all of these developments to the extraordinary body of legislation enacted during the crisis. Some of the legislation – for example, that relating to the nationalisation of Anglo Irish Bank, the establishment of NAMA and the Central Bank Reform Act 2010 – can be seen as necessary responses to the policy options chosen by the Government in dealing with the crisis.

But the sheer volume of the legislation does raise serious and pressing questions. An ethical crisis, particularly one of this magnitude, simply cannot be resolved by more and more legislation. Neither the markets nor the person in the street will be convinced that they can now 'trust' or invest credibility in a banking system that is being resuscitated, but whose ethical underpinnings have not been transformed. Furthermore, it is difficult to sustain the idea – indeed it is a nonsense to suggest – that all of this legislation was adequately scrutinised by our legislature prior to enactment. It was not, which is not wholly surprising given the sheer volume and complexity of the legislation.[9]

There is much that could be made of this issue, not least because it raises, in a very serious way, the question of whether this is the best way to go about developing and implementing such far-reaching changes within what is, after all, supposed to be a democratic society, where major issues ought to be carefully scrutinised and where informed decision-making should be the norm.

We simply make the point that throwing a tonne of legislation – much of it unread by legislators, let alone the general public – at an ethical crisis spawned within the financial sector has scant prospect of success in restoring trust in banking.

Legislation is often a second-best solution – and that, we argue, is certainly the case in relation to the still evolving Irish banking crisis.

A Shrinking Banking Sector

Figure 2 shows in a very simplified manner the key outcomes of the policy measures taken in relation to Irish banks since 2008:

- The winding down of Anglo and also of Irish Nationwide, having absorbed what would hitherto be regarded as inconceivable amounts of public funding.
- The prospective survival of Bank of Ireland as a domestic entity, albeit with a large minority stake-holding.
- The prospective selling-off to an overseas buyer of a rehabilitated AIB.
- The emergence of a 'third force' in the form of EBS, underpinned by private equity, absorbing, at a minimum, the banking arm (Permanent TSB) of Irish Life & Permanent.
- The presence of a robust Ulster Bank, a subsidiary of the UK RBS.

Figure 2 also highlights the fact that the so-called 'covered institutions' are domestically-based institutions but the sector may be augmented as a result of its 'contestability' – that is, the scope for other EU banks to enter the market either in particular niches or on new IT-based platforms. Then there is also the important IFSC sector which has remained robust in the face of the implosion that happened around it, and is indeed emblematic of what good decision-making and a commitment to transformation can achieve.

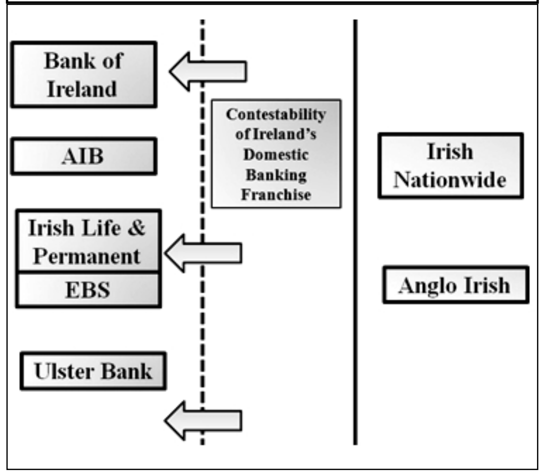
The EU/IMF Banking Restructuring Programme

The EU/IMF bailout agreement, concluded in late November 2010 and approved by the Dáil on 16 December 2010, provided €35 billion to support the Irish banking system. Of this, €10 billion was assigned for immediate recapitalisation of the banks; the remaining €25 billion will be provided 'on a contingency basis'. The agreement included a programme to achieve a 'substantial downsizing' of the Irish banking sector.

Under this programme, Irish banks will be required to:

- Run down non-core assets.
- Complete the transfer of land and development property loans to NAMA.

Figure 2: Ireland's Shrinking Banking Market



- 'Promptly and fully' provide for all non-performing assets.
- 'Securitise and/or sell asset portfolios or divisions with credit enhancement if needed, once the market normalises'.[10]

In addition, the programme requires 'swift and decisive action to resolve the position of Anglo Irish Bank (Anglo) and Irish Nationwide Building Society'.[11]

Figure 3 summarises the specific measures to be adopted to achieve the downsizing programme. These measures speak for themselves and need little elaboration given the earlier discussion.

Figure 3: How Banking 'Downsizing' is to be Achieved[12]

- Winding-up of Anglo and Nationwide/sale of deposits.
- Due diligence of all bank assets.
- Additional transfers to NAMA.
- Assessment of banks deleveraging/ restructuring by EU/IMF.
- Increase in core tier capital to 12 per cent, pending Prudential Capital Assessment Review (PCAR).
- PCAR to be carried out on the basis of a diagnotic of current asset valuations.
- Provision of additional capital for banks as required.
- New 'resolution scheme' for dealing with distressed deposit taking institutions.
- Strengthening of banking supervision.
- Raising of corporate governance standards.
- Independent report of compliance with 2006 Basel Core Principles.

But the present position of the banking system in the light of the EU/IMF programme most certainly does merit some comment. Figure 4 characterises our understanding, at this point in time, of the perilous position of the Irish financial sector. It is, as it were, poised on the edge of a vortex.

The Need for EU/IMF Renegotiation

We would argue that the present terms of the bailout agreement are imbalanced, counter-productive and more likely than not to precipitate a sovereign default by an Irish economy that lacks the capacity to service the level of debt imposed by the programme. Furthermore, the programme itself, in as much as it is led by the EU, is based on Ireland's achieving, by 2014/2015, Stability and Growth Pact targets in relation to the government deficit that are simply unattainable.

The vulnerability of the assumptions underpinning the EU/IMF agreement is, we suggest, highlighted by the following questions:

How robust are official projections up to 2014 or 2015?

Is it realistic to expect that Ireland can achieve a government deficit of 3 per cent by 2014/2015, given the reality that in 2010 the deficit stood at 32 per cent?

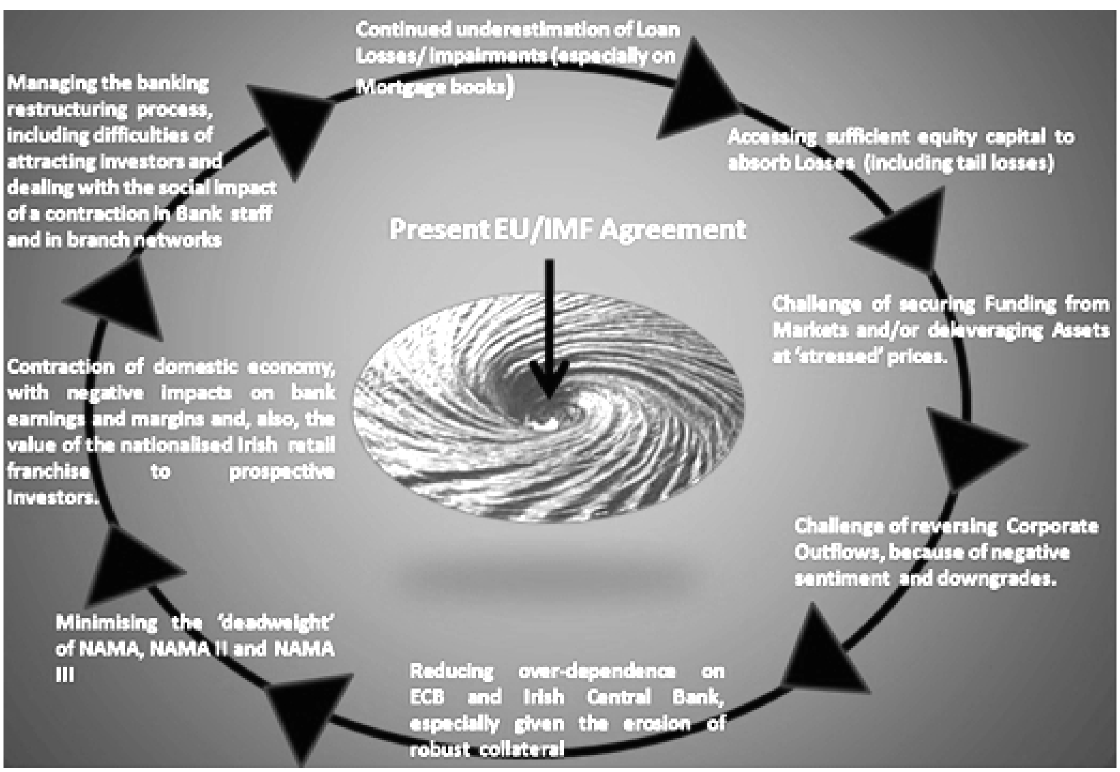
What are to be the sources of growth? Where is the funding for such growth to come from?

Is it possible to stabilise the domestic banking sector by 2014?

It might also be asked: 'What does domestic, or EU, policy-making gain from "playing games" regarding the feasibility of Ireland achieving the Stability and Growth targets by 2014/2015?' The reality is that playing games and expediency-driven 'token' gestures in respect of the interest rate of the present bailout arrangements do not address the core question of the feasibility of the programme; instead, they further erode market credibility. It needs to be emphasised that while Irish banks *did* lend recklessly at the height of the boom, the banks of core European countries were also reckless – just as the ECB (European Central Bank) was foolish in lending to a government whose policies were manifestly not working.

There is, of course, a 'moral hazard' argument – namely, that alleviating the financial burden

Figure 4: Ireland on the Edge of a Vortex



on Ireland and lengthening the duration of the adjustment programme might send the wrong signal to the markets and to other delinquent peripheral countries.

This does not stand up to serious scrutiny. Ireland's fiscal correction from 2008 onwards displays no indication whatsoever of a propensity to exploit 'moral hazard'. In fact, the response, in the form of four recession-inducing budgets, was wholly counter-productive. It was without any substantive off-setting initiatives to enhance the supply-side of the economy or its efficiency, and did not factor in scope for flexibility and imagination or the overriding importance of mitigating the impact of the crisis on families and communities.

The striking thing here is the contrast between the response adopted to the Irish crisis and the approach recommended by the EU Commission in its 2008 strategy document, *A European Economic Recovery Plan*:

The real test for European governments and institutions comes when faced with the most difficult of circumstances. At such times, they need to show imagination; they need to show determination; and they need to show flexibility. They need to show that they are in tune with the needs of families and communities across the European Union, that they are equal to the task of finding the right response to the sudden downturn in the prospects for growth and jobs in Europe.[13]

The 'moral hazard' argument does not therefore stand up. Clearly evident, however, are the prospective dangers of a second round of contagion, which is the process that, through a complete erosion of confidence and credibility, swept away the underpinnings of the global financial system from about mid-2007.

This view is reinforced by the very clear identification by the IMF in its analysis of the risk of contagion in the Irish financial system and the multiple channels through which it might be transmitted.

Our analysis is further reinforced by a 'snapshot' of CDS (Credit Default Swaps) spreads on sovereign debt over the period March 2010 to February 2011.

This shows essentially that *notwithstanding* the €750 billion 'Shock and Awe' fund announced by the European Council in its meeting in May 2010 – out of which the Irish bailout package emerged – and despite the rigours of the EU/IMF agreement, Irish sovereign debt is still trading at excessively elevated levels within the sovereign debt markets.

It is, of course, the case that these are 'notional' rates, since the Irish Government is now 'pre-funded' through to 2012/2013 and therefore is not currently seeking funding on these markets. Nevertheless, the data reveal 'the mind of the markets' – and the markets do not believe.

Conclusion

Our argument, then, is that it will take until at least 2014/2015 to stabilise and restructure the banking system and up to 2020 to put Ireland's economy on a sustainable path. The subtext here, it should be emphasised, is that Ireland has the natural resources – particularly in relation to renewable energy – to regenerate its economy. Furthermore, it can do so in a manner that not alone assures its capacity to fund its banking and fiscal needs but, within not much more than the length of the EU/IMF programme, allows it to become self-sufficient in energy and generate a financial surplus.

The important point is that an enforced and over-rapid adjustment makes no sense for the Irish economy, and still less for a euro zone which remains highly vulnerable to deficiencies in its institutional architecture and its inability to get to grips with the structural chasm between 'core' and 'peripheral' economies.

To repeat, moral hazard is not the issue; the dangers of a second round of contagion, and a failure to embrace a communiqué vision of what the European Union is about, most emphatically are.

In conclusion, our view is that the stabilisation of the banking system and macro-economic stabilisation are inextricably bound up. In regard to the former, we believe that the disposing of AIB to a foreign entity, at what would almost certainly be a 'fire-sale' price, makes little sense (especially in light of the cost to the State of the 'rehabilitation' of this bank) and would not be in the longer-term public interest. Instead, the bank should be seen in terms of its successful experience of internationalisation and its capacity to contribute to the rebuilding of the Irish economy which will necessarily involve internationalisation.

In a related area, we would argue (though space prohibits a detailed treatment of the issue) that there is no merit whatsoever in the disposal of State assets to act as a palliative – one which takes from future generations the resources of their country.

Equally, because we view the crisis as an ethical one which highlighted and exacerbated institutional failings, there should also be an alignment in public and commercial practice with what can best be summarised as the *common good*. The principles of Islamic banking come close, but the philosophical construct the common good goes much further as a benchmark for renewal.

Notes

1. Ray Kinsella and Maurice Kinsella, 'Ethical Causes and Implications of the Global Financial Crisis in Ireland: Political Contagion and Political Transformation', *Studies*, Vol. 98, No. 391, Autumn 2009.
2. These developments were prophetically anticipated by J.K. Galbraith in *The Affluent Society* (1958), the now classic critique of the emergence of American corporate capitalism.
3. Malcolm S. Salter, *Innovation Corrupted: The Origins and Legacy of Enron's Collapse*, Harvard MA: Harvard University Press, 2008.
4. See, for example, Klaus Regling and Max Watson, *A Preliminary Report on the Sources of Ireland's Banking Crisis*, Dublin: Stationery Office, 2010; *The Irish Banking Crisis: Regulatory and Financial Stability Policy, 2003–2008*, A Report to the Minister for Finance by the Governor of the Central Bank, Dublin, May 2010.
5. Malcolm S. Salter, *op. cit.,* p. 6.
6. Basel Committee on Banking Supervision, *International Convergence of Capital Measurement and Capital Standards: A Revised Framework*, June 2004, Basel: Bank for International Settlements, p. 1 (www.bis.org).
7. Basel Committee on Banking Supervision, *Core Principles for Effective Banking Supervision*, Basel: Bank for International Settlements, 2006 (www.bis.org).
8. Ray Kinsella and Maurice Kinsella 'The Rise and Rise of Long-term and Youth Unemployment in Ireland: the Scarring of a Generation', *Studies*, Vol. 100, No. 397, Spring 2011.
9. The legislation enacted since 2008 includes: **No. 18/2008** – Credit Institutions (Financial Support) Act 2008; **No. 1/2009** – Anglo Irish Bank Corporation Act 2009; **No. 5/2009** – Financial Emergency Measures in the Public Interest Act 2009; **No. 12/2009** – Finance Act 2009; **No. 13/2009** – Financial Services (Deposit Guarantee Scheme) Act 2009; **No. 14/2009** – Financial Measures (Miscellaneous Provisions) Act 2009; **No. 34/2009** – National Asset Management Agency Act 2009; **No. 41/2009** – Financial Emergency Measures in the Public Interest (No. 2) Act 2009; **No. 5/2010** – Finance Act 2010; **No. 7/2010** – Euro Area Loan Facility Act 2010; **No. 16/2010** –European Financial Stability Facility Act 2010; **No. 23/2010** – Central Bank Reform Act 2010; **No. 36/2010** – Credit Institutions (Stabilisation) Act 2010; **No. 38/2010** – Financial Emergency Measures in the Public Interest Act 2010; **No. 6/2011** – Finance Act 2011.
10. European Commission, *Memorandum of Understanding between the European Commission and Ireland*, Brussels: European Commission, 2010, par. 10, p. 5.
11. *Ibid*., par.10, p. 5.
12. *Ibid*., par. 12–15, pp. 6–7.
13. Commission of the European Communities, *Communication from the Commission to the European Council: A European Economic Recovery Plan*, Brussels, 26 November 2008 (COM (2008) 800 final).

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The Way Forward for Ireland: A Values Added Tax Policy?

Eugene Quinn

Introduction

The maintenance of a low tax regime was a key tenet of national policy during the years of Ireland's economic boom. However, there were also demands from many quarters for improved public services and for greater protection for the most vulnerable. For a time, Ireland appeared to achieve the impossible – remaining a low tax economy while spending ever greater amounts on public services. It was a mirage.

International events in 2008 lit the fuse to a crisis that would ultimately overwhelm the State's finances. But at the heart of our woes was not the international financial crisis but a home-grown problem. Ireland found itself facing a double-sided structural deficit problem, in which the crash in tax revenues was not being mitigated by equivalent reductions in public spending. In particular, the massive growth in unemployment represented a dual blow, with the consequent reduction in tax revenue occurring alongside a huge increase in the number of people dependent on the State for social welfare payments.

At the same time, Ireland found itself engaging in massive and unforeseen expenditure in order to save its banking sector. Having guaranteed all the domestic banks' liabilities on 30 September 2008, Ireland has been facing a mounting bill ever since.

The escalating cost of bailing out the banks, combined with the massive structural deficit in the public finances, caused international bond markets to lose faith in Ireland's capacity to repay its debts. In November 2010, Ireland came to a point of no return when the cost of raising funds on international markets reached prohibitive levels. The result was the humiliating experience of the country being forced to accept a bailout from the European Union and the International Monetary Fund (IMF). The arrival of the IMF sounded the final death knell of the Irish economic 'miracle'.

A condition of the EU/IMF funding is that Ireland is placed in a four-year fiscal straitjacket that will require the public finance deficit (that is, the difference between taxes raised and public expenditure by the State) to be lowered to 3% of GDP – or in monetary terms, to be reduced by €15 billion – by 2014. (The Fine Gael/Labour Party Programme for Government sets 2015 as the date for achieving this target.[1])

The 2011 Budget, which 'frontloaded' €6 billion of the adjustment through tax increases and expenditure cuts, signalled the beginning of the process of achieving this target – and of the period of austerity that will inevitably accompany it. Much of the debate in the recent General Election centred on how the remaining €9 billion (or more) reduction will be sourced. Will it be from increases in taxation or cuts in public expenditure?

Erosion of the Tax Base

The Irish tax system is constructed on the basis of a number of main tax categories (or heads). Income of employees is taxed on a pay-as-you-earn (PAYE) basis and that of the self-employed is based on a self-assessment of their income. Dividends and rents are taxed as income. Capital Gains Tax is levied on appreciation in asset values. Stamp Duty is paid on transactions, such as property sales. Inheritances are subject to Capital Acquisition Tax. Company profits are taxed at a standard rate of corporation tax. In addition, a large proportion of central government tax revenue is derived from value added tax (VAT), excise duties and other taxes on consumption.

During the Celtic Tiger years, Ireland significantly eroded its tax base; the degree to which this was unsustainable became all too evident with the collapse in tax revenues in 2008. Table 1 tracks the movement in net revenue receipts from 2000 to 2010. It is notable that, up until the crisis in 2008, there were Exchequer surpluses in each year except 2001 and the General Election years 2002 and 2007.

Income Tax

For more than a decade, Government policy aimed to remove a greater proportion of those on lower incomes from the income tax net. Since 2000, income tax bands have widened by 105% for a single person and married couples with both earning. (In comparison, consumer price inflation in the period 2000 to 2010 was 35%.[2]) Income tax credits have increased by 92% since their introduction in 2001. Standard and higher income tax rates fell from 26% and 48% in 1997/98 to, respectively, 20% and 41% in 2007. In the period since 2000, the combined effect of these changes was that, for PAYE earners, the entry point to income tax rose from €7,238 to €18,300.

The outcome of the process of reducing income tax liability is noted in *The National Recovery Plan 2011–2014*, which points out: '... the proportion of income earners exempt from income tax increased from 34% in 2004 to an estimated 45% in 2010. It is now estimated that for the current year, 42% of income earners will pay tax at the standard rate and just 13% will be liable at the top rate'.[3]

However, the outcome of tax policy during the years of the economic boom wasn't only that people who were less well-off paid less, or no, income tax: an array of property related tax breaks, to which there was widespread recourse, meant that many on higher incomes were able to minimise their income tax liability.

In his Budget speech in December 2010, the then Minister for Finance, Brian Lenihan TD, stated: *Our income tax system, as it stands today, is no longer fit for purpose. At one level, too few income earners pay any income tax. This year, just 8%, earning €75,000 or more, will pay 60% of all income tax while almost 80%, earning €50,000 or less will contribute just 17%. At another level, too many high earners have opportunities to shelter their income from tax. We must address both these structural defects*.[4]

Inequities in the system

Inequities in the income tax system can be illustrated by outlining the experience of a 'captive' PAYE worker who has been paying tax since the mid-1970s. This worker would have started his or her career subject to a crippling and penal income tax regime, with marginal income tax rates as high as 70%. Over time, the income tax regime became progressively less onerous due to Government policy during the Celtic Tiger years, leading to the kind of reductions in income tax already noted. However, recent budgets have seen income tax levels rise once more.

The National Recovery Plan proposes further cuts in tax credits and reductions in tax bands. The Fine Gael/Labour Party Programme for Government promises there will be no increases in income tax.[5] However, this is likely to prove hard to deliver, especially if the economy does not hit the target growth rates – rates which many commentators feel are unrealistic.

The compliant PAYE tax payer might well feel aggrieved at the ways fellow taxpayers reduced,

Table 1: Net Exchequer Returns 2000–2010 (€m.)

Tax Head	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Income Tax	9,125	9,319	8,979	9,156	10,695	11,339	12,375	13,582	13,196	11,839	11,276
VAT	7,467	7,907	8,844	9,716	10,717	12,125	13,451	14,519	13,432	10,638	10,101
Excise	4,424	4,213	4,595	4,736	5,066	5,391	5,696	6,003	5,600	4,901	4,678
Corporation Tax	3,885	4,144	4,804	5,155	5,335	5,503	6,685	6,393	5,071	3,889	3,924
Stamp Duty	1,090	1,223	1,139	1,664	2,070	2,673	3,632	3,244	1,763	1,003	960
Capital Gains Tax	774	876	619	1,436	1,528	1,982	3,099	3,097	1,424	545	347
C.A.T.	223	168	151	214	190	249	343	391	343	256	238
Customs	209	165	134	137	174	226	255	273	245	208	229
Total	**27,197**	**28,015**	**29,265**	**32,214**	**35,775**	**39,488**	**45,536**	**47,502**	**41,074**	**33,279**	**31,753**
Budget	**25,736**	**30,616**	**30,485**	**31,809**	**33,563**	**37,668**	**41,813**	**49,242**	**49,077**	**34,567**	**31,050**
Underrun/Overrun	**1,461**	**-2,601**	**-1,220**	**405**	**2,212**	**1,820**	**3,723**	**-1,740**	**-8,003**	**-1,288**	**703**

Source: Revenue Commisioners, *Annual Reports* 2000 to 2009 and *Headline Results for 2010*

legitimately avoided, or illegitimately evaded income tax throughout the period since the 1970s:

***Self-Employed and Farmers*:** PAYE taxpayers shouldered the major part of the tax burden because they were captive. Self-assessment allows self-employed individuals latitude to manage income in a tax efficient way *via* capital allowances (for example, purchase of machinery), deductible expenses for the running of their business, and the timing of realised gains.

***Tax Amnesties*:** Non-compliant taxpayers in the late 1980s and early 1990s were 'rewarded' for earlier evasion by being able to avail of amnesties from prosecution and liability to interest penalties. The 1993 amnesty included not only an amnesty from interest and prosecution but introduced a special 15% tax rate for individuals with arrears in income tax, Capital Gains Tax or levies. In each amnesty, there was a windfall for the Exchequer – the 1988 amnesty, for example, brought in more than five times the projected yield of €100 million[6]– pointing to widespread previous evasion.

***Tax Breaks and Shelters*:** High income earners can avail of the best tax advice and take advantage of tax breaks and shelters. While many tax breaks were introduced initially to support important social goals, such as the regeneration of urban areas, they were retained long after there was need for them. At the height of the Celtic Tiger era, these tax provisions pressed the accelerator on the property boom, inflating property prices and encouraging runaway property speculation. Schemes aimed exclusively at people with incomes in excess of €250,000 allowed them to avail of tax breaks on car parks, nursing homes, etc., that could minimise or eliminate their tax bill completely. Famously, Joan Burton TD highlighted in the Dáil the eleven individuals in 2006 earning in excess of a million euro who legitimately reduced their income tax bill to zero due to extensive recourse to tax breaks and shelters. It appeared that in the mind of many, 'taxes were for the little people'.

***Tax Havens and Residency*:** Many of Ireland's richest individuals are able, because of their global business interests, to take advantage of residency rules to situate themselves in locations that minimise their tax liabilities.

***Tax Evasion*:** During 2010, Revenue Commissioner auditors completed 11,008 audits with an overall yield of €435 million; in the previous year, the yield was €602 million from 12,419 audits.[7] Since their inception, Revenue special investigations – such as those into the Bogus Non Resident Accounts, Single Premiums, and others – have yielded a total of €2.65 billion in taxes and penalties (see Table 2). As a result of these investigations, 34,538 cases of unpaid or underpaid taxes have been successfully pursued.[8]

Consumption Taxes

Tax on the consumption of goods and services is raised principally from VAT and from Excise and Customs duties. The combined receipts under these two headings stood at €12.1 billion in 2000, rose to a high of €20.8 billion in 2007, and fell to €15 billion in 2010.

VAT receipts yielded €7.5 billion in 2000, grew to a peak of €14.5 billion in 2007 and fell to €10.1 billion in 2010. This trend reflects the consumer boom which developed alongside the huge increase in incomes and wealth during the years of strong economic growth, but which was followed by

Table 2: Yields from Revenue Special Investigations

Investigation	***Yield 2010 (€m.)***	***Cumulative Yield (€m.)***	***Total Cases***
Trust and Offshore Structures	19.02	36.60	165
Interest Reporting	8.70	85.00	1,254
Offshore Assets	8.00	961.40	14,921
Life Assurance Products	5.91	482.16	5,524
Bogus Non Resident Accounts	1.30	647.90	12,175
NIB	0.04	60.14	312
Other legacy investigations	0.00	373.30	187
Total	**42.97**	**2,646.50**	**34,538**

Source: Revenue Commissioners, *Headline Results for 2010*

a significant retrenchment in spending after the downturn in the economy. Excise returns in 2010 stood at €4.7 billion; this was similar to the yield in 2000 (€4.4 billion); in between, however, there was a significant rise, with receipts in 2007 amounting to €6.0 billion.

The fall in Exchequer returns in these categories reflects the erosion of consumer confidence since 2008, and highlights the risk of relying on bumper tax receipts from a consumer spending boom. Budgetary planning needs to reflect the inherent volatility of such taxes.

Corporate Profits

The low corporate tax rate in Ireland has been credited with attracting mobile inward investment to the country and contributing to the economic boom. It remains a cornerstone of Irish economic policy.

The origins of this low rate go back to the 1998 Budget (introduced in December 1997), when the then Minister for Finance, Charlie McCreevy TD, announced plans for a new regime for corporation tax, to be phased in between 1998 and 2003. Under the plan, a series of reductions would see the corporation tax rate fall from 32% in the 1998 financial year to 12.5% from 1 January 2003 onwards.

Perhaps counter-intuitively, the reduction in corporation tax rates led to an increase in yield. This is accounted for, in part, by the ingenuity of the tax planners for multinational companies who can advise these companies on how to utilise transfer pricing and other mechanisms to move profits through branches in Ireland. Even though the Irish-based section might be only a very small element of an international company, these mechanisms to allow profits to be 'located' in Ireland for tax purposes can result in a very significant reduction in the company's tax bill.[9]

While the low corporation tax rate has undoubtedly been a major factor in enticing multinationals to locate here, with associated economic and employment benefits, Ireland has also incurred reputational damage, especially among its EU partners, as a result of its corporation tax regime.

Capital Gains and Stamp Duty

From 1997 to 2000, the then Minister for Finance, Charlie McCreevy TD, cut the rate of Capital Gains Tax from 40% to 20%. The rate is currently 25%.

The reduction in Capital Gains Tax and the extension of Section 23 tax allowances – measures which were implemented against the advice of the Department of Finance – are generally considered to have contributed significantly to the explosion in housing and commercial property speculation, which ultimately led to the collapse of the Irish banking system.

Revenues from Capital Gains Tax rocketed throughout the period 2002–2007, reflecting an asset bubble in both property and equity prices. The huge losses sustained in recent years mean that revenue from Capital Gains Tax has collapsed despite an increase in rates. Stamp Duty revenues, which also grew in parallel to the property boom, have likewise shown a sharp decline since 2007.

The windfall returns from asset-based tax heads were a significant factor in the Exchequer surpluses from 2003 onwards. But relying on what were fundamentally volatile tax heads to fund increases in public spending was not a sustainable approach, as was starkly revealed when the revenue in these categories fell sharply. That decline has been so precipitous that by 2010 the yield from Capital Gains Tax and Stamp Duty was just 19% of what it had been in 2006.

Other Taxes

A notable feature of the Irish taxation system is what has *not* been taxed.

The absence of a property tax or a speculative land tax has not only resulted in the loss of a revenue stream but meant that during the boom years potentially useful instruments for 'cooling' the property market could not be used. The removal, by the Fianna Fáil government of 1977–1981, of rates on residential property has had a profound effect on the resourcing of local government in Ireland. The Fianna Fáil/Green Party Coalition Government committed itself to introducing a property tax, extending carbon taxes and introducing water charges; these commitments are reflected in the EU/IMF bailout programme.[10]

Wealth, as opposed to income, is not taxed. There is likely to be public support for the notion that people who accumulated massive wealth in the boom should pay their fair share in the bust, through a tax on wealth. The Commission on Taxation concluded that while there was merit in a wealth tax the difficulties in definition and collection would outweigh the potential return, and so it came down against the introduction of such a tax.[11]

Summary of Trends

Returning to Table 1, the significance of the erosion of the income tax base during the Celtic Tiger years was masked by burgeoning receipts from the greatly increased number of people in employment and by runaway returns from an asset and property bubble and a consumer-led spending boom.

The main focus of taxation policy in the budgets since the beginning of the crisis has been to increase tax on income and close the door on property breaks – but long after *that* horse has bolted. In my view, a balance of taxes needs to be achieved between income, capital, spending and other sources such as wealth, property and direct charges. Part of the case for a wealth tax is that it would lead to greater transparency as to the distribution of wealth in this country.

In addition, I believe the tax base needs to be broadened within each tax head. The approach to the taxation of corporate profits needs perhaps to be more pragmatic. The benefits of higher tax rates would likely be outweighed by the negative impact on jobs and growth resulting from a consequent flight of mobile foreign direct investment.

Purposes and Principles

One of the primary purposes of taxation is to fund the operations of the State including:

- ensuring the basic security of the State (for example, the Army and Gardaí);
- maintaining public amenities such as roads, water supplies, public transport, parks and amenities;
- providing public services (for example, social welfare, education, health, and social care services).

A further function of taxation is to contribute to the creation a more equal and fair society through the redistribution of income. In this context, it needs to be remembered that Ireland has one of the most unequal distributions of income among OECD countries.[12]

The Commission on Taxation highlighted that taxation also has a role in incentivising labour and supporting economic activity which has the potential to sustain and increase employment.[13]

The payment of taxes is effectively a contract between a citizen or a corporate body and the State. A key principle underlying taxation is equity or fairness: the taxation system should take account of people's ability to pay the taxes levied and should be informed by the concept of progressivity – those who can afford most, pay the highest taxes. Other key principles are simplicity – the system should be easy to understand and implement – and efficiency. But an equally important principle is the effective and fair use of taxes – in other words that revenue raised is spent appropriately and transparently.

Waste and the Erosion of Public Trust

From the late 1990s, Ireland was awash with seemingly ever-increasing asset-based revenues (for example, stamp duty returns) and receipts from a boom in consumption. The benefits of our booming economy were felt across every section of the population. Social welfare rates for people of working-age are now more than twice what they were in 2000. Over the same period, the State pension almost doubled. These increases were well ahead of the cost of living. Public service pay also increased significantly: from 2000 to 2009 average public service salaries increased by 59%.

But as public spending increased sharply alongside the increase in tax receipts, there was also very visible and venal waste of taxpayers' money. This led to frequent statements along the following lines: 'I wouldn't mind paying tax – if only so much of it wasn't being wasted'. There developed a deep-seated lack of public trust that those responsible for allocating and spending the money raised in taxation were falling short in their 'duty of care' to respect the money contributed by taxpayers and use it as prudently as if it were their own.

Politicians who failed in their primary duty to safeguard the interests of the country and its citizens, who failed to regulate, who capitulated to vested interests and ultimately wrecked the public finances, awarded themselves massive increases in pay and benefits. In the some quarters, flying first class, staying in five-star hotels, lavish expenses accounts and maximising travel expense claims were deemed to be 'entitlements' attaching to elite positions in the political and administrative system. Such behaviour significantly eroded public trust in the political system and in the state sector.

However, this lack of trust has taken on a whole new dimension with the massive bailout of banks and other financial institutions. The recklessness of developers and bankers and the failure of regulators and politicians to ensure adherence to best practice mean that the compliant tax payer is footing an extraordinary bill for risks taken for which they could receive no reward. While the profits of the boom years were privatised, the risk and the burden of adjustment have been well and truly socialised. Any sense of social solidarity with regard to taxation has been trampled into the ground over the past three years.

Ways Forward

The contract between taxpayer and Irish State has been demonstrated to be weak, with strong recourse to tax avoidance measures and a perceived indifference to tax evasion: 'your only sin is to be caught'. In recent years, this process accelerated with the destruction of public confidence in how tax revenues were being spent.

Invariably, commentators refer to 'the burden of taxation' and there has been a failure in public discourse to get beyond this position to understand the potential of taxation to be a 'moral good' and a mechanism for social solidarity.[14] This is reinforced when hard-earned income is taxed more heavily so that banks can be bailed out rather than the money being used to fund the type of quality public services in health, education and welfare that people desire.

The current crisis seems to have precipitated a two-dimensional challenge. The first is the fiscal challenge of restoring stability through broadening the tax base and prudent public spending. The second is a deeper challenge in terms of the values we wish to espouse and the type of society that people in Ireland want to create.

The Fiscal Challenge

In terms of the fiscal challenge, the path forward requires a return to basic principles of sound economic management. The Commission on Taxation in its report identified a number of fundamental issues as informing its approach to the reform of the Irish tax system.

Balance of Taxation: The Commission emphasised the need for 'an appropriate balance of taxation between income, capital and spending', and said that in striking the appropriate balance Government should seek 'to broaden the base within each tax head' and look to the potential for this in 'property taxes, spending taxes (especially environmental taxes), and income taxes in that order'.[15]

Stable Revenue Base: The Commission took the view that the design of the tax system should, as far as possible, seek to eliminate volatility in tax receipts. It added:

A consideration in achieving a stable tax base is to tax those factors that cannot avoid the charge to tax. The most obvious example of this is immovable property ... Introducing an annual tax on residential property represents an important step towards providing a stable and non-volatile tax base.[16]

Equity: The Commission described equity as 'a key aspect of a tax system'. Noting the role of taxation in the redistribution of income, it pointed out that:

... redistribution occurs not only in the tax system but also through the welfare system and both systems should operate in a coordinated way. Equity should be considered in the context of the overall tax system.[17]

Sustainable fiscal balance: The Commission highlighted the danger of 'pro-cyclical' tax measures which serve to intensify what is occurring in the business and economic cycle. Such measures were, of course, a feature of the Celtic Tiger years, with, on the one hand, tax breaks fuelling the property boom and, on the other, an approach to expenditure summed up in the phrase, 'when we have it, we spend it'.

The Commission recommended that fiscal policy 'should pursue a counter-cyclical budgetary approach', and it went on to say:

Taking into account the position of the economic cycle involves the accumulation of resources in good times so that in less benign times fiscal policy can be expanded in order to support greater economic activity.[18]

The Challenge in Terms of Values

The difficult choices to be made in order to restore stability to the public finances (choices in relation to both the balance of taxation and how public spending can be reduced) lead inevitably to questions regarding the kind of values we wish to see informing those choices, and thus to the kind of society we want to create in Ireland.

During the Celtic Tiger years, Ireland embraced an economic and social model with an unfettered, unregulated form of capitalism creating massive increases in wealth, high levels of employment and windfall tax revenues. The increased yield from taxation allowed significant growth in spending on public services – but these services were often costly and inefficient.

Ireland sought the impossible: a low tax economy *and* high levels of public provision. The current dire state of the country's finances inevitably means that a choice has to be made between the two. The type of value questions and issues that need now to be considered include:

- What kind of society do we want and what is the role of taxation in bringing about that society?
- What kind of public services will the taxation regime we choose allow us to provide?
- How can quality public services be provided in an efficient manner and at an affordable cost?
- If we want a low tax regime in the long term what does that imply for the provision of public services? On the other hand, can sufficient economic growth and resources be generated without a low tax regime?
- How can wealth be generated in a sustainable and regulated manner that takes cognisance of the common good? How can tax policy support this ethical and sustainable wealth generation?
- How do we ensure a system characterised by fairness – a system where people pay in proportion to their ability and where there is a strong commitment to ensuring compliance?
- How do we ensure value for money in the spending of tax receipts – given the reality that there will continue to be public resentment and widespread resistance to taxation if the State fails in its responsibility to regulate effectively and in its duty of care in regard to taxpayers' money?
- Is there a case for the introduction of a wealth tax – a case that arises not necessarily from the amount of revenue that might be generated but from the symbolic value in terms of social solidarity of such a tax?
- Does Irish society consider taxation as a question only of public policy – is it prepared to see it also as an issue of both personal ethics and the common good?

The answer to these questions – or a failure to address them – will have a profound impact on Irish society for generations to come.

The *Compendium of the Social Doctrine of the Church* is instructive as to the importance of a values based approach to taxation and public expenditure policy:

Tax revenues and public spending take on crucial economic importance for every civil and political community. The goal to be sought is public financing that is itself capable of becoming an instrument of development and solidarity.[19]

All crises present opportunities as well as challenges. Perhaps the present crisis in Ireland will see the start of a process of creating systems for the collecting and spending of public money that are firmly based on a commitment to social solidarity and to development that is sustainable.

Notes

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18. *Ibid*., p. 4.
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What Kind of Society? A Better Vision Needed

P. J. Drudy

Introduction

The people have spoken in the General Election. They have voted in overwhelming numbers for change. They have done so because the philosophy and policies of the past have patently failed and they want no more of them. The new Government will go down the same tired routes at its peril.

The new Government, and all of us, must now ask, and answer, a number of fundamental questions. Do we want a society where economic growth takes precedence over all else? Do we want a society where market forces and the ability to pay dictate whether or not all of our people have equal access to food, accommodation, health care and education? Do we want a society where the distribution of income and wealth remains significantly skewed in favour of the well-off and the powerful? Do we want a society where considerable numbers of children and the elderly live in consistent poverty or at risk of poverty?

Do we want a society where full access to education at all levels is available mainly to those with the resources? Do we want a society where large number of families cannot afford to buy or rent a home or are forced to remain on waiting lists for social housing for long periods? Do we want a society where timely access to the best health care depends on the individual's level of income? Do we want a society where children and adults with disabilities as well as their families fail to get appropriate services or respite care? Do we want a society where our elected representatives receive pensions, travel allowances and severance payments far more favourable than those received by the vast majority of workers in the public or private sectors?

The above list is not exhaustive but it gives an indication of the challenge facing us. I suspect that the vast majority of our people would say that the kind of society above is simply unacceptable. That is why they have demanded change.

Economic Growth as *the* Goal?

Let us examine a small number of the questions listed above. First, what is wrong with economic growth? Surely that has been a key objective of governments around the world over many years?

Unfortunately, the precedence given to economic growth – that is, increasing the level of national income – in Ireland and elsewhere has been largely misguided. Increasing national income is, of course, necessary and desirable but a whole range of other economic, social and environmental factors make significant contributions to progress and the quality of life.

The importance of these factors cannot be downgraded in the quest for economic growth.[1] For example, a good health care system contributes significantly to the quality of life, as well as enabling people to be more productive in an economic sense. Similarly, education increases the ability to think critically and to make contributions in literature, the arts and science, in addition to increasing the potential for innovation, productive employment and income generation. By the same token, good housing contributes to health, as well as providing a base for full participation in communities and productive activity.

These three contributions – health care, education and housing – are often viewed as 'soft' social concerns to be relegated to secondary positions after economic growth. On the contrary, they play a key role in generating and sustaining growth.

The Dominance of the Market

The second question posed above points to a philosophy (or is it an ideology?) which has been dominant for much of the twentieth century – the philosophy of the 'free market'. In effect, this view holds that economic growth, and hence society's welfare, will be maximised through the operation of the 'market forces' of demand and supply.

Consumers demand (that is, are willing and able to purchase) various goods and services. In return, producers supply these goods and services at prices determined by the decisions of consumers and producers acting in their own self-interest. In a 'free' or 'perfect' market, large numbers of producers and consumers would provide sufficient competition to ensure maximum efficiency in the production and allocation of goods and services. This would happen, it is argued, with minimum government intervention or regulation, with the private sector playing a dominant role. Note that questions of equity do not enter this market vocabulary.

Few would dismiss, out of hand, the importance of market forces as a mechanism for organising the production and allocation of many goods and services. Experiments of absolute state control over production (as, for example, in the Soviet Union) led to gross inefficiency and poverty and were eventually abandoned.

However, the market *on its own* is an inadequate alternative. If the market forces of demand (recall that this implies the ability to pay) and supply were the sole determinants of health care, education and housing provision, then those key services would be supplied only to those with the ability to pay sufficient to provide an adequate profit (termed 'normal profit' in standard economics texts) to the producers. Those in need but with insufficient resources would simply do without. They are, after all, outside the market.

Is this the sort of society we want? Of course not! This is why governments around the world must accept their responsibilities for providing, or at least facilitating, certain key services outside the market, including good quality health care, education and housing for all who cannot provide for themselves. The market has a place but it must be kept in its place!

A Human Rights-Based Approach

How can we achieve an appropriate balance between the philosophy of the market which caters for those with the ability to pay and a philosophy which attempts to provide for those in need? I suggest we would have a better prospect of achieving this balance if we were to adopt, and implement, a human rights-based approach. The arguments for such an approach have been made in detail over many years.[2]

The Universal Declaration of Human Rights, adopted by the United Nations in 1948, set out a range of rights. These were re-stated and amplified in a series of international human rights conventions, including the International Covenant on Economic, Social and Cultural Rights, adopted by the United Nations General Assembly in 1966. The Universal Declaration and the Covenant, together with subsequent conventions, set out internationally accepted standards and illustrate the sustained global support given to a rights-based approach by the international community.

The market has a place but it must be kept in its place!

Article 25 (1) of the Universal Declaration states that:

Everyone has the right to a standard of living adequate for the health and well-being of himself [herself] and of his [her] family, including food, clothing, housing, medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his[her] control.

Article 11(1) of the International Covenant on Economic, Social and Cultural Rights is as follows:

The States Parties to the present Covenant recognize the right of everyone to an ***adequate*** *standard of living for himself [herself] and his[her] family, including adequate food, clothing and housing, and to the continuous improvement of living conditions. The States Parties will take appropriate steps to ensure the realization of this right …* (emphasis added).

Ireland is a party to the Covenant on Economic, Social and Cultural Rights and several other conventions.[3] It has thus accepted the responsibility to discharge the rights it ratified in these international treaties within the resource limitations to which the country is always subject. In order to achieve this, legislative change is essential to secure at least an internationally agreed 'minimum core' provision.

A human rights-based approach would involve the acceptance of at least five key principles. First, plans, policies and budgets must reflect human rights norms and standards. Second, people must be enabled and empowered to pursue their human rights if these are denied. Third, meaningful participation for all in local and national development must be facilitated. Fourth, disadvantaged or vulnerable groups must be given priority in a range of plans and policies. Finally, a human rights-based approach must include accountability and transparency and provide effective redress and remedial action for all.[4]

The Concept of 'Development'

It is clear that these principles involve a philosophy far removed from that of the free market outlined earlier and the almost exclusive pursuit of economic growth. But what is the alternative to economic growth as an objective? And what relevance has a human rights-based approach to such an alternative? I suggest that we must seek a more comprehensive concept than economic growth as measured by Gross Domestic Product (GDP) or Gross National Product (GNP). The broader concept of 'development' is one possibility. While used mainly in a developing country context, this concept has equal relevance in so-called developed nations.

Since at least the 1950s, writers coming from a range of perspectives have been questioning the adulation given to economic growth and have been seeking an alternative. A strong body of opinion has, therefore, emerged which argues that measures such as GDP or GNP fail to capture the complex set of indicators required to improve the quality of life.[5] To achieve this, we must at least include measures such as education, health, employment opportunities and equality.

The United Nations, in its *Declaration on the Right to Development* (adopted by the General Assembly in 1986), defined development as follows:

Development is a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom.[6]

This is obviously a more all-embracing and holistic concept than economic growth. It involves ensuring that everyone has a whole range of what the Nobel Laureate, Amartya Sen, called 'freedoms'. These include 'freedoms' to enjoy adequate food and nutrition, shelter, sanitation, employment, education, health care, equality, peace and security.[7] Without these and other freedoms, we cannot claim to be achieving development in any meaningful sense.

Note, however, that these 'freedoms' are also key human rights in the various international covenants agreed by the international community. The broad concept of development is, therefore, inextricably linked to the enjoyment of human rights. A human rights-based approach to economic and social policy is, in effect, a prerequisite for development.

Conclusion

It may be argued that a human rights approach is a luxury we cannot afford at a time when Ireland has an enormous debt burden and is constrained by the joint European Union/International Monetary Fund rescue plan. This is an untenable argument. There is now considerable evidence that areas such as health, education and housing (key human rights) play central roles in enhancing rather than reducing economic growth.[8] Similarly, the pursuit of equality – a further human right – has also been shown to be an important contributor to development.[9]

The pre-eminence of economic growth as a goal and the dominance of the market as a philosophy have served us badly. We must now turn to implement in a meaningful manner the human rights treaties we have ratified: in other words, the commitments which we have entered into must find expression in our plans, policies and budgets. Far from being a luxury, such an approach would play a central role in resolving our economic and social problems as well as providing a caring and just society.

Notes

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