Chairperson and Participants

Good Evening

1. I have the honour this year to give the Countess Markievicz Memorial Lecture and it is a privilege, as well as an opportunity to present my own views on the present grave crisis in which we find ourselves and possible strategies for dealing with it. I will come to the present crisis shortly but I wish to say a few words about the Countess first because there is a tendency to either airbrush her out of history or portray her as some sort of aristocratic dilettante who dabbled in revolutionary and socialist politics that she did not really understand.

2. My own view is quite the contrary. I believe she was denigrated and ridiculed in her lifetime and consigned to oblivion afterwards precisely because she was not a dilettante but a serious and committed champion of workers' rights and the allied radical nationalist cause in Ireland. She was reviled and denigrated by the British establishment as a traitor to her class and country. She was ridiculed by champions of the new Free State because she insisted during the Treaty debate and subsequently in revealing how far they were departing from the social and economic aspirations of the Republic's founders.

3. I prefer to take the assessment of her made by Jim Larkin in recognising her invaluable assistance and organisational skills in the 1913 Lockout by appointing her to the Council of the Irish Citizen Army. After his departure to America she worked equally closely with James Connolly building that organisation into a credible operational force and of course she played a leading role in preparing for and participating in the 1916 Rising.

4. But her most neglected achievements were during her period as Minister for Labour in the First Dail. She was often ridiculed for her excessive secrecy in guarding the proceedings of her Department but, as any casual perusal of the National Archives will show, the records of the Ministry of Labour are amongst the most complete from the revolutionary era and its achievements were among the most tangible. Only the work of Michael Collins' as Minister for Finance and William T Cosgrave as Minister for Local Government were of greater significance for the development of the new Irish state.

5. For instance, it was because of her role in the labour movement and the republican movement that craft workers in the Irish Citizen Army, the Irish Volunteers and Irish Republican Brotherhood approached her with the aim of setting up an Irish union. This led to the

establishment of the Irish Engineering, Shipbuilding and Foundry Trades Union to which our comrades in TUF, the Technical Engineering and Electrical Union, can trace their roots.

6. It was under her stewardship that the Dail's Labour Arbitration Tribunals were set up in 1920. The collapse of the British civil administration made the Dail alternative increasingly attractive to unions and employers alike but it is unlikely the initiative itself would have been undertaken and an alternative created without the involvement of the Countess. The origins of our present system of industrial relations can be traced to these pioneering achievements of an emerging state that faced a crisis no less severe, if different in character, from our own.

7. No less important than the establishment of the Dail structures was the creation of a tradition that the state had an important role to play in mediating and resolving the inevitable conflicts that arise in the perpetual struggle between capital and labour. Radical revolutionary that she was, it was under the Countess's watch that the first sticks of the 'social furniture' of industrial relations in the modern state were glued together.

8. Practically everything the Countess did in this area, much of it irretrievable because the folk memory and oral traditions that captured it have passed away with the revolutionary generation, has been airbrushed out of history. One of the few testaments to her importance during this period comes, ironically from W E Johnstone, a Chief Commissioner of the DMP during the War of Independence, when he sent out a directive to the Detective Division stressing 'the grave importance of securing this woman's arrest, and, to this end, a force sufficiently strong to secure her arrest must be held in reserve at each Divisional Headquarters'. A motor van was even kept on standby at Dublin Castle for that very purpose.

9. As Eamon de Valera said at her graveside, 'Ease and station she put aside and took the hard way of service with the weak and downtrodden'. She gave freely of her goods and energy and died in an open ward of a public hospital, a thought that must jar sharply with the credit fuelled consumerist, winner take all, culture which assumed absolute dominance in Celtic Tiger Ireland.

10. That Mirage evaporated spectacularly a little over a year ago and the froth has cleared to reveal the absence of a sustainable social and economic infrastructure that it concealed.

11. Originally when invited to give this lecture I envisaged offering some observations on a medium term path to sustainability. However, as

circumstances have since dictated, we are now on the eve of the biggest strike in the country in over a quarter of a century as hundreds of thousands of public service workers down tools against the prospect of their pay being cut again on top of the 7% cut imposed earlier this year, while the 5% who own 40% of the National Wealth contribute nothing additional at all. Accordingly I must concentrate on the possibilities of finding an immediate route from the current impasse because I am sure everyone will agree on that as a prerequisite to a sustainable future.

12. It goes without saying that in an ideal world one wouldn't start from here. Equally it is reasonable to suggest that we shouldn't adhere to the outlook that landed us in this mess. Of course, our crisis has unfolded against the background of the virtual collapse of the Anglo American model of boom and bust capitalism globally. The jury remains out on whether the emergency state first aid interventions (which incidentally its most radical adherents would have contemptuously dismissed only a little over a year ago), will succeed in resuscitating it. Our prospects are inextricably interlinked with the Global scene and it will ultimately determine our fate. However, we have little influence over it and consequently we must concentrate on our own domestic crisis, how it came about and the alternative remedies available.

13. On the question of the outlook that landed us in this mess in the first place, I summarised it in my presidential address to our Centenary Conference on 5th October, pointing out that inconvenient truths have been systematically deleted from the record and that the absurd policies which had been pursued between 1997 and 2002 are, for the most part, forgotten. These saw a dramatic reorganisation of the tax structure in favour of the rich, slickly marketed under the guise of reducing the burden. The rate of capital gains tax was cut in half, inheritance tax was cut, the top rate of tax was cut, and a plethora of incentives to encourage investment were put in place. Of course, the tax burden wasn't reduced at all; it was merely transferred from direct to indirect sources shifting it dramatically away from those at the top of society and disproportionately onto ordinary citizens and consumers – particularly those struggling to put a roof over their heads.

14. The objective may well have been to provide a new engine of economic momentum, facilitating the accumulation of wealth with a view to medium and long-term investment. The outcome was entirely the opposite as any analysis of the records will show. The great majority of those who cashed in to exploit the lucrative tax advantages for the rich chose to invest a far greater proportion of the gains speculatively in property rather than in creating sustainable

businesses. And why wouldn't they when they were offered a dazzling array of tax incentivised property vehicles and opportunities by means of which to multiply their return without obligation to society? Consequently any objective analysis of history will show that it was these 'get rich quick' policies which laid the basis for what subsequently became the credit led property boom, the bubble and the inevitable collapse.

15. That wasn't bad enough, but in typically textbook fashion, these policies were paralleled with others in the industrial and commercial arena, with devastating consequences for the potential to build a sustainable economy on the back of our qualification for participation in the Euro which had been achieved by a Labour Finance Minister in the previous Government. A policy which relied exclusively on the benevolent foresight of get rich quick merchants had no need for the retention of Eircom in majority public ownership. This once fine State Company which was then highly capitalised and technologically equipped to compete with any of its contemporaries in Europe at the time, was sold off to the Irish people who already owned it. After ordinary people lost significantly as a result, due to the subsequent fall in share values, it became the target of corporate raiders who over the years, have systematically stripped its assets and depleted its resources, such that it is now but a shadow of its former self.

16. Of course, the great tragedy is that back in 1999 highly capitalised and technologically equipped as a result of investment by the Irish people, it stood poised to place our economy at the frontier of the communications revolution, ahead on broadband infrastructure, and ready to optimise the potential of the abolition of fees for third level education. Tragically, instead we are now the 'also rans' in the OECD as far as broadband in concerned.

17. But it didn't stop at that, because amidst the froth of the rapidly inflating economy, they managed to sell off three banks, ACC, ICC and the TSB (which incidentally the State didn't own at all) which could have been critical to the provision of seed capital for the development of sustainable frontier businesses.

18. The infatuation with property speculation ultimately translated into the biggest banking crisis in the developed world. The sheer scale of it all is absolutely mind-boggling. "Look the other way" regulation facilitated a dramatic expansion of net foreign debt by the Irish banks. Those who have been busily rewriting history in the interests of the wealthy decry the inflationary consequences of the expansion of public spending during the boom years. Well it expanded at an average of 2.3% per year between 2003 and 2008. Meanwhile, the Irish banks were injecting four times that amount. Their net foreign

debt stood at 10% of GDP in 2003 but by 2008, it had reached 60% (see Professor Patrick Honohan's Paper to the UCD Economics Symposium in January 2009). Most of it found its way into speculative investment in property, funding developers on the one hand, while simultaneously handing out 100% mortgages to ordinary people, trying to put a roof over their heads so that they would bid against each other to further inflate the profits for the developers and the banks and spend the rest of their lives paying for the privilege.

19. The final ingredient was the refusal to enhance our employment protective legislation and the means of enforcing it before opening the borders to workers from the EU Accession countries on 1st May 2004. This facilitated a dramatic expansion in the supply of lower paid workers. An ESRI working paper in April 2008 (Barrett, McGuinness and O'Brien) found an earnings differential between migrant and Irish workers of between 10% and 18% based on data from the National Employment Survey 2006. The overall affect was the aggravation of an already overheated economy –whereas parallel labour costs would have exercised a moderating influence. Needless to say, our exhortations on this, as on most other matters, were ignored.

20. Make no mistake, it was this pernicious process, this frenzy of speculation fuelled by foreign borrowing that has wrecked our economy, mortgaged our society and compromised our children's future in the world – this and nothing else.

21. All these elements did not represent separate, isolated mistakes. It is much more fundamental than that. They were intrinsically interlinked - the outworkings of a political and economic outlook mesmerised by the myth of 'the market" - an outlook which embraced the philosophy of Milton Freedman's Chicago School - hook, line and sinker.

22. It has become customary to describe those of us in the ICTU who oppose the assumed efficacy of orthodox formulae, as economic illiterates. This raises the question as to where all the economic literati who are regularly paraded in our media as "experts" when Ireland was committing economic suicide. Doubtlessly the great majority of them are people of integrity but the question remains as to how they did not see an old style credit led property market bubble bursting. Perhaps the orthodox classical economic prism through which they view the world is incapable of correctly interpreting it. In any event the experience is hardly a recommendation for their recipe for recovery. **<u>However, that is precisely the route the Government has chosen to adopt,</u>**

replicating the outlook which caused the problem in the first place. There are essentially three strands to the approach.

23. The first entails saving the banks. This is entirely legitimate as no economy can function without a viable banking system. However, we could not possibly acquiesce with their approach. The credit guarantee of €400bn in the name of the Irish people was an extraordinary step. It was justified then on the basis of the systemic importance of the banks to our economy. But they are not all so, and some of them turned out to be little more than money clubs for developers and speculators.

24. It had the affect of dramatically narrowing the Government's options and flexibility to manoeuvre. NAMA followed, entailing transfer of a €54bn risk to the Irish people. The object is restoration of solvency and consequently liquidity, thus facilitating the resumption of credit lines in our economy. However, there is no guarantee of it. The State is bankrolling the system but it remains firmly in the hands of private shareholders.

25. Private shareholder interest remains the imperative of management decision-making. This can coincide with the national interest but it is by no means automatic, especially in the short term, as fortifying their Tier 1 capital and deposit base is their primary objective. Consequently the most benign conclusion to be drawn at present is that despite bankrolling the system, our state remains a minority player in decision making (a fact clearly demonstrated in the recent appointment in AIB), unable to dictate lending policy. The only certainty is that the private shareholders and the bondholders are secure and the rest of us are about to become part owners in the biggest debt-laden property portfolio in the world.

26. Next comes the rectification of the deficit in the public finances. Government policy, vigorously promoted by an array of right-wing commentators favours a strong dose of shock therapy – a brutally swift adjustment effected almost exclusively at the expense of working people and those who most depend on public provision.

27. Consequently in what has been described by a much respected former Taoiseach, Dr Garret Fitzgerald, as one of the biggest policy reversals in the history of the state, the Government has lurched from a planned €4bn adjustment for 2010 based on a combination of tax and spending reductions to one which is exclusively based on cuts.

28. In many respects, the 'quick buck' approach of the boom era has been replaced by the 'quick fix'.

29. The proponents of this approach justify it on the basis that taking the pain quickly (all of which is to be borne by working people and those who depend on public spending) will stimulate early recovery. Otherwise the recession will be unnecessarily prolonged aggravating the debt servicing problem.

30. In their view of the world it would reassure lenders offering the possibility of some further alleviation of interest rates for both Government and our banks. This is rational initially, but it would not continue to be the case for long if, as we fear, it served to exacerbate the collapse in the domestic economy. While it is acknowledged that rapidly reducing public spending as envisaged would reduce consumption, it is argued that this would be offset by a resurgence of confidence provoked by a belief that matters were being taken in hand. This is highly speculative to say the least, especially in the event of civil disharmony in response to the draconian cuts envisaged.

31. The case for effecting the adjustment exclusively at the expense of working people and those who depend most on public provision, is premised on a number of contentions, which tend to vary from time to time. It is argued, for example, that the measures taken to date from the October budget have entailed a greater emphasis on taxation than cuts. This simply is not true. The breakdown of the €9bn withdrawn between the October and April Budgets including the so-called Pension Levy, is €5.275bn (59%) cuts and €3.697bn (41%) taxation. Then the argument ran that the wealthy didn't have the money. They had lost it all in the equity and property market collapse. Well, they had a good deal to lose. According to Bank of Ireland, private banking's wealth national report of July 2007, the top 5% of the population owned 40% of the national wealth with the top 1% owning one third of all financial wealth.

32. More recently, the destruction of value argument has given way to the more sophisticated contention that taxation of wealth retards recovery while taking what little they have from poor people seems to advance it. This contention is further fortified by reference to the adjustment of the marginal rate that would be required to raise an additional €1bn. However, the significant consideration in the taxation of wealth is the effective rate, not the marginal rate. In 2007, those earning over €500,000 paid an effective tax of 20% while those earning between €200,000 and €500,000 paid at only 13.6%. It seems reasonable that bringing funds into circulation through progressive taxation that would otherwise lay dormant pending recovery, makes good sense at least in the short term.

33. Much of the 'quick fix' at the expense of those who are most dependent on public spending while insulating the wealthy from taxation recipe, is based on reference to the experience of the 1980s. This selectively disregards the fortuitous coincidence of circumstances around the end of that decade and the early 1990s. It requires further analysis which factors in trend growth in trading partner countries, the effect of the projected European Community expansion, the impact of structural and cohesion funds, etc. (All of these were considered in a paper by John Bradly and Karl Whelan in 1996 which concluded that the basis of the recovery was much more complex than the 'quick fix' shock therapy theory would suggest.) Mot of all, it completely ignores the confidence affect of the three year PNR Agreement concluded in the autumn of 1987 which was replicated in the similar PESP Agreement in 1990.

34. The quick fix remedy for the public finances deficit is accompanied by the third leg of the orthodox approach, i.e. radical pay cutting across the economy. This emphasises the distortion of pay levels in this country vis-a-vis trading partners, caused by the credit led property boom. There is a measure of truth in this, especially in the context of the significant appreciation of the Euro vis-a-vis Sterling and the Dollar as well as other currencies which all in all account for slightly more than 60% of our trade. But the case has been pursued dishonestly asserting, for example, that virtually everyone in the country is taking pay cuts. This latter is patently untrue as has been borne out by several surveys – most recently, in the Irish Times' Behaviour and Attitudes Poll, published last Saturday. Indeed, the conclusions are remarkably consistent, suggesting a range of between 10% and 14% of the working population, when the public service is excluded. This sheer dishonesty or anecdotally based wishful thinking most provoke doubt as to the efficacy of the case for universal pay cutting. It is a crude alternative to devaluation and a most unfair one because again it places the entire burden of the adjustment on working people. It fails to acknowledge the complexity of competitiveness and the limited impact of pay as a proportion of overall unit cost. Moreover, it shifts focus from productivity which is the real multiplier of income from international trade. Simultaneously, it underestimates the obvious impact on spending power in an economy in which domestic consumption accounts for about 55% to 60% of GDP. Combined with radical public spending cuts, the notion of universal pay cutting would inevitably further depress demand dramatically and would jar with all the energy expanded on conjuring up the NAMA project to provide credit lines for business. There is a clear contradiction here, and it is highly speculative to contend that the depressive affect would be offset by increased investment and exports, in the short term at least. It hasn't helped that the policy has been accompanied by an

approach that artificially shores up other component costs of production and services. For example, NAMA will insulate rents from the law of the market and the ESB will not be permitted to cut energy prices to compete with other players for completely ideological reasons.

35. Pragmatism is required. There are instances where we have recommended in favour of pay cuts where it has been demonstrated that they are the only alternative to job losses, but these are the exceptions to the rule. The range of remedies which the Government is promoting on the advice of the orthodox economists and cheered on by the right wing press, is remarkably consistent in one respect at least. It coincides exactly with the interests of the wealthy at every turn whether it relates to rescuing the banks, rectifying the deficit or restoring competitiveness. One might term it a coincidence of ideological convenience. It envisages a return to 'business as usual'. However, there will be no such return either globally or domestically. The system may survive but it has suffered a profound and fundamental shock. New strategies are necessary and they will require widespread acquiescence in the community, if not agreement. The basis for this will not be found in the current approach. This is clearly evident from yesterday's Red C Poll in the Sunday Business Post.

36. Despite the sustained campaign of vilification and demonization of people who work in the public service and of the trade union movement over a prolonged period, 44% of people are opposed to further cutting public service workers' pay. More spectacularly, a massive 76% favour taxing the wealthy over cutting public spending.

37. In one respect, we do agree with our opponents on the Right who articulate the interests of the 5% who own 40% of national wealth – **<u>confidence is the key</u>**. But that will not be achieved in a country with our history and traditions by demonising people or heavy-handed tactics. That approach will meet with stiff resistance whether it is organised by the trade union movement or otherwise. Any assessment of the balance of forces would anticipate victory for the orthodox view. However, when all is done, there mightn't be that much left to win.

38. The only viable way forward is through agreement. All sides must make accommodation to achieve it. All sides must recognise that there is no pain-free or risk-free way ahead. All sides must embrace the requirement to make a contribution but it must be on the basis of ability to do so. While we must grapple with difficult issues there can be no basis for agreement except in the context of a measurable additional contribution from high net worth individuals and those on

incomes of €100,000 plus per annum through taxation of one form or other – at least in the short to medium term.

39. On our side we know we have not been able to shift the focus from stabilising the deficit. However, it is time those on the other side acknowledged the danger of the gamble and at least provided for an each-way bet. This would entail off balance sheet investment, subject to clear commercial criteria such as adoption of the ideas put forward by the Construction Industry Council and by the others, including the opposition parties.

40. In this regard, the policy of ignoring the National Recovery Bond idea on the basis that it might attract funds which could otherwise serve to shore up the banks is no longer justified in the light of NAMA. We know that the crisis in the public finances is such that it cannot be completely rectified by resumption of economic growth or taxation for that matter. We have acknowledged the necessity of doing more with less. However, this is entirely different from the crude dismantling of the public and social infrastructure practiced in the late 1980s and early 1990s. The approach must be enlightened and fair and it must preclude compulsory redundancies and it must offer reassurance and opportunity to people as well.

41. We must all strive to find alternatives to cutting social welfare rates, penalising the most vulnerable in our community. This should be an absolute kernel of policy for all sides and the capacity to do so should serve as the litmus test of us all.

42. Any agreement must embrace the €1bn jobs/training fund. It must address the plight of people who are threatened with repossession of their houses and loss of their pensions in the private sector.

43. On the question of pay, we recognise the implications of currency appreciation. We must find a way of adjusting for it incrementally but not through the 'quick fix' approach which threatens more harm than good.

44. Ultimately any agreement must scope out a 'social dividend' for workers not just a return to 'business as usual' for those at the top.

45. Perhaps a good place to start would be by abandoning the outlook that caused the problem in the first place. It is becoming fashionable to dismiss the concept of 'fairness' from the recovery equation on the basis of the argument that things are so bad it is a luxury we cannot afford. Nothing could be further from the truth. Fairness is central to the success of some of the most successful economies in Europe. It is the catalyst for economic and social progress. There is no such

entity as Ireland Inc. Ireland is a society not a business or even a corporation. Ryanairisation does not offer a sustainable solution to our problems and the sooner all recognise that the better!!