

Towards a New Economic Narrative

Crisis? It's baby-crunching time. We no longer have the luxury of attacking others' prescriptions - those issued by the Government, employers' spokespersons and stockbroker economists. The proverbial punter at the bar is impatient: 'So what's your big idea?' It's a fair question.

Let's be under no illusion. The right is driving this debate. And the main 'opposition' in all this has been Fine Gael who wants more of the [same](#). A debate? You need two sides to have a debate. All we have is the sound of one hand slapping us about.

So far, the Left, with some exceptions, has staked out a small ground. It opposes cutbacks, proposes infrastructural projects and more training places, and suggests alternative revenue streams such as cutting tax reliefs. Some good ideas but, to date, they do not cohere into a programme of expansion and [renewal](#). They do not, as yet, constitute a new narrative.

And neither will this. It is, instead, an invitation to progressives to draft up their own programmes and proposals, to put forward their own contributions; to do better than what's contained here. But the foundational principles must be to:

- **Expand fiscally** - junk the cutback vs. tax increase trap. We need money, lots of it, to put back into the economy.
- **Expand demand** - more spending, not less, is what the economy needs to maintain and expand business activity
- **Expand indigenous enterprise:** Lay the structural foundations for a new enterprise base - public and private; this will take time, so we have to start soon, tomorrow, this evening

That's the ticket - expand, expand, expand. For illustrative purposes I have come up with a 10-point programme but no single programme can address all issues. For instance, I have not addressed recapitalising our banking system, educational investment, reducing poverty and labour market issues. In a fully-blown progressive project, these will take centre-stage.

But paramount in all this: the Left must become audacious. It must put forward its vision with courage and confidence. For the Left is right and the Right is wrong. We must defend our programme against all nay-sayers, pessimists, neo-liberals and shills for vested interests: on the doorstep, at community meetings, on RTE panels, in the Dail. No fear, no capitulation.

In short, we have to go on the offensive, all economic guns blazing. So let's start.

Expand Fiscally

1. Borrow 'Til We Drop



The fiscal meltdown is the result of the economic decline, not the cause. To prioritise the budget deficit is to obsess over the symptoms, not the disease. Cutting public spending and increasing taxes will result in less consumption and business activity. This, in turn, will

create further fiscal imbalances, which will in turn prompt more right-wingers to demand even further cuts - and round and down we go. The patient sickens.

We need to [borrow](#). We need to borrow big time. You can't cut-and-tax your way out of a recession - you spend. And borrowing is the main instrument. Borrowing will get us 'over the hump'. We won't take money out, we will put money in. In times of recession, borrowing is good.

Don't mind the fiscal reactionaries: we have plenty of scope to borrow. Our debt repayments come to only 1.5 percent of overall wealth. If an average industrial worker had the same level of debt repayments as Ireland Ltd., it would come to €50 per month. Even if this repayment were doubled, most households would light many candles in a fiscal hosanna.

- So, expand overall net debt to 55% of GDP over the next three years and aim to balance the current budget at the end of downward business cycle (it could take up to six-seven years before we close the output gap and get the economy operating at optimal level). This could provide us with between €30 and €40 billion additional resources above the Government's projected expenditure - an enormous investment to spend and invest, lend and expand.

2. Tax Lay-About Capital, Not Work

Just to ensure that we don't get caught in a debt-spiral, buttress our borrowing with new tax measures - but only on capital and higher incomes. It's okay to tax these folk - they have higher liquidity which doesn't end up getting spent or invested productively. Here are two proposals:



- A once-off, Donald Trump-like, tax on capital assets over [€1 million](#). This tax could be paid off over a seven year period. It could raise some serious dosh, but it's important that productive assets aren't hit.
- Phase out all tax relief (save for relief on productive investments) for people earning in excess of €100,000. Why should we subsidise their VHI premiums for private hospitals?

These are just two suggestions to give the wealthy, if not a soaking, then a right good splash. We are only limited by our imaginations and by the fact that the top 75,000 households in this country own over €300 billion in wealth. There's a lot of lay-about capital running about. Let's grab it and put it work for all of us.

[Another way to turn down the fiscal heat is to open up the Pension Reserve Fund for investment in infrastructure and enterprise projects on a commercial basis - see below.]

3. Public Safety Committees



Robespierre - where are you when we need you? If the Left is to argue for higher spending and borrowing, people will need confidence that this 'expansion' is being spent wisely. So let's establish the equivalent of public safety committees in every Government Department and

major public agency (HSE, Public Works, etc.) through a substantial expansion of the Comptroller and Auditor General's office. This would enable the office to examine in real-time not only the expenditure, but the expenditure process itself. All results, observations, requests for information (and replies) should be made immediately available on a new website dedicated to Government spending.

A further initiative would be to subject every line of expenditure - including tax expenditures (reliefs, allowances, exemptions, etc.) - to stress-tests that measure both economic efficiency and social equity. If they don't pass these tests, get rid of them (e.g. subsidies to private fee-paying schools). Inefficient and inequitable expenditure remains out of inertia - or because it benefits a vested interest. Roll out the guillotine.

Expand Demand

4. Spread it Around



How can we get more money into people's pockets? Especially when tax cuts are not a viable option? First stop is the national wage agreement. The current agreement is not a recession buster. It spreads wage increases equally throughout all income groups, rather than concentrating them in those groups that have a higher propensity to spend; namely, low and average income-earners. Secondly, it doesn't allow the workforce to maximise their wages, even if local conditions permit. If a multi-national is making shed-loads of profit, wouldn't it be more economically beneficial to allow employees to negotiate additional wage increases within the social partnership framework? Rather than having profit shipped out of the country, the money would be retained and circulated here.

A recession-busting wage agreement would contain two elements:

- **A flat-rate base pay increase:** an example would be between €25 and €30 per week (this doesn't rule out an additional percentage increase, but that increase should be small)
- **Provision for local bargaining.**

Employers would have little cause to complain. They would still be protected by the 'inability to pay clause'. If they can't pay some or all of the flat-rate pay increase, or any local bargaining top-up, they won't have to, provided they come clean with the Labour Court.

Additional measures to increase demand in the economy would be to:

- **Introduce the right to collective bargaining:** Study after study shows that those who negotiate through their unions earn more for the same job than those who don't. IBEC warns the multi-nationals won't wear this. The fact is nearly two-thirds of multi-nationals deal with the unions. It's our home-grown enterprises that don't recognise unions (and they wonder why they're so unproductive). Organised workforces will strike better deals - again, win-win.

- **Re-introduce pay-related unemployment [benefit](#).** At least if people are left temporarily jobless, they shouldn't be left income-less. This cushion will help people take full advantage of retraining opportunities if needed, and maintain their spending power.

There is still a lot of profit out there. In 2007, 500 companies made over €26 billion in profits while 90 percent of the top 1000 companies were in profit. Even if the recession reduces this, there's still a lot of money there to spread around. So renegotiate the wage deal (it's been done on two previous occasions so there can be no objection from precedent); or bring forward the next wage deal. Whatever we do, make sure that social partnership remains relevant to the times.

5. Competition This!



Inflation is falling - recessions are great for that sort of thing. But there are still sectors where unjustifiably high prices are being maintained. And this costs households and businesses. So let's really do this competition thing and put more money in people's pockets.

Strip the Energy Regulator of the power to set ESB tariffs (which he sets above the market level to incentivise private sector investment); strip him of the power to prevent competition between energy companies (currently, the ESB is required to lose market share); in other words, let the market set the rate. The Regulator should only intervene if any company is abusing their market position. This alone will bring down energy costs, benefiting businesses and households.

Take up Colm Rappale's [excellent idea](#) to require retailers to provide real-time price information to a revamped National Consumer Agency which would put up the information on an interactive, regionally based website. The Tanaiste said people should shop around - well, let them shop around on the website; and shame the price gougers. In addition, this new NCA should be given statutory powers to examine price setting mechanisms (including profit margins and management remuneration) in comparison with other countries, and to issue pricing guidelines where there are real violations of the competitive code.

6. Go on a (Social) Binge



While the last thing we need is to artificially inflate the construction sector to previously unsustainable levels - the last thing we need is to throw building workers on to the dole queue or let valuable skills leave the country, especially with all the social and environmental work that needs to be done. Soaking up this excess capacity (and it doesn't stop at building workers: materials suppliers, transport, manufacturing - all have a stake in this) can provide a needed stimulus and leave us with enhanced assets. On this point, the Labour Party has been strong:

- Launch a new social housing programme - let's start housing people who can't make it on to the property ladder
- If we need schools, hospitals, public leisure centres, community centres, etc. - now's the time to build them

- Launch a conservation maintenance programme on our older housing stock (this need not cost the taxpayer any money in the long-term).

Let's be clear - this is not a substitute for expanding our enterprise base; it can only be a stop-gap, a means of limiting the decline, ameliorating the worst effects of the recession. If it is to be part of a long-term strategy it will be complementary within a broad capital programme.

The biggest drag on demand and the biggest drain on the Government's budget is unemployment so these measures give us room to manoeuvre, a breathing space - and ensure that people have a warm place to live in and children aren't taught under leaky roofs.

A New Enterprise Pact

7. A New Green Deal



Ireland's infrastructure is so bad (it's ranked 64th in the world by the [Davos crowd](#)) that there's more than enough to keep us busy for years to come. Roads, rail, public transport, telecommunications (we need to bring Eircom back into public ownership); crikey, our port infrastructure ranks worst than some landlocked countries.

Front-loading our infrastructural investment will not only increase our long-term competitiveness, it will help increase demand and reduce Government current expenditure (saving on unemployment benefits, increase in tax revenue).

But there's one area that deserves particular mention because the idea that the environment must take second place to the economic agenda is starting to circulate - one more example of the short-sightedness and failure of imagination that got us in this mess. The green agenda (as distinct from the Green Party's agenda) is not only absolutely necessary to our environmental health and competitiveness, it is one more instrument to tackle the recession and return us to growth.

Renewable energy and conservation technologies: For god's sake, even the Bush-appointed US ambassador has to remind Ireland about exploiting its' natural resources - off-shore wind, tidal, and wave. We can muck about with 'market signals', 'tax incentives' and, of course, the old reliable - pleading with foreign capital to nod in our direction; or we can just do it ourselves. When we needed to electrify the country the ESB did the job - at times being hobbled by its very shareholder, the Government. So give them their head; get the ESB, Bord Gais, public agencies and private companies working to one sectoral agenda: research, product development, trials and tests, commercialisation in:

- ICT innovation (hardware and software) to optimise multiple renewable energy systems on a micro scale
- Wave and tidal, wind (especially off-shore), geothermal and innovating solar energy applications,
- Eco-construction, energy efficiency services, anaerobic digestion technologies,
- Water and wastewater treatment along with waste management, recovery and recycling

These are examples of public sector-led job creation in the private sector, building capacity in the home market and preparing for a new export industry when the inter-connectors with the rest of Europe come on line.

If these weren't enough, there's wider work in the whole area of green collar activity in manufacturing and services, and prioritising green public investment and procurement.

Going green means stepping up, not cutting back, our expansionary programme.

8. Money's Too Tight to Mention



Finance is the servant of economic activity. Credit is an instrument of economic growth. Financial institutions are products of society and its laws, not the other way around.

But even in a new dispensation of recapitalisation and tighter regulation, alternative investment streams will have to be found. There is a fundamental deleveraging process at work - both among banks and households; we can't short-cut this process but neither can we wait for it to purge the system. We will need to prise open new credit streams. Beating banks about the head will only get so far (no matter how much fun it is). Expansionist policies need expanded credit to turn it into sales, exports, jobs and profits. Beyond traditional regulatory instruments we can:

- Establish of a network of **Development Banks**, modelled on the US community development banks, which would work within their local regions, providing credit and saving facilities to households and businesses. If this were linked up to An Post Banking, it could become a considerable public-led force in Irish banking - needed all the more if the number of banks contract and competition is reduced.
- **'Socialise'** a small percentage of the deposit base of Irish banks. All deposit-taking institutions would 'lend over', say, one percent of their deposits to Enterprise Development Funds which would, in turn, act as a type of venture-capital or seed-capital fund for development enterprises - private or public (*see below*).
- **Establish SSIA-type** savings instruments to supplement the Enterprise Development Funds - attracting small and large investors, making money work for the economy while guaranteeing a competitive rate of return on such savings.
- **Open up the Pension Reserve Fund** to invest in capital and enterprise projects on a commercial basis. Not only would this take the heat out of our borrowing requirement, it would mean Fund monies are investing in Irish enterprise, not arms manufacturers.

9. The Enterprise Guarantee



There are a lot of things wrong with the current social partnership model: (a) its historical reliance on providing low wage increases in return for tax cuts, (b) the refusal of one partner to recognise the other (the employers' and government's refusal to recognise the right to collective bargaining), and (c) a 'partnership' at the top, a jungle at the local level.

We need a deep-rooted, democratic partnership of all stakeholders working throughout all layers of the economy. We need a *new enterprise guarantee* - as wide-ranging as any

undertaking given to [banks](#). Specifically, sector-wide strategies should be created, pursued and monitored through these new structures with the participation of employers, trade unions, the state and other stakeholders. Extra-ordinary benefit would be given to high-road enterprises - private and public - that fulfil the social and economic criteria:

Benefit: A new Premiership-league set of supports would be granted to progressive enterprises to overcome all the obstacles to expansion: training personnel for internationalisation, working capital to finance exports, information to locate/analyse markets, identifying foreign business opportunities, contacting potential overseas customers, developing new products for foreign markets, learning foreign business practices, meeting export product quality/standards/specifications, assistance with exporting procedures/paperwork. All this would be buttressed by access to Enterprise Development Funds.

Responsibility: Recognition of trade unions, family-friendly work practices, employment of people with disabilities, environmental audits, employee participation structures, in-kind benefits (health insurance, crèche costs), commitment to high R&D expenditure, transparency in company accounts; all in all - a full democratic partnership.

This is the *New Enterprise Pact*, the high-road to jobs, profits and wealth; this is the new face of Irish enterprise. This, and not the slash n' burn model, will set the ground for sustainable growth in the future. Make no mistake: creating a new generation of indigenous, progressive companies - which will take time - is one of the most urgent items on the economic agenda.

10. Reinventing Public Economic Activity



The Left should argue for a truly pluralist 'mixed market economy'. Already, we have 'private sector' companies who are reliant on the public sector (through PPPS, procurement, grant-aiding, tax relief, etc.). Now we must create new models where the private and the public can develop to their maximum potential and mutual benefit.

A starting place is the local or the regional. Unfortunately, local government is practically irrelevant to the local economy. While it is beyond the scope here to discuss institutional reforms, whatever new structures emerge must have the capability to invest in local/regional economic activity, from its own resources and from access to Enterprise Development Funds.

What kind of new models? We don't have to reinvent the wheel. Some forms have been around a long-time, some are getting a second wind, and some are being created to rise to the challenges of globalisation and the new recessionary environment. Each of these deserves their own detailed research. But let's do a quick jaunt through the pluralist typology:

Community-Owned Companies: Companies owned primarily by people living in a local community. In the US this is becoming a fast growing model - communities have established everything from cafes to shopping districts, cinemas, shops, even sports clubs; maintaining business activity and jobs.

Non-profit Companies: While traditionally focused on social services (hospitals, charities, educational institutions), many in the US have broken out of this mould and have expanded into competitive manufacturing and service sectors.

Municipal Enterprises: This is local public enterprise - companies established to fill a need in a local area. There are over thousands of these enterprises throughout the EU.

Community Development Corporations: These are companies established in local areas with Boards representing all the stakeholders, that seek to invest in local business activity - both start-up and expanding companies.

Consumer Cooperatives and Employee Ownership: These are more traditional forms, going back decades. However, they are getting a revival as local communities and regions find ways of reinvigorating their economies.

Of course, many companies are a mixture of the above (e.g. employee ownership/community owned, etc.) This is only a brief survey. But it shows that we do not have to remain reliant on traditional private sector or large public enterprise models. We won't build a new economy on these alone - we will build a new economy based on a plurality of enterprises, with the different degrees of public and private sector penetration.

There's a name for this: mixed-market economy. The Left should argue for participatory pluralism, not a corporatist/statist one-size-fits-all.

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So there you have it:

- Overcoming the fiscal trap by borrowing, taxing capital assets and opening up the Pension Reserve Fund to infrastructural and enterprise investment
- Increasing demand and consumption through a new pay deal, extension of welfare benefits, anti-inflation measures
- Putting our enterprise base on a new footing through a new Green deal, opening up new investment streams, an Enterprise Guarantee and new models of public economic activity.

Do with these proposals what you will. Improve on them. Come up with better ones. Add and subtract.

But however we go about the business of creating a new progressive programme for the economy, let's make one binding and irrevocable commitment: that it will be done. That we won't let the Right set the agenda. We will fight them every step of the way.

It's not just that the future of the Left depends on it; the future prosperity of the economy is in the firing line.