Countering the Anti–Public Service Propaganda

What

Public Service Workers' Alliance Campaigners

Need to Know

(First Edition – Revision 1)

Martin O'Grady

May 2010

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Preface

In tandem with the economic crash precipitated by an out-of-control banking system in Ireland and abroad, the years 2009 and 2010 witnessed an unprecedented government-led media assault on the incomes, conditions of service and status of public servants in Ireland. This ideologically-motivated assault was facilitated by the club of trade union General Secretaries and the ICTU leadership, which had been captured by government ideology, leaving public servants, despite their overwhelming membership of trade unions, without leadership or protection. The attack on public servants was preceded and accompanied by a virulent propaganda campaign portraying the public services in Ireland as excessively large and expensive, staffed by a lazy, obstructive workforce that had excessively feathered its nest in the good times and which was now paid much more than the country could afford and much more than equivalent workers in the private sector.

The public sector was characterised entirely as a cost, which was dragging down the real economy in the private sector. The economic circumstances of the state were explained in terms of there being insufficient finance available to continue to foot the 'bill' for the public services, the only option, therefore, being to drastically cut that bill or else continue to borrow at what were described as unsustainable levels. The option of raising more taxes was largely omitted entirely from discussion and, where it was alluded to, it was dismissed as unthinkable from the perspective of Ireland's economic wellbeing. With the trade union leaders having been captured by this ideology and mounting no sustained campaign of contrary argument, the media - much of it already heavily biased in this ideological direction- became nothing more than the mouthpiece of this propaganda. Critical analysis and balance were lost almost entirely with a few honourable exceptions such as Fintan O'Toole, writing in the Irish Times, Vincent Browne in his TV3 late night news analysis show and occasional articles in the press by Gene Kerrigan.

The purpose of this piece is to provide public servants and other like minded campaigners with as many of the facts and arguments, which have been omitted from the media analysis, as is possible in a source of this length. The facts, derived from reputable and independent sources referenced in the

text below and the weight of logic borne out in the accompanying arguments, demonstrate conclusively that at every point and in every detail the anti public sector propaganda, to which the nation has been subjected, is false. Every argument – financial, economic and social – mounted by the government and the media exponents of its policies is unsustainable when faced with the facts. Like all propaganda campaigns, it has been built on lies, misrepresentations, enormous omissions and on, more than anything, a reliance on public ignorance about economics and about the true nature of political and social reality.

It is my hope that this analysis will enable activists, fighting for justice in Ireland within and outside the trade union movement, to be more confident and better prepared to sustain their rightful case and refute the deeply deceptive propaganda that has wrought so much damage in Irish society over the last two years in particular but, in reality, over a very much longer time frame.

I have set out all the data and all the arguments in the context of answers to a list of specific questions, which I believe, together, address the core issues. I accept that there may be other important questions, which I have not addressed and I readily accept that, on any one question, there are doubtless far better and more comprehensive sources that address it. My aim however is to deal with as many of the key issues in one place as is possible without requiring the reader to work through a whole book or series of books. My article is intended as a digest. I hope it is readable and that it serves its intended purpose for you, the reader.

If you identify any significant errors in my analysis, I would be grateful if you could e-mail me at **kerrypswa@gmail.com** and I shall correct whatever is wrong in subsequent editions of the paper.

Martin O'Grady, April 2010

Q1 How rich was Ireland and how poor has it become?

Summary

Ireland was and remains a very wealthy country despite the recession. Since the early to mid 1990s the growth in the Irish economy was such that before the current crash we had a per capita output each year that in the EU was only exceeded by Luxembourg. However, in comparison with other EU countries an unusually large proportion of this wealth (typically around 15%) is lost through the repatriation of profits by multinational corporations. Despite this and despite the recession, in 2009, the per capita income (GNP) in Ireland well exceeded the average of the EU as a whole and even of the richer EU15 nations. We remain a very wealthy country by the standards even of the wealthiest parts of the world.

The most common measure of the wealth of a nation is Gross Domestic Product (GDP). This is an annual total of the value of all economic output in the country. This overestimates the actual wealth available to Irish society in that it includes a large figure for profits repatriated annually by foreign owned enterprises (15-19% of GDP). An alternative figure, Gross National Product (GNP) does not include repatriated profits and does include the reverse – profits returned to Ireland by Irish enterprises located abroad. This figure is deemed a more accurate measure of Irish wealth. A further figure, Gross National Income (GNI) is also used. This, according to Eurostat, is "conceptually identical to gross national product (GNP)." It is simply a new title for the old concept of GNP but some changes have been made in how the overall amount for a country is calculated. [1] It is now the term used instead of GNP by various international agencies such as the World Bank and the United Nations. While GNP (GNI) is a more accurate measure of income or wealth in Ireland, GDP is the normal figure used for such purposes in other EU countries of similar wealth because the differences between the two are generally small. [2]

To compare GDP or GNP (GNI) across nations it is necessary to divide it by the number of residents in each country yielding a per capita figure. It is also useful to express the GDP

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[1] Eurostat website, Gross national income (GNI) at http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Gross_national_income_(GNI)

[2] Based on figures available at the UN Statistical Division website, National Account Main Aggregates Database, http://unstats.un.org/unsd/snaama/selCountry.asp, the GNI figures expressed as a percent of GDP for 2008 in the EU(15) countries were as follows: Austria (99%), Belgium (100%), Denmark (102%), Finland (99%), France (101%), Germany (102%), Greece (96%), Italy (98%), Luxembourg (84%), Netherlands (99%), Portugal (96%), Spain (97%), Sweden (102%), U.K. (102%). Based on the same source, the 2008 GNI percent of GDP for the other more recent accession countries of the EU are: Bulgaria (99%), Cyprus (105%), Czech Republic (92%), Estonia (92%), Hungary (93%), Latvia (98%), Lithuania (97%), Malta (97%), Poland (96%), Romania (109%), Slovakia (97%) and Slovenia (98%).

or GNP rate per capita in terms of its purchasing power to take account of the different level of prices for the same commodities in different countries. This is generally done by expressing the figures in units that are equivalent to what a US dollar will buy in the US. Finally, to compare GNP or GDP in one country over time it is necessary to eliminate the effects of inflation. This is done by expressing the figures in terms of units that are equivalent to what a Euro or dollar etc could buy in a given base year. The figures are then expressed as if no price increase or price inflation has occurred over the period being examined.

In 2009, Ireland's GNP at fixed prices (effects of inflation/deflation eliminated) showed an 11.3% decrease for the year as a whole. There was a fall also in 2008 of 2.8%.[3] This followed years of increase. In 1972 Ireland's GNP per capita at fixed prices was €11,739. By 1980, this had risen to €13,779 and to €15,741 by 1990. Thereafter, the rate of increase was dramatic. By 2000, GNP per capita at fixed prices had reached €30,816, a figure which continued to climb each year to 2007 when it topped out at €37,162. With the onset of the international banking crisis and recession in 2008, exacerbated by the property market collapse in Ireland, GNP per capita declined to €35,449.[4] The year 2009 saw Ireland's biggest ever single year decline in GNP: 11.3% at fixed prices. Without any change in population this would have taken Ireland's per capita GNP down to €31,443, though CSO preliminary estimated figures suggest that Ireland's population increased by about 0.8% in 2009.[5] This leaves Ireland's GNP per capita in 2009 at slightly less than the level it was at in 2001 (see footnote 7 for ref.).

In 2008, Ireland had the second highest GDP per capita within the EU 27, expressed in terms of purchasing power standards. GDP per capita in Ireland increased from 42% above the EU 27 average in 2004 to 47.8% above in 2007,before falling back to approximately 2002 levels (35.4% above the EU 27 average) in 2008.[6] In 2009 GDP across the EU27 countries declined by an average of 4.2% (not taking into account about a 1% inflation rate for the EU27 which will have little effect).[7] The inflation/deflation proofed GDP decline in Ireland

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[3] CSO Quarterly National Accounts Quarter 4 2009 and Year 2009 (preliminary) at http://www.cso.ie/releasespublications/documents/economy/current/qna.pdf

[4] *Department of Finance 2009 Budgetary and Economic Statistics Table 27 GNP Per Head and Per Person at Work at http://www.finance.gov.ie/documents/publications/other/2009/BES2009.pdf*

[5] CSO Population and Migration Estimates April 2009 at http://www.cso.ie/releasespublications/documents/population/current/popmig.pdf

[6] Eurostat Website, GDP per Capita in PPS, at http:/epp.eurostat.ec.europa.eu/portal/page/portal/structural_indicators/indicators/short_list

was 7.1%.[8] While this brings Ireland's relative wealth position in the EU somewhat closer to the average, it still leaves Ireland very far above that average.

Given that Ireland's GDP is typically around 85% of its GDP due to the high level of profit repatriation to other countries that occurs annually in Ireland, a more accurate estimate of living standards in Ireland is obtainable from GNP figures. Since GDP is a reasonable measure of living standards across the EU, it is appropriate to compare Irelands GNP per capita with that of the EU GDP per capita. Viewed in this way, Ireland does not appear as wealthy by comparison to EU norms. It was estimated above that the GNP per capita in Ireland was approximately €31,400 in 2009. The per capita GDP across the EU27 was €25,100 in 2008.[9] EU GDP declined in 2009 by 4.2% bringing this figure down to approximately €24,000. When the poorer Eastern European states are eliminated from the comparison by looking only at the situation for the EU15, Ireland still shows per capita wealth production and income well above the average. The per capita GDP for the EU15 in 2008 was €26,300 at current market prices or €27,800 when variations in purchasing power of the euro are taken into account[10]. Reducing those figures by 4.2% for 2009 we get, €25,195 and €26,632 respectively. Even allowing for differences in the cost of living across the EU, there is no escaping the conclusion that Ireland remains a rich country by EU standards with a very high per capita income even by comparison with the wealthier countries of the EU.

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[7] Eurostsat news release euro indicators, April 7, 2010, at http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-07042010-BP/EN/2-07042010-BP-EN.PDF

[8] CSO Quarterly National Accounts Quarter 4 2009 and Year 2009 (preliminary) at http://www.cso.ie/releasespublications/documents/economy/current/qna.pdf

[9] EUROPA website, EU at a Glance – The EU in Slides – Some Key Figures about Europe – How Rich is the EU Compared to the Rest of the World – Wealth per Person: 2008 Gross Domestic Product per Person at http://europa.eu/abc/european_countries/index_en.htm

[10] Romania Central website at http://www.romania-central.com/the-gdp-of-romania/

Q2 How equitably is income and wealth distributed in Ireland?

Summary

With some exceptions, notably the US, richer countries tend to have more equitable income and wealth distributions than poorer ones. By the standards of countries of comparable wealth, Ireland is not an equitable country. There are various measures of equity. Ireland is ranked poorly on all of them. Such measures include the gap between the mean or average incomes of the top and bottom 10% or 20% of income earners, the proportion of the population at risk of poverty and the GIni Coefficient. On all measures, Ireland performs like a much poorer country in Europe and ranks towards the bottom of the wealthier European nations. As Ireland grew wealthier during the boom it grew more inequitable, with the gap between the top and bottom substantially widening. In 2007 the richest 5% of the population owned 40% of Ireland's wealth and the richest 1% owned 20%.It is estimated that the richest 300 Irish citizens still own an aggregate of €50 billion.

There are several methods of comparing how equitably income is distributed in different countries. Some are more intuitively understandable than others. One approach is to look at what proportion of national income is earned by a minority (typically top 10% or top 20%) of the highest earners. This may be compared with the opposite: what proportion of the national income is earned by the lowest 10% or 20% of earners. Alternative approaches take into account all income and calculate a figure which acts as a coefficient of equity in income distribution. A widely used figure is the Gini Coefficient which ranges 0-1 or sometimes 0-100, using whole numbers. In this system, 100 would be the figure obtained if one person obtained all the income earned in the country and 0 would be the figure if income was perfectly equally shared out.

On all such indicators of income equity, it is evident that in all countries, income is distributed very unevenly but this pattern is much more marked in some societies than others. Generally poorer, underdeveloped countries show greater disparities in income distribution and richer societies show income to be more evenly shared out. The United States stands out as an exception to this rule with much more uneven income distribution than its wealth would suggest. Though not as extreme as the US, Ireland is also towards the inequitable end of the scale among developed countries.

TASC, a recently established Irish think tank, campaigning for greater equity in Irish society, publishes on its website www.tascnet.ie (excellent source for information on equity) a booklet entitled The H.E.A.P Chart; Hierarchy of Earnings Attributes and Privilege Analysis[11], which includes figures comparing the equity of income distribution in Ireland

[11] H.E.A.P Chart Explanatory Booklet on http://www.tascnet.ie/upload/file/9644%20HEAP%20BOOKLET(1).pdf

with those of the other EU15[12] countries. In terms of the Gini coefficient, only Portugal and Greece have a more inequitable distribution, with Italy and the UK at the same level as Ireland. On a comparison of the income of the top fifth of income earners with respect to the bottom fifth, Ireland ranks at 10th of the EU15 in terms of equity. Below us are Spain, UK, Italy, Greece, and Portugal. On the proportion of the population at risk of poverty (threshold is 60% of median income) Ireland ranks alongside Portugal with only 4 countries (UK, Spain, Italy and Greece) having a greater proportion of the population at risk of poverty.

As explained in the TASC booklet, ratio figures, such as those above used to describe income equity and inequity, fail to illustrate an important feature of change over time. If income rises proportionately across the income spectrum, the ratio of the higher to the lower earners (say top and bottom 20%) will remain unchanged but the actual income gap between them will grow very substantially. If a person starts out earning €20,000 a year and his neighbour starts at €100,000, one is at that point earning five times the income of the other and the income gap is €80,000. If over a period of time their incomes both double, one will now earn €40,000 and the other €200,000 which is still 5 times that of the lower earner. However, the gap between them has now grown from €80,000 to €160,000. This gap is what matters in real terms since one spends Euros not ratios. At the beginning, one had €80,000 more to spend and now he has €160,000 more than his neighbour to spend each year. This is exactly what happened in Ireland during the rapid growth years over the last two decades. The higher earners have greatly increased their gap over the lower earners. The TASC booklet illustrates in a graph the degree to which this process has progressed between 1987 and 2005. As Ireland became richer it became very much more inequitable.

The EU Survey on Income and Living Conditions, 2008 reported that 16% of the Irish population were at risk of poverty. The 'at risk of poverty' threshold is set at 60% of median income. While Ireland's figure is just below the average for the EU27 countries as a whole (17%), it puts Ireland into a much worse category than most countries of similar wealth. Only the UK (19%) and Italy (19%) appear worse than Ireland in this comparative respect. The other countries that rank worse than Ireland in protecting its population from poverty are all much poorer. They are Latvia (26%), Romania (23%), Bulgaria (21%), Lithuania (20%), Greece (20%), Spain (20%), Estonia (19%), Portugal (18%) and Poland (17%). For a country of its wealth, Ireland is remarkably inept by EU standards at protecting its citizens from poverty. This is not a product of the recent economy crash in that all previous year figures

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[12] The EU15 are Germany, France, Italy, Belgium, Netherlands, Luxembourg, Denmark, U.K., Ireland, Spain, Portugal, Greece, Sweden, Finland and Austria – the EU area that preceded the Eastern Europe accessions on May 1st 2004.

listed for Ireland on the Eurostat website back to 1997 were higher – ranging from 18% in 2006 up to 21% in 2004 and 2001.[13]

According to the OECD, of the 30 countries in the OECD, Ireland ranks at no 22 for equality of income distribution among families. Below it rank New Zealand, UK, Italy, Poland, US, Portugal, Turkey and Mexico. Only the US, UK and Italy are as wealthy as or wealthier than Ireland. All the other rich countries in the OECD have a more equitable distribution of disposable family income adjusted for household size, the measure used in this calculation.[14]

If income is so unevenly distributed in Ireland it should come as no surprise that wealth is also very unevenly shared about. Wealth refers to the total net assets of individuals at a given point in time, which of course reflects long term income patterns and also patterns of asset appreciation.

A document produced by Bank of Ireland Private banking Ltd in 2007 entitled The Wealth of The Nation[15] described the wealthiest 5% of the population as owning 40% of Ireland's wealth, with the top 1% owning 20% of national wealth. If residential property is excluded from the analysis, the wealth disparity increases radically, with the top 1% owning about 34% of the wealth.

Since the total value of Ireland's net wealth included at that time a highly inflated figure for property, the overall total is considerably lower now. This in no way, however, means that wealth has become more equitably distributed since the property crash has impacted across the wealth spectrum. Only those at the very low end of the income scale who do not own their own houses have escaped in this respect. The richest 1% has also significantly escaped the residential property crash because according to the BOI report "residential property accounts for only a small component of their overall assets. (p12)" Depending on their individual investments in non residential property, they may have been seriously impacted upon otherwise, however, by the crash. On the other hand, there is no question that the wealth of the poorer 99% or 95% has radically eroded since so much of it

[13] Eurostat website, At-risk-of poverty rate,

http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsisc030

[14] OECD website, Directorate for Employment, Labour and Social Affairs, Growing Unequal? Income Distribution and Poverty in OECD Countries at

http://www.oecd.org/document/4/0,3343,en_2649_33933_41460917_1_1_1_1,00.html

[15] Bank of Ireland Private Banking Limited, 2007,The Wealth of the Nation, accessible through Finfacts website at http://www.finfacts.ie/biz10/WealthNationReportJuly07.pdf

comprised residential property, the value of which has collapsed. It is likely therefore that the recession has led to an even greater inequity in wealth distribution than existed in 2007.

A report in the Sunday Independent on March 18, 2010 estimated that, despite the recession, the richest 300 Irish citizens still owned a total of €50 billion in wealth. A billion is 1000 million. It pointed out that their combined assets equal the annual GDP of Bulgaria.

An important and disturbing development In Ireland, exacerbating wealth and income inequity, is that the proportion of national wealth being earned as wages has been falling while the proportion accruing to capital has been growing.[16] This trend which accompanied the boom in the Irish economy had been ongoing since the early 1990s and was stronger in Ireland than in the EU generally. The wealth created in the good times was not adequately reflected in wage increases across the economy. The biggest beneficiaries of the boom were those making profits, quite a lot of it as we now know, from investments that were nothing more than wild and irresponsible gambles.

[16] Lynch, 2007, Presentation at Pobal Conference, Realising Equality and Inclusion: Building Better Policy and Practice. **How Much Inequality is there in Ireland and Who Cares?** Dublin Croke Park Conference Centre November 22nd at http://www.ucd.ie/esc/html/pobal_07.ppt

Q3 What are the social implications of inequitable wealth and income distribution?

Summary

More inequitable wealth and income distribution is associated with negative outcomes on virtually every measure of human wellbeing. This not only applies to those at the bottom of the wealth/income distribution but right across the whole spectrum. Countries that are less equitable have poorer overall mortality and morbidity rates, higher levels of mental illness, higher levels of obesity, lower levels of trust, higher homicide rates, higher imprisonment rates, poorer social mobility, higher rates of teenage pregnancy and poorer child educational performance. The cause of the negative effects of inequity appears to be associated with higher levels of stress in less equitable societies. The wellbeing of the population of Ireland would be greatly served by policies designed to increase the equity of income distribution.

There is an extensive body of convincing research indicating that the equity of income distribution in a country or region of a country has a significant bearing on the wellbeing of its inhabitants, not only on those who are relatively less well-off but right across the income spectrum. The evidence shows that practically everyone is better off in terms of true wellbeing in a society where income is more equitably distributed than in one where it is less well distributed and this effect is independent of the overall level of wealth in that society.

Richard Wilkinson and Kate Pickett in their 2009 book, 'The Spirit Level'[17] have summarised extensive data comparing a wide variety of indicators of wellbeing across the 50 states of the USA and across 23 wealthier countries around the world for which sound data exists. The indicators included were:

- Level of trust in others expressed in surveys
- Mental illness rate including addiction
- Life expectancy and infant mortality
- Obesity rate
- Childrens' educational performance
- Teenage births
- Homicide rate

[17] Wilkinson,R. and Pickett,K. ,2009, The Spirit Level, London, Penguin.

- Imprisonment rate
- Social mobility (for countries only)

In order of equality of income distribution from most to least equal, the countries analysed were Japan, Finland, Norway, Sweden, Denmark, Belgium, Austria, Germany, Netherlands, Spain, France, Canada, Switzerland, Ireland, Greece, Italy, Israel, New Zealand, Australia, UK, Portugal, USA and Singapore. Based on household income, after taxes and benefits and adjusted for household size, the measure of equality was the number of times greater the income is for the highest earning 20% in comparison with the lowest earning 20%. The variation across countries is large, from under 4 times as much in Japan to nearly 10 times in Singapore. Ireland's figure is approximately 6 times.

When the figures for income equality were put together with those for each indicator and for the indicators combined, a clear pattern emerged. Across the spectrum of equality-inequality, average scores for wellbeing dropped as inequality increased. Consistently the more unequal countries, such as the USA, Portugal, UK and New Zealand, fared least well on all indicators, while the more equal countries, such as Japan, Sweden, Norway and Finland, fared the best. Countries in between in terms of income distribution, such as Ireland, Canada, Switzerland and Greece, had mediocre scores on wellbeing indicators.

Using a similar analysis with US states but this time adopting the Gini coefficient, described above, as a measure of income equality, an almost identical relationship with wellbeing indicators was identified. A significant correlation with income equality existed for all indicators except for mental health in men. States at the equitable end of the distribution such as Alaska, Utah, New Hampshire and Wisconsin have much higher wellbeing scores than those at the other end of the scale such as New York, Louisiana, Mississippi and Alabama with the remaining states distributed in between roughly in accordance with their Gini Coefficient scores.

It is important to note that income inequality in the Wilkinson and Pickett analyses was not a proxy for average per capita income. All the countries examined are relatively wealthy and between countries the variation in per capita income, even when one is twice that of another, does not act as a predictor of the wellbeing measures (Wilkinson and Pickett, 2009, pps. 11-14).

Q4 Has Ireland an unusually large and expensive public sector?

Summary

Ireland, by comparison with other countries of similar wealth, has a small and poorly funded public service. Despite starting from a low level of investment in public services, Ireland during the boom times cut back on the proportion of its wealth that it devoted to public services and the level of staffing failed to keep pace with the growth in the overall labour force and with growth in the population. That was the conclusion of a 2008 OECD analysis of the Irish public service.

The most immediate approach to answering this question is to compare the amount of their wealth that different countries devote to public services. This is the same as that dealt with below at Q5 where the level of taxation in Ireland is examined because taxation is spent entirely on public services. The actual amount spent on public services in any one year may be more or less than the amount taken in taxes due to surpluses saved up or deficits funded by borrowing. Over a longer time scale, however, there is no choice but for the cost of public services to equal the amount of tax taken in. Readers should, therefore, turn to Q5 below to explore, in detail, the quantitative answer to the present question.

Here we will examine the conclusions drawn by the OECD which was tasked to examine and report on the nature of Ireland's public services. The OECD findings were described in the report, 'Ireland - Towards an Integrated Public Service,'[18] published in 2008.

It may come as something of a shock to readers that the following statements can be read on a Dept. of An Taoiseach Agency (ONEGOV – agency entrusted with implementing the OECD proposals for the Public Service in Ireland) website in summary of the OECD conclusions[19]:

"The numbers employed in the Irish Public Service is relatively low in comparison with other OECD countries"

"Ireland has the third smallest total public expenditure as a percentage of GDP"

In the OECD Executive Summary of their report[20] under "Main Assessments and Recommendations' the following is stated:

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[18] The OECD report 'Towards and Integrated Public Service' can be obtained on the ONEGOV, Transforming Public Services, website at http://www.onegov.ie/eng/

[19] ONEGOV Transforming Public Services website, 'What did the OECD say about the Irish Public Service?' at http://www.onegov.ie/eng/FAQs/OECD_Review_of_the_Irish_Public_Service.html

[20] OECD, Ireland – Towards an Integrated Public Service, Executive Summary at http://www.onegov.ie/eng/Publications/OECD_Review_Excecutive_Summary.pdf

> *"The number of Public Service employees has increased significantly by 30% between 1995 and 2007, but also from a low base relative to other OECD countries. A policy since the mid 1990s to limit non front-line service employment* meant that public sector spending and employment growth have not kept up with population and GDP growth. *Irelands real average annual growth rate in public expenditure between 1995 and 2005 was 5.1%, significantly slower than real GDP growth of 7.5%. Government policy therefore has actually decreased the total number of public sector employees as a percentage of the labour force and decreased the overall public sector wage bill as a percentage of GDP. As compared with other OECD countries, 2005 data indicate that general government employment in Ireland represents around 14.6% of the total labour force which is relatively low among OECD countries and is significantly less than the level of public employment in Norway, Sweden, France, Finland and Belgium."* (pps. 14-15)

> *"In comparison with other OECD countries, Ireland has been able to deliver public services with a public sector that is relatively small given the size of its economy and labour force. Even when factoring in infrastructure investment, Ireland has the third smallest total public expenditure as a percentage of GDP, and this figure has actually decreased over the last 10 years." (p.16)*

The facts, we must conclude, are the diametric opposite of the government and media characterisation of the public service in Ireland which they have described as 'bloated' and too expensive. The very opposite is the truth. The public services in Ireland have been historically poorly funded and inadequate and during the period of Ireland's rapid growth since the early 1990s, expenditure and employment in the public services have declined relative to the wealth of the nation and to the size of its population and labour force. The main reason Ireland has problems in providing adequate public services, by comparison with other countries in Europe, is that we simply have not been willing to pay for them. Starting from a low base in infrastructural, service development and employment terms, we needed to use the wealth generated by the boom to invest heavily in infrastructure and services to bring Ireland's public sector into line with that of comparably wealthy nations. Given our need to catch up we need to spend much more not less than the average on our public services.

Q5 How does Irelands level of taxation compare with other developed countries?

Summary

Ireland is a low tax country and the proportion of its wealth taken in taxes has declined markedly as it grew wealthier. Measured as a proportion of GDP Ireland's taxes in 2006 were lower than every OECD country in Europe other than Greece and Switzerland. Even if taxes are taken as a proportion of GNP for Ireland (based on the debatable notion that the profits of foreign owned corporations can only be taxed very lightly) 12 out of a total of 22 European OECD countries match or exceed Ireland's tax take, several by a very substantial margin.

The best approach to understanding the level of taxation in any society is to simply look at the total tax take as a proportion of wealth generated in the country. This figure can then be compared to those of other countries that are of a similar level of wealth to see if it is typical or atypical.

In measuring Ireland's wealth, it is usually more meaningful to use the Irish GNP figure as a measure of income available in Ireland because of the high level of repatriation of profits by multinational corporations sited in Ireland, money which is not then available for consumption in the country. For this analysis however GDP is an appropriate figure in that the profits generated by multinationals are subject to taxation in Ireland before repatriation.

Figures from the OECD, running from 1975 to 2006, show that Ireland has consistently remained behind the average of the European countries in the OECD, behind the EU 15 nations and behind the EU 12 nations in terms of its percent of GDP taken in taxation.

As a percent of GDP Ireland's tax take has dropped further behind the average over time. In 1975, Ireland devoted 28.7% of GDP to taxation. By 2006 this figure stood at 31.9%. In contrast the European OECD countries, the EU15 and the EU12 figures were 30.9%, 32.2% and 32.2% respectively in 1975 but had risen to 38%, 38.7% and 39.8% by 2006.[21] Admittedly Ireland's GDP rose dramatically to match and even outstrip the wealthier countries in Europe but it has pursued a deliberate policy of not improving public services proportionately and instead has chosen to devote more of its increased wealth to private consumption.

An argument may be made that, unlike other wealthy European countries, Ireland cannot risk taxing very much a significant block of wealth expressed within its GDP figures: the profits of multinational corporations located here. The logic is that they will only locate

[21] OECD, Revenue Statistics 1965-2007, 2008 edition, Table A

in Ireland if we give them very significant tax breaks. It is difficult to assess the extent to which this is true in practice as opposed to in threat but it is certainly a consideration policy makers have to take into account.

If, however, we exclude entirely all the wealth generated by multinationals by using the GNP figure instead of GDP, we still find that Ireland is below average among comparable European countries in terms of how much it takes in taxes. In 2006, the GDP total for Ireland was €176,759m while the GNP figure was €152,529m, a difference of -€24,230. The tax take expressed as a proportion of GNP was 37%, still below the figures quoted above for the other wealthier European countries.

By European standards Ireland is a low tax, low spend economy. Its percent of GDP in 2006 taken in taxes is exceeded by those of all European OECD countries except for Greece and Switzerland. Even if the GNP figure is used for Ireland and GDP for the others, 12 out of a total of 22 European OECD countries match or exceed Ireland's tax take. Many of these countries exceed the Irish figure by a substantial margin e.g. Sweden (49.1%) (Denmark (49%) Belgium (44.5%), France (44.2%), Norway (43.9%), Finland (43.5%), Italy (42.1%) Austria (41.7%), Iceland (41.5%). These are to be compared with the Irish percent of GNP figure of 37% (see footnote 20 for source).

A further important point that sets Ireland in even further contrast with its European counterparts with respect to public spending is that it was such a late developer in economic terms. The effect of this is that it has lagged badly in infrastructural and service development. This should have led to a much higher than average spend on the public sector requiring higher levels of taxation. That this was not done means that a lower than average public sector spend has to be shared between current and capital expenditure. The net effect is that Ireland, despite its wealth, continues and will continue to have poorer public services than other comparable countries.

Controlling for the cost of living or the purchasing power of the Euro, Ireland spent less per capita on social cohesion or social protection (Social welfare, health and housing) than the average of the EU in each of the years 2002-2006.

Of the EU15 countries, only Spain, Greece and Portugal have lower spends on social protection. All the more wealthy countries with GDP/GNP more similar to Ireland have higher expenditure in this area. The same is true of the three non EU countries in Europe: Norway, Iceland and Switzerland. The leading country, Luxembourg, in 2006 spent €13,458

per person on social protection, followed by the Netherlands at €9.099 and Sweden at €8,998. Ireland by comparison spent €6,321. The average of the whole EU27 was €6,349.[22]

Not surprisingly then, Ireland's expenditure on social protection expressed as a percentage of GNI (GNP) is well below the average % of GDP of the EU countries as a whole for each year from 1997-2006. The figure for Ireland in 2006 (%GNI) was approx. 21% as compared with an approximate figure of 27% (%GDP) for the average of the EU.[23]

Ireland, one of the richer European countries, in terms of devoting wealth to social protection behaves more like one of the poorer. One factor which may contribute to Ireland's low social protection expenditure is that it has the lowest proportion of those aged over 65 in its population of any EU country. It is more difficult to avoid social expenditure on the elderly due to their inability to earn and their greater health and other social protection costs. Precisely how much this impacts on the figures is unclear but the relatively low proportion of the elderly leaves Ireland with the choice of being able to afford better social protection for its population as a whole or to avoid spending as much on social protection. It has chosen the latter course.

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[22] CSO Report, Measuring Irelands Progress, 2008,Table 4.2, at http://www.cso.ie/releasespublications/documents/other_releases/2008/progress2008/measuringirelandsprogress.pdf

[23] CSO Report, Measuring Irelands Progress, 2008,Table 4.1, at http://www.cso.ie/releasespublications/documents/other_releases/2008/progress2008/measuringirelandsprogress.pdf

Q6 Did public servants benefit disproportionately during the boom?

Summary

The vast bulk of public servants between 1998 and 2008 did not see their wages keep pace with the growth in per worker GNP in the economy. They failed to benefit proportionately from the growth over the period. The real beneficiaries, who did better than average, were the self employed, managers and professionals in the private sector and a small group of elite public servants and politicians. Some top public servants and politicians saw their real incomes increase at 3-4 times the average of the increases achieved by the bulk of public servants. This does not take into account special bonuses awarded to the majority of senior public servants. The pay inequities that grew during the boom years in the largely non-unionised private sector were faithfully replicated by government policy in the public sector with the complicity of the trade union leadership.

Did the income of public servants increase at a rate that exceeded the increase in income in the nation as a whole over the years of economic growth in Ireland? The simplest way to answer this is to compare the increase in GNP per capita (preferable to GDP because profits sent out of the country are not included) over the period of rapid growth with the rate of increase in public sector salaries and wages. For this purpose it is necessary to examine two groups of public servants separately. One group consists of the vast majority of public servants and the other a small group of senior public servants such as Secretaries General and Assistant Secretaries of Government Departments, Hospital Consultants, Heads of Government Agencies, Heads of Local Authorities and Political Posts such as An Taoiseach, An Tanaiste, Government Ministers, TDs and Senators. The reasons for the division of the public sector into two is because the arrangements for deciding pay rates have been quite separate in the two categories.

I have taken one example from the ordinary public servants' group as illustrative. This is the first point on the Assistant Lecturer scale in Institutes of Technology. I chose this example because the figures were easily available to me and because for the bulk of public servants, the increases in pay over the period examined were, with minor variations, the same except for some differences in benchmarking, which will be addressed below. This is, of course, because pay in the public service was fixed by a series of national or partnership agreements.

The period examined was from mid 1998 to 2008. To estimate real pay increase over that period, it is necessary to account for inflation. Thus, the nominal increase in pay over the period is compared with a figure based on what pay would have been in 2008 if it had

kept pace exactly with inflation. The rates of inflation for each of the years 1999-2008[24], were respectively 98(2.4%), 99(1.6%), 00(5.6%), 01(4.9%), 02(4.6%), 03(3.5%), 04(2.2%), 05(2.5%), 06(4.0%), 07(4.9%) and 08 (4.1%).

Expressed in Euros the pay for point 1 on the Assistant Lecturer scale in July 1998 was €23,894. Adding half the rate of inflation for 1998 and the full rate for all subsequent years, the equivalent inflation corrected figure at the end of 2008 was €35,052. The actual rate for point 1 on the Assistant Lecturer scale was €42,124, indicating a real increase of 20% in pay over the period. This is, however, not the full picture. The period 1998-2008 was a period of enormous economic growth. Average per capita wealth increased greatly in Ireland over the period. The question is did the pay of Assistant Lecturers keep pace with the increased wealth of the country?

The most accurate approach to answering this question is to compare the 20% real increase achieved with the increase in GNP per worker in the economy over the period. For such a comparison GNP is preferable to the larger GDP figure because it does not include wealth lost to the economy through repatriation of profits by multinationals. *GNP per worker* is preferable to *GNP per capita* because the former takes account of the total number of workers who are active in the labour force. Average GNP per capita might rise due to greater labour force participation without any overall increase in the average productivity of workers whereas GNP per worker can only rise if average productivity increases. It is reasonable to expect the pay of public servants to keep pace with the average pay of all workers in the economy, hence the comparison with GNP per worker. The increase in pay of one class of workers (assistant lecturers in this case) is being compared with the average increase for all workers. The figures must, of course, be calculated using constant prices so as to eliminate any increases that simply reflect inflation.

Based on figures obtained on the Department of Finance website[25], the overall rate of increase in GNP per worker at constant prices between mid 1998 and the end of 2008 was 24.5%.The pay of Assistant Lecturers in the IOTs, though keeping ahead of inflation by on average around 2% each year between 1998-2008, failed to keep pace with the increase in income per worker in the economy over the period**.** Of course, that pay has since been very significantly reduced through the so called pension levy and the pay cut in the December 2009 budget.

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[24] CSO, Consumer price Index Annual percentage Changes, at www.cso.ie/statistics/conpriceindex.htm

[25] Budgetary and Economic Statistics, 2007, Department of Finance at http://www.finance.gov.ie/documents/publications/other/BES2007V2.pdf (2007 figure estimated as the average for the preceding 9 years)

Included in the increase in real pay achieved by Assistant Lecturers is an 11**%** increase obtained in the first benchmarking round in 2002. The average increase awarded across public services grades in that round was 8.9%. Scarcely any category of public servant obtained an increase in the second round of benchmarking in 2007. The example chosen here - of Assistant Lecturers – is a case, therefore, where pay increased slightly above the average of the broad range of ordinary public servants.[26] Ordinary Public servants did not see their pay keep pace with the increase in per worker GNP over the period. The real winners during the late 1990s and throughout the present decade were the self employed and, as identified by O'Riordan, (2009)[27] managers and professionals in the private sector. One small group of senior public servants also saw much larger pay increases than average in the last decade. These are the grades mentioned above encompassed by the Review Body on Higher Remuneration in the Public Sector.

Heads of top government departments found themselves with salary increases of the order of 135% between 2000 and 2007. In 2000 they were paid £101,278 (€128,632). After a series of pay increases, their salaries had ballooned to a staggering €303,000 in 2007. Likewise, government ministers, paid £91,427 (€116,112) in 2000, saw their salaries leap by over 100% to €240,000 in 2007 while retaining the right to almost unlimited unvouched expenses, the enormous scale of which has recently come to light. The Taoiseach and the Chief Justice, both paid £114,500 (€145,415) in 2000, had their salaries more than doubled to €310,000, higher than that of the US President who is paid $400,000 (€267,236 at conversion rate on 23-11-09). The Garda Commissioner saw his salary increase by 130% between 2000 and 2007 to €240,000, almost exactly the same increase and salary that accrued for top paid hospital consultants. The same general pattern occurred all around the upper echelons of the public sector. [28]

The figures listed above do not take account of inflation. If a correction for inflation is entered, to take two examples, the pay of An Taoiseach would need to have been €188,370 and that of heads of top government departments, €166,629 by 2007 to have maintained their living standards at 2000 levels. As listed above, their respective salaries in 2007 were in fact €310,000 and €303,000. They had achieved real increases of 65% and 82% respectively between 2000 and 2007 while the typical public servant was achieving less than a 20% real increase between 1998 and 2008. Top public servants and politicians did 3-4 times as well as

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[26] Report of the Public Service Benchmarking Body, 2002, at http://www.finance.gov.ie/viewdoc.asp?fn=/documents/Publications/other/Bench.pdf

[27] O'Riordan, 2009, Separating Fact from Fiction on Earnings, The Use and Abuse of Statistics, Dublin, SIPTU at http://www.siptu.ie/PressRoom/TheEconomy/FileDownload,11297,en.pdf

[28] Figures drawn from reports of the Review Body on Higher Remuneration in the Public Sector at http://www.reviewbody.gov.ie/Publications.aspx

the average public sector employee. These figures fail to demonstrate quite how well many senior public servants thrived during the boom years in that the figures do not include a lucrative bonus scheme introduced in 2002 specifically for senior public servants. According to the Sunday Independent, Jan 6, 2010, the average bonus for senior civil servants was €17,763 in 2008. The bonus scheme was terminated earlier this year, a decision used to justify a significant amelioration in the wage cut for over 600 higher paid officials.

The vast majority of public servants failed to benefit proportionately from the growth in GNP over the period 1998 to 2008. A small collection of elite public servants and politicians, however, saw their incomes increase far more than the growth in per worker GNP in a shorter period between 2000 and 2007. The growing inequities in the economy at large were mirrored faithfully in the public sector due to government policy.

It should be noted that the partnership agreements and the benchmarking processes, which produced this outcome were strongly advocated as the 'only shows in town' by the trade union leaders, the same club of General Secretaries that has presided over the introduction of the pension levy, the pay cuts and the attempted dismantling of the conditions of service of the ordinary public servants. Any unions or individuals who objected to these arrangements were vigorously opposed by the General Secretaries and every effort was made to marginalise and silence them. With regard to the benchmarking process, it needs to be appreciated that for trade unions to agree to set public sector pay rates by a comparison with the largely non unionised private sector was a tremendous ideological sell out. To allow the market to set the rate for public sector unionised employment is to negate the *raison d'être* of trade unions.

Q7 Is it meaningful and possible to compare pay in the public and private sectors?

Summary

There are insuperable problems in accurately comparing overall pay in the public with the private sector. The obstacles include: non comparable occupations, problems in ascertaining true level of remuneration in the private sector, differing employment contexts – monopoly employer versus employment market, the impact on remuneration of self employment opportunities in the private sector and the interactive effects of pay rates between the two sectors.

It seems reasonable to compare in an aggregate sense the level of income increase in the public and private sectors over time so as to ascertain if one sector or the other has benefited more during the good times. Broadly, it might be argued that national wealth is equally a product of an effective public and an effective private sector. Therefore, in general, employees in both should benefit to the same extent from improved national income or wealth.

However, to compare in a meaningful way the actual incomes of individuals working in the two sectors, it requires that a like with like comparison be possible in each case. Immediately a number of fundamental obstacles are encountered.

Firstly, there are large occupational groups in the public sector for which no private sector equivalents of any kind exist. The armed services and the Gardai are the most obvious cases. There are simply no equivalent occupational roles in the private sector. Lecturers, teachers and nurses are other very extensive groups of employees where, though there are some private sector equivalents, they are small numerically and their incomes tend to be determined in one way or another by the pay in public sector. Nurses in private hospitals tend to have their pay rates set by straight equivalence with public sector rates. In the case of lecturers, the general impression is that those employed by private institutions tend to be poorly paid by comparison with those in public sector. The private sector here however would appear to be used as a means for younger novice academics to gain experience with a view to gaining employment eventually in the public sector. In that sense they might be considered trainees for the public sector and therefore comparisons of pay are not meaningful.

Administrators in the Civil Service, Local Authorities and the HSE may appear to have obvious equivalents among the administrative and managerial classes in the private sector. This side steps, however, a great deal of uniqueness that pertains to the public service. All more senior Civil Servants, for example, are debarred from political engagement by the nature of their role in society. They cannot belong to or campaign for a political party or publicly support a candidate for political office. This arises out of the need for them to serve

without prejudice whatever hue of political leadership takes office. There is no analogous circumstance in the private sector and it highlights the different nature of the responsibilities and roles that apply in the public service. The relationship of the public servants to society at large is not the same as that of the private sector employee to society at large. How much this should be reflected in one direction or the other in the pay of public servants is a value judgement but it is an inescapable obstacle to simple comparisons between the two sectors.

Another hindrance to comparison is the different employment contexts of the two sectors. The public sector consists for all intents and purposes of one employer. The state is a monopoly employer in the public service and sets down a standard rate of pay and standard conditions across the country for each occupational group. A teacher, for example, may move from school to school but will end up with the same terms and conditions of employment wherever he or she goes. He or she cannot choose between different contracts on offer in the labour market. There is no labour market in the public service. That is why public servants are so heavily unionised because the alternative – let the labour market decide the terms of employment – is not an option. In the private sector employees know that they can move from employer to employer if the terms do not suit them where they are. They typically choose not to be unionised and, therefore, must expect to face a more unpredictable but more flexible set of arrangements for pay and conditions. As with all markets, this is highly susceptible to chance effects through which an individual employee may gain or lose. When their employer is doing well, they may do very well but when the employer is doing less well they may lose out. In any event they always have the option to move on to get better terms elsewhere. This is another major obstacle to making meaningful comparisons of pay between the public and private sector.

A further distinction between the public and private sectors is that self employment is a very important occupational alternative for private sector employees but not at all to the same extent for public sector employees. In many private sector occupations it is a normal promotional transition for employees to become self employed in whole or in part. This is true of those in the trades such as electricians, mechanics, carpenters, plumbers etc. It is also true of professionals such as doctors, dentists, solicitors, accountants, architects and engineers. The effect here is that employment by others is viewed as a less well paid preparatory process for eventual self employment when the real financial dividends are reaped. While possible, this career path is much less likely in the public sector. Nurses, teachers or civil servants are nowhere near as likely to see their career paths in such terms. Instead, they tend to seek promotion within the public sector as their means of career advancement. The overall effect of this shift to self employment in the private sector is to reduce the average earnings of *employees* as opposed to workers (which include employees and self employed individuals) since many of the talented and experienced individuals are no longer employees but now earn their incomes as business owners often employing and

managing others. Their equivalents in the public sector remain employees. In short the private sector is a mix of employment and self employment, two activities that are intricately intertwined and cannot be understood separately. The public sector consists of employment alone.

A final impediment to meaningful comparison of the public and private sectors is the ease with which income can be calculated in the public sector as contrasted with the difficulties of doing so in the private. While there is no opportunity for undeclared earnings in the public sector, there is ample opportunity in many private sector occupations for irregular remuneration arrangements. Aside altogether from illegal payment arrangements, the scale of which is impossible to quantify, there are additional challenges in calculating the true level of earnings in the private sector due to the existence of a variety of bonus payments some of which have typically not been included in calculations of private sector pay (see note 26 above).

As explained above, it is not possible to understand employee earnings in the private sector without taking into account the opportunities for self employment. If it is hard to estimate the true level of private sector employee income, it is harder again to estimate the actual earnings of those who are self employed. It is a well known fact that a considerable volume of economic activity takes place within a cash economy and such earnings remain undeclared and entirely unquantified. It would be very naive indeed given all the revelations we have had over the last decade or two in relation to low standards in high places to imagine that the real extent of the earnings of the self employed in Ireland is not considerably greater than the figures revealed to the Revenue Commissioners.

The overall effect of the differing circumstances in the public and private sectors is that it is impossible to draw accurate and meaningful conclusions about the comparison between the levels of pay for similar work in the two sectors. The nature and circumstances of the work and the mechanisms for payment for that work differ too greatly between the two. In addition, while the true level of remuneration in the public sector is easily established, it is quite difficult to establish with any certainty what exact remuneration applies in the private sector, particularly when self employment is taken into account as it must if any true comparison between the two sectors is to be completed.

Q8 How does Ireland's borrowing level compare with other developed countries?

Summary

While Ireland's level of debt has risen sharply in 2008 and 2009 and continues to rise, its level of borrowing when taken as a percentage of GDP was substantially below the average of the Euro area at the end of 2009. Even when expressed as a percentage of GNP (excluding wealth created in but not available for spending in Ireland) Ireland's level of debt was still below the average in the Euro area. This of course does not take into account the enormous burden since undertaken by the state in supporting the Banks through NAMA.

The real meaning of public sector or national borrowing can only be understood in relation to the overall wealth of the nation. Obviously a large wealthy country can afford to service (pay the interest on) and repay a much greater national debt than a poorer country.

Typically, national debt is, therefore, expressed as a percentage of GDP or GNP.

Ireland's level of debt as a proportion of GDP has risen sharply in 2008 and 2009 after the collapse of the building boom, the economic recession and the decision by the government not to readjust the tax system to compensate for the loss of tax revenue particularly from house sale stamp duty. At the end of 2007, government debt was 24.8% of GDP. By the end of 2008 it had climbed to 41.3% and one year later it had reached 64.5%. The rise is in part due to increased borrowings and in part due to reduced GDP.

Despite the furore in the media about Ireland's level of borrowing, the end of 2009 position compares very favourably with the average of the Euro area which has borrowings at an average of 78.2% of GDP.

As indicated above, GDP in Ireland exaggerates the wealth available in Ireland because it includes wealth created in the economy by foreign owned corporations and then lost when profits are repatriated. The average excess of GDP over GNP (both at current market prices) over the years 2000 to 2008 was 18.3% of GNP.

Based on an 18.3% differential between GNP and GDP, Irish borrowings at the end of 2009, expressed as a percent of GNP, is 76.4%, which still does not exceed the Euro area average percent of GDP.[29]

[29] Calculation based on figures in *Department of Finance, Budgetary and Economic Statistics 2009, Table 12, Value of GNP and GDP available at http://www.finance.gov.ie/viewdoc.asp?DocID=5992&StartDate=01+January+2010*

In terms of the Euro area countries Ireland had a very typical level of debt at the end of last year. This does not however take into account the enormous burden the state has since assumed to support the banking sector through NAMA.

Q9 Should we seek to lower our national borrowing requirement?

Summary

It is generally agreed internationally that borrowing during a recession is a good idea in that the introduction of extra money into the economy at a time of scarcity stimulates consumer demand and economic activity. The risks associated with borrowing have to do with the extra costs incurred in interest payments and the fact that repaying the money exerts a drag on future economic growth. While borrowing for capital expenditure is generally viewed as wiser than borrowing for current purposes, the distinction between the two is not nearly as clear as might be assumed. There is no simple answer to the question of how much borrowing is wise but given the cyclical nature of economic activity, it is a mechanism by which the peaks and troughs can be smoothed out. Some of the proceeds of an economic boom are foregone so as repay money borrowed to lessen the impact of bust periods in the economic cycle. The net effect is that both booms and busts are less extreme. The alternatives to borrowing are greater taxation or lower expenditure on public services, the consequences of each of which must be offset against each other and against decisions about borrowing.

While government borrowing is widely discussed in the media and political circles as if it were an unmitigated evil, the reality is nothing like as simple. Borrowing by a country at the right time in the economic cycle can be very well advised. Generally, there is agreement that greater borrowing is more appropriate during a recession so that money is brought into the economy to stimulate economic activity through greater consumer demand. Economists have always differed widely on how much borrowing is wise and there seems no good scientific answer to some of the key questions involved.

Generally speaking, borrowing for capital expenditure – the building of national infrastructure such as roads, hospitals, airports, schools – is viewed much more favourably than borrowing for current expenditure, i.e. to support the provision of day to day services such as social welfare, public sector salaries and ongoing expenses. While capital is viewed as an investment that will reap an economic return for the nation in the long run, which justifies borrowing much as one borrows to invest in a business, current expenditure is viewed as something that ought to be paid out of current income. Borrowing for it is often viewed as analogous to the individual taking out a loan to buy food.

This distinction between capital and current expenditure is not nearly as clear cut as it is often assumed to be. Current expenditure may also be an investment as in paying for teacher or health worker salaries to improve the future education and health of the nation, both of which should reap economic dividends. Even if capital expenditure were redefined to include all potential investments with a likely economic return, there is still the problem of identifying what will and will not reap a return. Is paying unemployment assistance an

investment in that it prevents crime and social unrest both of which are economic threats? A further question is whether it is reasonable to limit the definition of capital within an economic framework. Is it an investment to spend on services that have no quantifiable economic impact but may be expected to improve quality of life?

Leaving aside the rather problematic capital-current dichotomy, there is a strong argument that under certain circumstances borrowing for all government expenditure may be the best thing to do. This is at the root of the 'fiscal stimulus' solution to recession being adopted currently in the United States and in many countries in Europe. This logic is based on the notion that a nation's income and wealth fluctuates over time, following longer and medium term economic cycles. We are currently at a trough in the cycle. In some years it is easy to fund public services because there is a lot of wealth being generated – boom periods. In other years, it is much more difficult because less wealth is being generated – bust periods. The overall idea then is that one borrows during the bust periods to maintain a steady level of public services during those periods and repays the debt during the good years. It is similar to a person whose income is very unevenly distributed over time and who uses credit such as bank overdrafts and credit cards to smooth out his expenditure despite the ups and downs of income. An important added benefit of borrowing for nations during bust years is that the extra money flowing in to the economy boosts demand for goods and services, maintains more people in employment and prevents the recession from getting worse. Of course, the repayment of those borrowings during the good times makes those times a bit less 'good.' In reality a process of this nature is necessary since government services by their nature cannot be turned on and off like a tap. To function at all, they need to function in a reasonably steady state.

The fundamental questions of how much borrowing should governments engage in during a recession and on what the money should be spent are really no different to the same questions applied to taxation. The answer is a matter, not so much of economics as, of social policy and politics. There is, however, one crucial economic factor, which must be kept in mind. There is an added cost to borrowing. Those who lend the money demand a return and that return, measured in interest repayments over the term of the borrowings, must be added to the cost of the services invested in or spent on. In short it is cheaper to pay for services out of current taxation than to pay for it out of future taxation, as with borrowings, because of the interest added on. Borrowing is, by and large, paying for services at a higher cost in the long run but allows services to be maintained when there is less money around.

The questions of how much taxation is advisable and how much borrowing is wise must be answered together. The answers must be based on a longer term estimate of future economic performance and of how much of the wealth generated in a country does its people wish to be devoted to public expenditure. This latter consideration depends, to a

large extent, on the judgement about how equitably or inequitably the nation wishes its wealth and resources to be distributed because, by and large, public expenditure tends to transfer wealth (though not always) from the better-off to the less well-off. Lower tax economies like the US, Portugal and, to a lesser extent, Ireland rely heavily on the market to distribute resources such as housing, education, health care and income itself while higher tax economies such the Nordic countries redistribute to a much greater extent such resources using state services. Which is the better approach is to some extent a value judgment but may be answered more empirically by seeking to measure overall quality of life under the two different arrangements. This question is addressed at Q.3 above. The implications of raising taxes and of lowering expenditure on public services are addressed at Q10 and Q11 below.

Q10 What are the implications economically and socially to raising taxes instead of borrowing?

Summary

When public services are paid for through taxes as opposed to borrowing there is no extra money introduced into the economy to stimulate demand. There is no less money, either, to depress the economy. Taxes may act as an economic stimulus in that they are spent within the economy on services that create employment while the same money left untaxed is likely in Ireland to be spent significantly on imports stimulating other economies. There is a strong argument also that everyone stands to benefit more from public rather than private expenditure when the choice is between frivolous luxuries or genuinely beneficial public services. In addition, taxes, being redistributive, greatly increase equity in society, which is a benefit to all. A further important advantage of taxation and expenditure on public services is the effect on regional redistribution of wealth and the maintenance of viable local economies and population stability in much of provincial Ireland. It is possible for individual taxes to be so high as to reach a point of diminishing returns. In terms of the overall level of taxation in society, properly managed, the experience of economic success in other countries that redistribute much more of their wealth through taxes and public services demonstrates that Ireland has a very great deal of room to increase taxes before there is any danger of reaching the point of diminishing returns and hampering economic performance.

What consequences are likely to flow from raising taxes? If taxes are raised in preference to borrowing, the first immediate implication is that the supply of money in circulation in the economy does not increase. There is, therefore, no direct financial stimulus to demand so as to raise economic activity. There is of course no debt stored up, either, needing future repayment and no additional cost in the form of interest repayments added to the overall price of public services. It is a 'put up with the pain now' rather than spread it over time approach.

Beyond that, the question becomes whether to raise taxes or to do without public services. Let's look first at the economic implication of raising taxes. Contrary to the common propaganda of the wealthy and the opponents of public services, taxation does not reduce the supply of money in the economy and does not reduce aggregate demand – unless it is being used to repay previous borrowings. It simply redistributes wealth, typically from the better-off to the less well-off. Not all public spending redistributes wealth in this direction, at least not in any direct sense. Public spending on roads and on health care and education may actually be more to the benefit of those who are already better-off. The middle classes drive more cars and benefit more from education than the working class. All classes may derive benefit from publicly funded health care. The same is true of policing and

security. Whether taxation is socially redistributive or not, it always involves a transfer of spending from private to public consumption. What would have been spent on cars, holiday homes, new TV sets or trips abroad is instead spent on health care, education and social welfare etc. The money is still spent and so creates demand and employment in the economy.

There is a strong argument that public spending is economically more valuable in Ireland than private expenditure. While a great deal of private expenditure is likely to be devoted to luxuries that are imported such as cars, most household consumer durables and foreign holidays, public expenditure is likely to be devoted to purposes that cannot be imported and so creates more employment at home. Education, healthcare (imported drugs and equipment aside) and social services are labour intensive activities and cannot be imported. The same is true of policing and security. It is not easy to quantify the precise employment creation effect of a transfer of spending from private to public. Even imported luxuries such as cars create employment through their sale and distribution. Overall, however, since a much smaller proportion of public services can be imported the job creation impact is likely to be greater for public expenditure.

There is another even stronger argument in favour of public versus private spending. This is largely a social argument but also goes to the core of what economics is supposed to be about. It has to do with the maximisation of utility or benefit for each individual and ultimately for society at large. While classical economic theory conceives of the consumer as perfectly rational and carefully maximising the benefit to himself or herself of every euro spent, all the empirical evidence suggests an entirely different reality. Left free to spend as he pleases the consumer chases satisfaction or happiness through expenditure on material resources offered and advertised to him in the market place.[30] He buys ever bigger houses and ever more high powered and expensive cars, dresses himself in designer garb and eats more and more fancy food. Remarkably, he does not grow any happier and instead grows more stressed, overweight and less healthy. Beyond a certain spending level, he spends much of his money in ways that contribute little, if any, to his happiness perhaps because he has no other option. He cannot in isolation spend his money so as to make the society he lives in generally safer and imbued with more social solidarity. He cannot, alone, purchase

[30] There is an burgeoning academic literature describing extensive international research which shows that, despite the fact that the population of modern market democracies continue to strive for ever more income and ever more material possessions, the capacity for increasing income and wealth to add to average individual happiness ceases at around the stage of economic development the UK achieved in the late 1950s. Such literature includes, e.g. Lane, R.E. ,2000, The Loss of Happiness in Market Democracies, Yale University Press, New Haven and London; Frank, R.E. (1999), Luxury Fever, Princeton University Press, Princeton and Oxford; Ingelhart, R., 1997, Modernization and Postmodernization, Princeton University Press, Princeton N.J.; Kasser, T., and Kanner, A.D., 2003, Psychology and Consumer Culture, American Psychological Association, Washington DC.

good relations with others or buy a culture that promotes happiness and wellbeing. He cannot purchase clean air, an unpolluted environment or a sustainable economy in which to look forward to the happiness of his children and grandchildren. Only through pooling his money with everyone else in society and requiring the state to spend it wisely can he hope to meet those more important requirements.

We have seen at Q3 how more equitable societies are better societies in which to live. The isolated individual cannot achieve such an outcome. That is why the United States, which very heavily pins its hopes for individual wellbeing on individual private spending, fares so badly on measures of overall societal wellbeing. That is why the Nordic countries that rely much more heavily on public spending fare so much better.

Even a superficial grasp of the issues addressed in this consideration of the benefits of public versus private consumption, should be enough to give the lie to the distinction often alluded to between the ‘real world’ of the private sector and the supposedly ‘unreal world’ of the public sector. In economic terms or indeed any other terms this is simply nonsense. Neither is more or less economically real than the other. They both provide goods and services which are consumed by the population and they both provide employment in this process. They both create wealth and are in practice inextricably interdependent in doing that in most societies. A modern private sector could have no hope of thriving without public administration and government, education, security, a legal and judicial system, policing, health care and social protection, communication and transport networks, all of which require a large public sector infrastructure even in societies as ideologically committed to private enterprise as the US. In fact, it is much easier to envisage a society functioning without a private than a public sector though extremes in either direction seem to inevitably result in negative economic and social consequences. Some functions seem in practice to be better suited to the public and some to the private sector.

The difference between public and private sector goods or service provision is a difference of strategy, control and ownership. Any suggestion that the private sector is the real world and the public sector not is a purely value laden opinion akin to ethnocentrism, where one’s own culture is taken to be the norm while all other cultures are seen as unnatural aberrations. Typically this value laden bias implies that insecure employment obtained in a competitive labour market, which sets the price of labour, is somehow natural and real while secure employment with wages set through collective agreement is an unnatural aberration. As with ethnocentrism, so blinkered and paradigm constrained is this view that it fails to grasp that both economic arrangements are human creations, which historically and cross culturally, have been fashioned and refashioned to suit the needs of the time and place and, in particular, the needs of those with more power in that particular time or place.

The assumption that employment in the private sector is more productive or useful to society, that the private sector produces while the public sector spends, is, of course, entirely false. One has only to consider the various activities indulged in within each sector to see why. Is selling motor cars more useful than teaching children? Is building luxurious houses more useful than curing illnesses? Is manufacturing or selling alcoholic beverages more valuable than apprehending criminals or maintaining law and order? The answers of course depend on your preference at the time. If you are thirsting for a beer, then you appreciate the use of the bar assistant who serves you. If you are fearful for your safety you appreciate the presence of a Garda. Since much of the private sector is devoted to luxuries and the public sector almost entirely to necessities, it is arguably the public sector that is much the more important contributor to society.

One issue that has not yet been alluded to is that of exports. Ireland for its wealth depends heavily on the sale abroad of goods and services which superficially seem to be the product of the private sector. The public sector does not sell services abroad. Two facts need to be appreciated however. Firstly, large parts of the private sector do not sell services or products abroad, either. The retail, construction, financial services and vehicle sales sectors, for example, have little to do with exports but no one regards them as any the less important or 'real' for all that. Secondly, the public sector underpins the export focused industries in exactly the same way that it underpins the whole of the private sector and with some additional contributions. There are a wide variety of state agencies such as IDA Ireland, Enterprise Ireland, BIM, Bord Bia, Shannon Development, and Failte Ireland (spending by tourists from abroad is an export) that contribute essential services to enable industry to achieve success in exporting goods and services. Not only then are our export focused industries dependent on the educational, health, policing and other standard public services but are also dependent heavily on specialist public services developed for that purpose. The public sector, therefore, constitutes a core element of both our domestic and export economies.

There is one further consideration about levels of taxation/borrowing that needs to be considered. This is whether taxation levels, and, by extension, borrowing levels in recessionary times can be too great from an economic perspective.

Can levels of taxation reach a point of diminishing returns, so that raising the rate actually lowers the overall tax take by depressing economic activity? There is no question that at some point with all taxes this will occur. If you keep increasing the rate of VAT on a product, you will typically reduce demand for the product because more and more people deem it too expensive and at some point the total tax take will diminish and even reach zero if no one at all will buy the product. If you continually raise taxes on employment at the lower levels of income, then, at some point it will be better for those in employment to leave the labour market and depend on social welfare. If you raise income taxes at the

higher end of the income spectrum, at some point individuals may decide it is not worth the effort to earn so much and opt for less effort and less income, again lowering the tax take. The same is true of taxes on profits where at some level those engaged in enterprise may regard the return left to them after paying taxes as insufficient to warrant their efforts, which may cause them to give up their business or discourage them from growth.

It is around this whole issue that much debate on taxation levels revolves. Those who are wealthier and wish to retain all or most of their wealth will typically argue that the point of diminishing returns is reached at a low level of taxation. Those who are concerned with equity in society will argue that the point of diminishing returns is at a much higher level.

Fortunately, the world is one great experiment with respect to this issue. Countries differ greatly, as we have seen at Q5 above, with respect to their levels of taxation. Within the limits of the various levels of taxation that apply across reasonably comparable countries it is possible to ascertain some insights into the real effects of lower and higher levels of taxation. If higher tax takes occasioned diminishing returns and the associated negative economic impacts (reduced labour market participation, poor business performance etc.) then countries that have typically levied higher taxes on its population should be performing poorly in economic terms with consequently poorer public services. The opposite should be true in countries that have lower tax rates. They should certainly be much better performers economically and also stand to have better public services provided they have not diminished their tax take too much. Clearly the facts do not bear this out.

As we saw above at Q5, in 1975, Ireland devoted 28.7% of GDP to taxation. By 2006 this figure stood at 31.9%. In contrast the European OECD countries, the EU15 and the EU12 figures were 30.9%, 32.2% and 32.2% respectively in 1975 but had risen to 38%, 38.7% and 39.8% by 2006. The European countries in the OECD and those that made up the EU12 and EU15 are overwhelmingly wealthy countries with economies that have a long term record of success that far exceeds Ireland's which only joined their ranks in the 1990s.

A look at the level of tax take in comparison with GDP per capita figures across a range of countries illustrates the point that with a few exceptions high taxation and expenditure on public services goes together with economic success.

Table 1 Taxation as Percent of GDP Highest 10 OECD Countries

Country	Total Tax as % of GDP (2006)[31]	GDP/Capita[32]
Denmark	49.1	33,400
Sweden	49.1	29,800
Belgium	44.5	31,900
France	44.2	30,000
Norway	43.9	42,000
Finland	43.5	30,600
Italy	42.1	28,400
Austria	41.7	32,900
Iceland	41.5	34,900
Netherlands	39.3	30,600
Average of the 10	43.89	32,450

As evident from Tables 1 above and 2 below, the ten OECD countries with the highest tax takes have much stronger economies (average GDP = $32,450) than the ten with the lowest tax takes (average GDP = $25,110). If there was a tendency for higher taxes to reduce economic performance, then the opposite pattern should apply. Clearly strong economic performance comfortably coexists with high levels of taxation and high public sector spending.

[31] OECD Revenue Statistics: Table 0.1 at

http://www.oecd.org/document/60/0,3343,en_2649_34533_1942460_1_1_1_1,00.html#trs

[32] GDP per capita in US Dollars adjusted for differences in purchasing power across countries based on CIA World Factbook 2006 at

http://www.photius.com/rankings/economy/gdp_per_capita_2006_0.html

Table 2 Taxation as Percent of GDP Lowest 10 OECD Countries

Country	Total Tax as % of GDP (2006)[33]	GDP per capita[34]
Mexico	20.6	10,100
Turkey	24.5	7,900
Korea	26.8	20,400
Japan	27.9	30,700
United States	28.0	42,000
Switzerland	29.6	35,300
Slovak Republic	29.8	15,800
Australia	30.6	32,000
Greece	31.3	22,800
Ireland	31.9	34,100
Average	28.1	25,110

It may be the case that higher tax takes and more public sector spending actually improves economic performance for a variety of reasons, not least that higher public spending improves equity in wealth distribution and, through societal stability and better use of human resources, offers a better climate for economic development. The above comparison is insufficient to prove such a case, however, and there are countries – most notably the US – which operate a lower taxation and public sector spend approach and have very high overall economic performance. What the figures *do* clearly illustrate is that higher taxation levels and a greater emphasis on public sector spending are in no way incompatible with strong economic performance. At some point undoubtedly there is a level of taxation – and this point will differ for different taxes and in different circumstances – which will result in diminishing returns through depression of economic activity. That point in an aggregate sense is clearly somewhere beyond the wide variation in tax levels that exists among wealthy developed countries.

[33] see footnote 30

[34] See footnote 31

Compared with even the average, let alone the highest, of the 10 wealthy European countries that have the ten highest tax takes in the OECD, Ireland has a very great deal of margin to raise its tax take to support public services before there is any obvious danger to economic performance.

The decision to maintain a low tax take and to cut public spending in Ireland has nothing to do with economics and everything to do with the value system held by those in power. Economic arguments, such as are offered, are simply a smokescreen.

There is one further fillip given by taxation to the promotion of equity in Ireland. This is the capacity of public spending through the location of services to regionally redistribute wealth. This is of course the logic underpinning the notion of Civil Service decentralisation – moving government departments and agencies out of Dublin to provincial towns. Aside from the debate about the feasibility and efficiency of this process, it is popular with provincial politicians of all hues precisely because of its wealth redistributive potential. What is frequently forgotten is that the entirety of public services including schools, colleges, hospitals, local authority services, prisons etc. has a major effect of redistributing wealth away from the more densely populated areas which are the foci of industrial and commercial development and to the much more extensive but less densely populated regions of the country. Much of Ireland has little in the way of good employment outside the public service and, for a great many provincial towns and their hinterlands, the public services represent the core source of economic activity. It is neither socially nor economically desirable that Ireland's population become ever more concentrated in a few small locations, principally Dublin and its surrounding commuter belt. Taxation and expenditure through public services allied to a judicious location of public services is a crucial engine of regional equity in Ireland.

In summary then, taxation shifts spending in the economy from the private to the public domain. In the private domain spending is focused on goods and services purchased individually by the individual. In the public domain it is focused on goods and services purchased collectively by society on behalf of all or certain sectors of society. In either case, goods and services are produced and consumed and employment and economic activity stimulated in so doing. Economically, the greater stimulus is likely to be achieved through public spending because the money is less likely to be lost through imports. More importantly, above a certain level of spending by the individual, the balance of overall benefit for both the individual and society at large lies with a transfer of spending from the private to the public domain. Much of what is required to make a country a better place in which to live and to make life more pleasant for the individual can only be achieved through public expenditure. Private spending above a certain level tends to be largely wasted in a consumerist competition that no one can win and which simply brings stress and dissatisfaction to all. Taxation also serves a very important function in promoting regional

wealth equity in Ireland. Commercial and industrial activities tend to coalesce in a few major urban areas, principally in the Dublin area. In much of provincial Ireland, one of the few sources of good employment and a crucial engine of economic activity is the public service. It is socially and economically desirable that the population does not become entirely concentrated and that provincial towns and regions remain viable places to live. Taxation and the provision of public services are crucial in this respect.

Q11 What are the implications economically and socially of cutting public expenditure versus raising taxes?

Summary

The immediate impact of cutting public expenditure is to worsen the already serious economic, social and regional inequities that prevail in Irish society. Cutting public expenditure involves a transfer of wealth from the less to the more well-off sectors of the population and from the poorer to the richer regions of the country. A clear distinction should be drawn between cut backs and true efficiencies. True efficiencies involve the elimination of wasted effort and resources, are in everyone's interest and do not involve cutting expenditure. They involve making better use of expenditure. Since mooted 'efficiencies' are in low trust circumstances, such as prevail in Ireland, more often than not, a cover for the transfer of resources, it is very difficult to separate plans for one from plans for the other. This adds to systemic inefficiencies. Cutting public expenditure promotes wealth inequity which has a profoundly deleterious impact on wellbeing in society not only for those less well-off but for all citizens, right across the wealth spectrum.

It is questionable if attempting to separate the social from the economic implications is meaningful at all given their deeply interdependent nature. Nevertheless, for the sake of clarity it is worth discussing the two as if they are distinct phenomena. We can think of the economic implications in terms of the impact on the generation of wealth and the social implications in terms of the impact on the aggregate level of satisfaction or happiness in society.

The economic impact of raising taxes – at least up to the levels typically levied in the Nordic countries – has been discussed above at Q10. The impact may be expected to be positive on domestic economic activity due to the switch of consumption away from imported luxuries such as cars, foreign holidays, foreign holiday homes and consumer durables such as bigger TVs and towards public services such as better education (lower pupil-teacher ratios), better health care (elimination of lengthy waiting lists) and social protection (social care interventions for at-risk children, all of which create employment at home. In the longer run, the social benefits that can be expected to flow from improved public services will also enhance economic development. Education has well understood benefits in this context that are both direct and indirect. Directly, a better educated populace provides a more productive workforce. Indirectly, education – particularly at pre-school and primary stages - is one of the main protections against delinquency, criminality and all the costs that ensue. Better health care is a prophylactic and a remedy for two other major economic costs – morbidity and premature mortality. Better health and lower premature mortality rates results in major economies in terms of treatment costs, health

and life insurance costs, reduction in costs to employers of sick leave and reduction in economic input lost to society through premature deaths.

David Madden of UCD has attempted to quantify in monetary terms the annual cost to Irish society of just one source of illness and premature mortality – smoking. He concludes that, when all the associated costs, are factored in the loss to the Irish economy is in the order of €2billion per annum.[35]

The differences in morbidity and mortality rates between more egalitarian countries, as described at Q3 above, are very large and amount to very substantial economic differences. Though not the only way to achieve a more egalitarian society, the most common and direct route for modern technologically advanced democracies is to levy more taxes and provide better public services. While there is doubtless some level at which taxation levels will become counterproductive, there is every reason to believe that an increase in Ireland's level of taxation (32% in 2006), properly managed, to that which applies in Denmark (49% in 2006) would result in considerable economic benefit.

Cutting public expenditure as an alternative to raising taxes will inevitably result in all the opposite effects to those described above. Society will grow less egalitarian and as described in Q3 above, the negative impacts will be felt right across the socio-economic spectrum but more acutely at the bottom. In economic terms all the benefits which flow from public expenditure are reversed. Wealth that would be productively harnessed in creating employment and generating a more congenial and ultimately economically productive society will be wasted on imported luxuries that will disappoint the consumer and contribute further to pointless and psychologically debilitating consumerist competition.

The economic effect must also be considered on a regional basis. There is no doubt that cutbacks in public services will hurt provincial Ireland more than urban Ireland. It amounts to a transfer of wealth from the already economically disadvantaged provincial areas to the wealthier urban regions where commercial and industrial activities (private sector employment) are concentrated.

The social effects of cutting public expenditure, as opposed to raising taxes, will, of course, depend to some extent on where the cuts in public expenditure are made. Clearly the impact of lowering social welfare expenditure will be different to that of cutting back on defence spending. Certain generalisations can, however, be made. In the main, public spending tends to reallocate resources in a variety of ways from the wealthier to those less well-off. This is immediately obvious when you consider the purpose and function of social

[35] Madden, D, 2003, The Cost of Employee Smoking in Ireland at http://www.otc.ie/Uploads/Download%20David%20Maddens%20Presentation.pdf

welfare spending. It is true too of public services such as health care, education, water and sewage which seem of equal benefit to the rich and the poor. The point is that the services, when provided through the public purse, are provided equivalently to all citizens, whereas if they remain products of the market economy, the well-off can afford them to a far greater extent than the poor. When such services are cut back to one extent or another, the better-off can afford their replacement using their own resources while the poor remain deprived. Private education and private health care become the privilege of the rich while the poor do without or do with substandard services. Social equity is undermined and in the longer run the debilitating dynamics described in Q3 above are accentuated to the detriment of both the poor and the wealthy.

In considering the social impact of cuts in public expenditure, it is necessary to clarify the relevance of two related factors: the efficiency of public service provision and the pay of public servants. At a superficial level, it would seem as if cuts in public service expenditure can be achieved by lowering pay and by improving efficiency of provision without impacting on the level of services and, therefore, without adverse economic or social effects. Let's examine this proposition closely. It is best to start with the concept of efficiency which is essentially the opposite to waste. There is no question that efficiency in the provision of public services is desirable. This is however equally true whether it is national policy to spend more or less on the public sector. It is always and everywhere worthwhile to avoid wasted effort. Properly understood everyone everywhere should be in favour of efficiency.

In practice, efficiency is, however, frequently a euphemism for altering resource allocation. When employees have to work harder or longer or with greater stress to earn the same income, this is generally viewed as 'efficiency' by the employer who benefits. This is not efficiency at all. It is simply the transfer of resources from one party to another. The employer gains; the employee loses. Here there are very real social implications, usually in the direction of creating further inequity. In real efficiency calculations, there are no losers. Wasted effort is eliminated; resources in the form of time, effort or health (stress reduction) are conserved and the conserved resources are put to productive use, giving a greater output without the investment of additional inputs. Such real efficiencies are a product of human ingenuity and technological advances and should be employed wherever possible.

The challenge is to differentiate between real and false 'efficiencies.' This is never easy, not least because employers and their loyal cadre of management representatives have a strong motive to confuse the two. Resistance to resource transfer can be countered by representing it as efficiency, which they claim is both necessary and good. Employees, likewise, are inclined to view potential efficiencies with a jaundiced eye, fearing they might well be transfers in disguise. This is partly a consequence of the experience that they often are and partly a product of change-resistance, which is endemic in human nature. The competitive nature of the capitalist system renders the identification of real efficiencies all

the more difficult. Employees are aware that it is in the immediate interests of employers to profit at their expense. If more productivity can be extracted from labour, then more profits accrue to the employer. Even when efficiencies are accepted as real and changes to work practices of one kind or another do not exert any cost on employees, they may yet be resistant to their introduction since they see the benefits as flowing solely to the employer. The desire for equity is a very powerful motivator that frequently even trumps selfishness.

Identification and acceptance of efficiencies in the public sector would seem less problematic. There the employer is not driven by the profit motive. Unfortunately that is only always true in a direct sense. In an indirect, but nonetheless important way, the profit and related selfish motives can loom very large indeed. This takes us back to the decision facing any society on whether to spend or not to spend on public services. Where there is a cultural and political acceptance of the need for greater public expenditure, as in the Nordic countries, it is to be expected that proposed efficiencies will be viewed more positively by public servants. They will be confident that changes are not driven by the desire to shift the focus of expenditure from the public to the private domain. The money saved can be expected to be reinvested in the public domain so as to improve services. In countries such as Ireland where there is a strong political will to achieve just such a shift in resource allocation, public servants have every reason to believe that efficiencies will not result in better services but instead will be used to allow more private consumption particularly among the wealthy. In such circumstances there will logically be a natural resistance to change and the provision of public services are likely to remain less efficient. Why should a teacher or a nurse be motivated to achieve efficiencies that are likely to result in employment loss for colleagues, no improvement in services overall and more money for pointless luxuries in the pockets of those already replete with wealth.

This is yet another explanation for why more equitable societies are likely to be better societies. There are more grounds for trust and the benefits of potential efficiencies achieved through ingenuity or technological advancement are more likely to be achieved and to be shared by all. In economic and social terms, real efficiencies are a benefit to all. 'False' efficiencies, which are in reality resource transfers, being a source of mistrust and giving rise to change resistance, are in the longer term an economic liability and a social cancer. Ireland is riddled with such liabilities. No public servant can trust that proposed efficiencies, no matter how seemingly justified, are not in reality a means of transferring resources from public to private consumption. This inevitably introduces a serious source of sclerosis into the whole public service which can only be undone by widespread and deep political and cultural change in the direction of a more equitable society.

The pay of public servants was the second issue identified at the top of the previous page as needing consideration when analysing the impact of cutting public expenditure in preference to raising taxation. One of the key factors that lends public expenditure its

economy boosting capacity is the fact that public services tend to be labour intensive – hence it capacity to create employment. Inevitably then the wages bill constitutes the lion's share of spending on public services. If public servants are paid more, the bill is bigger. If they are paid less the bill is smaller. On the surface it would seem as if lower pay represents a real efficiency. In a very abstract and general sense this is the case. As always, however, in practice things are much more complicated. The issue may be approached by begging the question of what level of recompense should labour in the public service receive. This is of course a special instance of the more general question of what should determine the price of labour in any set of circumstances. This question is addressed below In Q12 which addresses whether or not trade unions are good for society? Readers should turn to that section to examine the issue of determining public sector pay levels. Reference back to Q4, Q6 and Q7 is also essential.

One further important social implication of cutting back public services results from disparate regional impacts. As indicated above, much of provincial Ireland outside the main urban areas relies heavily on public sector employment for the viability of their communities. Cutting public services will tend towards economic depression and depopulation in those areas and a further concentration of the population in a few urban areas principally around Dublin. Aside entirely from the devastating social impact this would have on provincial Ireland, heavy population concentration creates a host of social difficulties in the burgeoning urban areas as well, problems that are already well documented with respect to the already rapid growth of population in the Dublin commuter belt during the boom years. Cutting public services makes an already bad spatial development situation even worse.

Q12 Are trade unions good for society?

Summary

In the absence of trade unions, the price of labour will be fixed in theory by market mechanisms but much more likely by arrangements engineered by employers to control market mechanisms. If market mechanisms are allowed to function, the price of labour will fluctuate widely over time with the vagaries of supply and demand. Given the huge oversupply of labour in the world at large an unrestricted labour market would tend inevitably towards an extremely low price for virtually all classes of employment. Market mechanisms without trade unions would in any event be undermined by employers who would collude to restrict wages as much as possible. Trade unions are the only mechanisms independent of direct government control for stabilising and regulating the price of labour in the interests of employees. In the absence of an organised labour movement, any government intervention is likely to be much more responsive to the interests of employers than to employees. Trade unions, through collective bargaining, also eliminate a great deal of socially divisive and psychologically damaging competition between employees with respect to the price at which labour is sold. Trade unions are a crucial force for the promotion of equity in society and tend to exert restraint on the gap between the pay of those at the bottom and the top of the social pecking order. The best arrangement in practice for both employers and employees is the universal trade unionisation of employees.

Trade unions evolved as a response to the vexed question of what should the price of labour be under any given set of circumstances and specifically in response to that question in a market or capitalist economy. In the capitalist system or at least in the pure version of capitalism on which economists typically base their theorising (one which incidentally never exists in any such pure form), labour is viewed as a product in the marketplace akin to motor cars or toothpaste. Its price, therefore, like the price of all goods, is viewed as a product of the interaction between supply and demand in a free market. In a free market every potential employee will sell his labour to the highest bidder, the employer who will pay most, while every employer will seek to obtain labour at the lowest possible price. If labour is scarce for a particular skill or activity, the price will rise as employers are forced to bid against each other and, if it is plentiful relative to demand, the price will fall as employees compete with each other by dropping their demands so as to gain access to the few sources of employment available. It may even be worth a potential employee's while to work for nothing at all but that depends on an imperfection in the market – that his employer at some future point may be willing to keep him on and pay him because he likes and trusts him when he could get another worker to work for less or for nothing at all. Of course the period he works for free is offset against expected future wages, so in the long run it is incorporated into the price.

At this point something should be apparent, that the economic model for dictating the price of labour carries with it very major social problems. For the employee, it renders the price of labour wholly unpredictable, subject to constant and sudden shifts. It carries an unsustainable burden of insecurity. Furthermore, it sets every potential employee in direct competition for survival with every other possessing a similar skill. In a world where an under bid by a competitor could quite literally mean the death of you and your dependents, the motive emerges to eliminate competition by any means. At the collective level, an influx of competition from another country or another region must be met with resistance and repulsion if livelihoods are to be sustained. It is a recipe for the survival of the fittest, a world red in tooth and claw where life is likely to be short, nasty, and brutish – to string together a trio of famous quotes. For employers too, the economic model is far from a utopia. The contract between employee and employer is set in entirely competitive terms. There is no room for loyalty or cooperation. An employee will always seek to sell his labour to the highest bidder and so employers are constantly set against one another to lure away each other's better employees. Employees, of course, cannot afford to forego any advantage since in such an uncertain world, they must immediately grasp at every opportunity that presents.

Not surprisingly then, the market, is never free or unfettered with respect to labour. Both employees and employers seek to control the whole process to satisfy their separate interests as far as they can. This is in no way unique to the labour market. It is true of all markets. Contrary to the popular assumption among those adhering to the political 'right,' there is nothing natural at all about free markets. Quite the opposite is the case. Only by continuous and determined restriction of human activity, usually by governments, can markets be rendered in any way free at all, so compelling are the human motives to exert control over the market. No sensible business owner will allow his business to fail or his profits to fall in the interests of a free market. If he can engineer a way to prevent the price for his products from being undercut by others or if he can in some way capture the custom of consumers that is exactly what he will do. If he can obtain some direct or indirect source of subsidisation, he will avail of it without hesitation. If he can find some way of reducing his taxation burden relative to competitors, he will grasp it unhesitatingly. Listen to a successful capitalist preach the virtues of the free market and be assured you are listening to hypocrisy. What he is extolling is the system which prevents others from rigging the market in their favour but as soon as the opportunity to rig it in his own arises, the rhetoric will be quickly set aside.

Here we are not concerned with the virtues and vices of the free market as such but with the consequences of the market with respect to labour. That said, much that is true of labour is true of other products too and the problems raised by the free market for employees have immediate analogues with respect to the sale of all other products and

services. A truly free market would be as problematic for the capitalist as it is for the worker. More of that below.

Because of the problems of chronic unpredictability in the price of labour and, because for their own gain employers have always sought to rig the price of labour in their favour, employees free to do so have, likewise, in all times and places sought to control the process. History has shown that the only effective means of exerting such control involves systems which eliminate labour price competition among those who sell a similar class of labour. This is typically achieved through a combination or union of such employees who agree to set a price for their labour below which no individual will enter the marketplace. This shifts the bargaining process from the individual to the collective level. If the collective holds firm and controls the supply of labour, then employers will either have to do without such employees or pay the set price. The history of employer behaviour is a story of effort to use every possible technique to vitiate and break such combinations and of acceptance that they must do business with them only when they can see no means of doing otherwise. There is a genuine class conflict between employers and employees which at all times is resolved in favour of one or the other or by a balance of power between the two leading to a compromise.

Collective bargaining, while eliminating competition among employees does not offer an obvious answer to the level at which the price of labour should be set. That endures as a vexed issue which continues to be imperfectly addressed by a combination of elements of market economics, culture and convention and by the use of power politics. In generalised terms, classes of labour or skill do tend to be paid in a very approximate sense in accordance with their rarity. If it is a job most people can do – unskilled labour such as packing supermarket shelves – then the wages tend to be relatively low. If it is a rare or exceptional skill such as that possessed by a surgeon or by a top flight footballer, then the wage tends to be relatively high. You may find exceptions to this general rule such as cases where trade unions push up the wages for a lower skilled activity in circumstances where they can exert rigid control or cases where some other attribute of the job – its status or intrinsic motivational value – leads relatively rare, highly skilled individuals to be attracted in significant numbers to work for lower wages than would be expected. The low pay of many scientists and more junior academics reflects this reality. Generally, however, the rank ordering of pay rates shows a reasonable relationship with how rare the skill level required actually is. It is what one would expect from a 'free-market' decisional process and collective bargaining does not seem to greatly alter the general pattern.

The absence of collective bargaining, however, leads to two major outcomes. The first obvious outcome, identified above, is that individual pay rates become highly unpredictable. They rise and fall with the supply of and demand for specific skills and they become highly individualised, with each person negotiating his or her own specific deal. What is less

obvious is the second effect and that is the scale of difference in pay rates between different skills and classes of employee that emerges. In an unrestricted labour market there is a dramatic trend for the better paid to be paid ever more and for the lower paid to be paid less and less in relative terms. Wilkinson and Pickett (2009)[36]cite a UN study, which identified trade union membership as the most important factor in explaining trends in inequality in Australia, Canada, Germany, Japan, Sweden and the UK in the 1980s and 1990s.

Among the gainfully employed, without collective bargaining, the gap between the rich and the poor grows ever wider and society becomes increasingly polarised. This general pattern seems to have been exacerbated by the computer and electronics revolution, which through mechanisation has diminished the demand for lower skill labour. It has been exacerbated too by globalisation, which has allowed lower skill jobs to be moved to the poorer parts of the world where wages are extremely low, leading to a fall in demand for lower skill labour in the developed world. It is because of this that between the late 1970s and the late 1990s the average or median income earner in the United States saw no improvement in real living standards and the earnings of those in the bottom 20% of earners saw their income decline by 10**%.**[37] This is despite a great increase in wealth across the nation, wealth which has accrued only to those who are at the higher end of the income distribution. Incomes of the top 1% of US income earners more than doubled in real purchasing power terms between the late 70s and the late 90s. In 1979, a person at the 95th percentile (earnings equal to or more than 95% of US earners) was making 10 times the money being made by someone at the 5th percentile (earning less than 95% of earners). By 1995, the ratio between the two had risen to over 25 times. The circumstances of the really big earners have over time in the US shown the greatest drift from the average. The CEO of one of the country's largest corporations could expect to earn 35 times the wages of the average worker in 1973. By the mid nineties he – they are mostly men – could expect to earn over 200 times the average wage.[38]

The United States, notable for its free market philosophy and lack of collective bargaining, shows the greatest extremes in polarisation of wages. Other countries like the UK, which in that period saw a marked decline in the influence of trade unions and a shift towards free market thinking, also experienced very increased polarisation of incomes. In

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[36] See Wilkinson and Pickett, 2009 - note 16 above - which cites Weeks, J, 2005, Inequality Trends in Some Developed OECD Countries, Working Paper No 6, New York: United Nations Department of Social and Economic Affairs.

[37] Frank,R.H., Luxury Fever, Princeton University Press, 1999 p. 45

[38] Ibid, p33

the UK, the top 20% of earners earned 4 times that of the lowest 20% back in 1977. By the mid nineties they were earning more than seven times as much.[39]

It is notable that according to 2007 OECD figures the proportion of the labour force members who were in trade unions was only 11.6% in the United States, 28% in the UK and 31.7% in Ireland. In the Nordic countries, with much more egalitarian distribution of income, the proportions are: Sweden (70.8%), Finland (70.3%) Denmark (69.1%) Norway (53.7%).[40] The most recent date for a figure for Iceland was 2002 (88.6%). The OECD reports that while, on average, across its member countries the top 10% earn nearly 9 times that of the poorest 10%, the ratio for Nordic countries such as Denmark, Sweden and Finland is about 5. The comparable figures for the US, UK and Ireland are 17%, 8.9% and 8.5%.[41]

While the proportion of the labour force who are members of trade unions is an obvious index of the influence of trade unions and collective bargaining on determining the price of labour, it is not universally so. France is the obvious exception to the rule, where the level of membership was only 7.8% in 2007, lower even than in the US. Yet, the French trade unions are powerful players able to mobilise the population. A somewhat unusual politicised version of trade unionism prevails in France where the political left control the unions and they may actually avoid mass membership so as not to water down their political purity and capacity to employ militant tactics to mobilise the labour force. Right wing French President, Nicolas Sarkozy, in the aftermath of the 2006, successful, union-led revolt against proposals to reduce job security for the young called for measures to increase trade union membership so that unions would act more 'responsibly' and 'constructively.'[42] Elsewhere, the level of trade union membership or density, as it is known, is generally taken as an indicator of how much collective bargaining there is likely to be in a society and how much influence trade unions are likely to have.

As might be expected collective bargaining tends both to stabilise and homogenise incomes. These are major social benefits. Predictability from month to month and from year to year in one's level of income enables a sense of security and allows for forward planning that brings in its wake a great deal of social and psychological benefit to the individual. The restraint exerted on wage inequity results in enormous benefits at the level of society and the individual as described in Q.3 above.

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[39] Ibid p43

[40] OECD website at http://stats.oecd.org/Index.aspx?DataSetCode=UN_DEN

[41] OECD, 2008, Are We Growing Unequal: New Evidence on changes in poverty and incomes over the last 20 years. http://www.oecd.org/dataoecd/48/56/41494435.pdf

[42] *Power without responsibility.* Economist, 00130613, 4/29/2006, Vol. 379, Issue 8475

The usual argument against trade unions mounted by employers and their spokespersons is that trade unions limit flexibility, demand excessive rewards for their members and diminish business competitiveness. They argue that in the long run both employees and employers are better-off without them. Is this purely self-serving rhetoric designed to dupe employees or does it contain some grain of economic sense? There is no doubt that trade unions will normally attempt to maximise the earnings of their members but will their demands be excessive? If trade unions are successful, certainly one significant cost for employers – that of labour – should rise. If the labour costs of their competitors do not rise because they are not unionised, then it will place the unionised employers at a disadvantage in that the competitors will be able to sell their goods or services at a lower price. The effect here may be offset to some degree by better wages attracting better workers and raising productivity. Of course, if the unions are able to set the pay rate right across the whole industry, then no one employer is advantaged or disadvantaged. The price of labour ceases to be a differentiating factor in competitiveness. When all workplaces are unionised, unionisation ceases to be an issue impacting competitiveness within industries.

In addition to intra-industry competition, there are two other types of competition that matter. There is competition between industries and international competition. Again with respect to those, some level of difficulty inevitably arises for employers who must deal with trade unions. International competition is essentially the same as intra-industry competition within a given country, in so far as one must respond to competitors from abroad. If, without unions, the labour costs of those competitors are low, they gain an obvious advantage over the home-based unionised employers. It is a matter for countries and increasingly for multi-national bodies such as the EU to decide how much they wish to allow such competition within their borders. If they wish, they can restrict such competition at least in their home markets but at the risk of higher prices. The related tension between higher prices and higher wages will be addressed below. It should be noted that, for a large part of any economy, foreign competition is largely irrelevant. It applies only to transportable goods and services that can be produced in one country and sold in another. A very large part of the economy such as the retail, distribution and transport, hotel and catering (domestic market), construction and financial services sectors and all public services such as education, healthcare, social protection, security and so on, are not directly impacted by overseas competition. If the price of labour is set by trade unions across each of these industries or economic sectors then, by and large, employers have nothing to fear from external non-unionised competition. A problem may, however, arise with respect to inter-industry competition. Let's now deal with this issue.

Inter- industry competition takes on two related forms: one concerns competition for consumers for the different goods and services produced by them. The other concerns competition for employees. If, through, the existence of trade unions in one sector or industry, wages tend to be higher, this will exert an upward pressure on prices for products

of that industry. To the extent that there is competition for overall market (the total of all that consumers spend in the economy) with the products of other industries, then a unionised sector may find itself at a disadvantage. If the price of restaurant meals is high across the country because catering staff are unionised and well paid, then consumers may switch to spending more in the shops on ingredients, cook their own meals, and eat out less often. The retail industry will benefit at the expense of the catering industry. The problem goes away of course if both industries are unionised and the effect on wages is similar within both.

Competition for employees works in the opposite direction. If one industry is unionised and consequently employees are well paid, that industry gains a competitive advantage in attracting employees over any non- unionised industry, where the wages are lower. This applies also to intra-industry competition. Better employees will gravitate towards the better rewards and to the extent that better employees give a competitive advantage to the employer, other non-unionised employers are forced to raise their wages to retain them. They may find themselves in the position of being indirectly unionised, at least in so far as wages and conditions of employment are concerned. This effect will be greater when labour is scarcer and when unions control more of the labour market. The real impact on competition for employees is offset against the higher costs of labour so that it is difficult to predict which employers will benefit.

At every stage the solution for employers to the effects of unions on competitiveness would seem to be universal unionisation, thereby eliminating the price of labour as a factor of competition. Even if all possible competitors, whether intra-industry, inter-industry or abroad, are unionised, there remains, however, one argument against trade unions that needs to be addressed. This concerns the tension between the price of goods and services and the price of labour. Obviously, all other things being equal, if workers can be made to give their services for peanuts, then cheaper goods and services can be provided than if workers are decently rewarded for their inputs. The same, of course, would apply in the instance of employers seeking to make little or no profits, but let's stick with the question of labour costs. Better wages versus cheaper prices is, in fact, a very real economic choice on which neo-conservative policies throughout the world over the last few decades has decisively favoured the latter option. All the rhetoric has been about wage competitiveness and the need to control labour costs so as to keep prices down. As with so much else that is passed off as economics, in practice, this largely turns out to be a highly duplicitous social engineering policy that bears only a partial relation to any economic principle. The most useful key to understanding this is to reflect on what has happened in the United States – the home of neo-conservative or neo-liberal economics. If a true policy of lower wages designed to achieve lower prices had been pursued, then wage restraint right across the labour market would have been evident. As described above, only the less well-off have had their wages constrained while the rewards of the better-off have sky-rocketed especially for

those at the top of the pile. It has not been a policy to keep wages and prices down; it has instead been a policy to polarise ever more the returns on labour.

Leaving aside what has actually happened, is there an actual argument for lower wages so that prices are constrained? There is some logic to this since earners are also consumers. If the cost of producing (wages being a part) increases, then generally prices will rise and one's earnings will not buy as much as before. This is the old problem of inflation. Wage increases are of no value if they are negated by inflated prices. The question is: what impact are trade unions likely to have on inflation? If they are in a low-trust environment where accurate information remains inaccessible and where it is assumed that employers are endeavouring to cheat workers out of a fair share of the profits, there is a real likelihood that given enough power they may force wages to a point that is inflationary. There is no reason why such circumstances should prevail, however, and since it is in the interests of workers as much as employers to avoid inflation, wages are likely to be agreed at a level that does not undermine their own value. Since a highly-unionised economy is much less likely to allow enormous disparities in incomes between the top and the bottom, a great deal of the real difference in wages typically comes from a fairer share out of the reward cake rather than through a major increase in the size of the cake in the first place which is after all constrained by economic realities. The long period of stability, economic success and relative egalitarianism enjoyed by the highly-unionised Nordic countries attests to this reality.

There is another side to the wages-prices tension that needs to be appreciated. If higher wages results in higher prices and, even if that means each consumer can buy less, that may in reality be the best option. This is especially true when we include in the concept of wages or reward for labour all the conditions under which labour is sold. A shorter working day, in the absence of a wage cut, is a de facto increase in wages. The same applies to longer holidays, more paid maternity or paternity leave, increased rest breaks, greater job security and any other employment benefit that workers can achieve. If the choice is between lower prices and poorer conditions of employment or higher prices and better conditions, the logical choice in terms of promoting wellbeing may logically be the latter for any employee, giving the proportion of life spent at work. Certainly, at a reasonable level of income, the dubious benefits conferred by the ability to buy some additional luxury goods are hardly likely to offset greater time, energy and exposure to stress occasioned by work. From the perspective of the environment, lower prices achieved at the cost of poorer conditions of employment, may be very detrimental. Frequently the lower prices fail entirely to take account of long term costs associated with the provision of goods and services. Cheap air travel achieved through the introduction of non-unionised employment and poor pay and conditions of service by airlines such as Ryanair has hugely increased air travel for frivolous reasons with enormous impact on the environment through the global warming impact of jet engines. Higher wages and better conditions of employment, if they

lead to higher prices and less consumption, may arguably be a far better deal for long-term individual and collective wellbeing than the alternative.

Given the contribution trade unions make to a more egalitarian distribution of rewards for labour in society and given the degree of stability and predictability unions bring to the price of labour, it is difficult to argue against their overall value to society at large. As with all powerful agencies, they need to be constrained in a functioning democracy by competing interests. Otherwise they are likely to become corrupt and arrogant. Internally they need to remain highly democratic so as to reflect the interests of those they serve and avoid becoming vehicles for the promotion of alternative agendas through the control of a minority.

Q13 Why are strikes and other industrial actions legitimate?

Summary

Trade unions derive their power entirely from their capacity to organise the withdrawal of labour – to strike. In the absence of that power, trade unions exist in name only and collective bargaining is no longer possible. The withdrawal of labour simply denotes a failure between the two parties – employer and collectivised employees – to agree a contract for the sale and purchase of labour. Which side is at fault is entirely a matter of judgement in every instance and any moral onus for negative consequences of strikes on third parties can only be apportioned on the basis of a decision as to which side is being unreasonable or being more unreasonable. Employees have no moral incumbency - individually or collectively - to provide their labour. As with the purchase and sale of other goods and services, they do so only on foot of an agreed contract concerning price and other conditions. When employees genuinely feel that the deal is unfair or inadequate, they are entitled to refuse to enter the contract on those terms. The employer is entitled to do likewise. This produces a standoff with no work being done. Either side can be just or unjust, greedy or reasonable. Both sides will suffer until agreement is reached. In the current public services dispute, it is the employer who has unjustly torn up the agreed contract. If public servants take strike action, any moral incumbency with respect to third party harm lies squarely on the government. To fail to take strike action when all else fails in such circumstances is to accept that what were understood to be trade unions are not trade unions at all and that there is no collective protection for public servants, a shockingly vulnerable set of employment circumstances with a monopoly employer.

Inherent in the general anti public sector, anti-union rhetoric and propaganda, which has enabled the Government-General Secretaries-ICTU axis to cut the pay of public service workers has been an assumption that there is something illegitimate or morally wrong in workers taking industrial action. Commenting on the option of the public sector trade unions taking industrial action to effect a reversal of their members' pay cuts, David Begg speaking on the RTE 1 news programme, 'This Week', on Sunday 18 April 2010, chose to focus only on the great difficulty this would cause everyone because it would negatively impact on the public at large. This attitude, from the General Secretary of the Irish Congress of Trade Unions, not only negates industrial action, it negates the very legitimacy of trade unions in the public services.

Due to the ideological capture of ICTU by the political right and due to the long period of collaboration between the unions and employers/government in the 'partnership process' resulting in little or no industrial action, an understanding of the legitimacy of industrial action has been lost in Ireland. This is true even amongst the vast bulk of trade union members.

A great many now fail to understand that the very existence of trade unions depends on the legitimacy of industrial action. If workers cannot or will not collectively withdraw their labour, then the fundamental bedrock on which the whole concept of trade unionism rests is obliterated. In short if it were not legitimate to take industrial action, then trade unions themselves would have no legitimacy.

A trade union is a collective of workers who agree to sell their labour only at a common price and within a set of common conditions. This is only possible if the members of the collective or union all agree to withhold their labour from any employer who refuses to meet their common price and conditions. Industrial action is the term used for withholding labour in part or in whole. Strike is the term used to describe the complete withholding of labour.

In any set of circumstances where two parties seek to enter into a business deal or contract, the ultimate outcome of that effort is a product of the balance of power between the two parties. This is true whether the parties are countries, organisations or individuals. While it is possible to envisage circumstances where one or both of the parties may not use the power at their disposal to press their advantage, this presupposes motives outside the instrumental or material, which are best not assumed in the circumstances we are concerned with. Power will at all times be derived from available resources or capacities possessed or apparently possessed by the parties involved and will in all cases be manifest in the capacity to exert cost or pain on the other party, either through the application or the withholding of resources. One country can, for example, draw on its power to use its superior weaponry to inflict great cost on another, which is an example of application, while another can exert similar cost by withholding its monopoly supply of a crucial resource such as oil, gas, steel or water. Threats, when credible, amount to essentially the same thing as action.

When a worker seeks to enter into a deal with an employer to exchange his labour in return for a wage and conditions of employment, there is typically a very uneven power balance between the two parties, due significantly to the superior financial resources at the disposal of the employer. While this may not always be the case, the employer is likely to be in a far better position to hold out for more favourable terms. This will, of course, depend on how easy it is for the employer to source an alternative employee who will do the same work for less reward. It also depends on the degree to which the employer has a monopoly over the type of employment involved. If an employee has many different employers who are genuinely competing for his services and not too many other employees searching for such employment, then it shifts power back in the direction of the employee. In real terms the supply of labour in the industrialised world has at all times greatly exceeded the demand for such labour. If, at the present time, there were no restrictions on the global movement of labour, the supply of labour from abroad into Ireland would produce a massive surplus,

which would completely undermine the wage of virtually all types and classes of employment if market rule was allowed to prevail. In an unrestricted labour market, power always rests almost entirely with the employer.

Even where the supply of labour is restricted, the other power advantage possessed by employers is the capacity to easily engineer monopolistic or oligopolistic control. Large employers can control so much of the available employment for particular skills in specific geographical regions that the rate they set becomes the only option for would-be employees. Where no one employer is king but where there are a limited number of large employers, it is very easy and entirely in their interest to collude to set a common rate of pay for skills, the employment of which they collectively control. It is the reverse of trade unionism and will almost inevitably emerge wherever there is an opportunity.

It should be remembered that the biggest monopoly employer of all is the state. It controls from the outset the entire or almost entire labour market for teachers, academics, Gardai, armed services and emergency personnel. It controls a critical proportion of the supply of employment in nursing and all health and social care occupations. There is a broad category of administrative and managerial occupations where the nature of the work would seem to be sufficiently generic as to put the public sector into competition with the private sector. This may be illusory to a significant degree in that the knowledge base for many such occupations may have little transferability. Someone, for example, who has achieved a middle or senior grade in the civil service may not be very employable outside public administration because the knowledge they have accumulated may be of little use in the management of any private sector organisation where industry-specific knowledge and expertise is crucial.

The net effect of the real supply of labour in an unrestricted labour market and the ease with which employers achieve effective monopolistic control over the availability of employment is that the individual worker has no comparable power to that of the employer. Any employer-employee deal entered into under such circumstances is inevitably going to immeasurably favour the interests of the employer over the employee, a reality that will be even more so with respect to the enforcement of any agreed terms. The state can, of course, legislate for the control of pay and the imposition of minimum terms and conditions of employment. It does this through statutes governing minimum wages, holiday entitlements, maternity rights, working hours and so on. The rights afforded in this way to employees tend to be minimal and both their existence and enforcement would be highly unlikely in the absence of an organised trade union movement. In modern democracies Governments reflect one balance or another among powerful competing interests in society. Employers will always constitute one of the most powerful best resourced groups and any legislation which trammels their freedoms and interests will only emerge when

there is a powerful lobby in a contrary direction. It is impossible to envisage such a lobby in the absence of trade unions.

If any reasonable balance of power is to prevail in the employer-employee relationship, employees must combine. The sole and only source of real power such a combination or union possesses is the power to control the supply of labour. This can only be done through at all times reserving the right to collectively withhold labour. It is the constant threat of that which gives unions a voice that employers must listen to. If the threat is ever seen to lack credibility, because the employees either will not or cannot strike, then unions lose all power and there is no motive whatsoever for employers to pay any attention to them. It is that precise reality, which has allowed the present government, as an employer, to cut the pay of its direct employees and to seek to entirely undermine their conditions of service and pension arrangements.

The Government did not and still do not believe that the unions will strike. Presumably the political leaders arrived at this conclusion from their communications with the club of General Secretaries within the ICTU structures in advance of any assault on the public services. That, despite the union membership voting for such strike action as the logic of their circumstances demanded, the General Secretaries and ICTU have contrived at all times to prevent such action proves that they are the responsible parties. The overall effect has been that of a self fulfilling prophecy. Not only has the government been emboldened to treat its employees in a hitherto unthinkable manner but the absence of the logical strike response from the public service unions has convinced their members and the populace at large that somehow this is an unwinnable battle. Of course all battles are unwinnable if the necessary weapons are not employed. The only source of power employees have is the power to collectively withdraw labour. In this instance that power is truly enormous because of the numbers and critical nature of the employees involved. No country and consequently no government can hope to survive more than a few days without all public administration and with only the most critical of health, emergency and sanitation services. It is only in the absolute conviction that the power at the disposal of the public trade unions would never be employed did the government act as it has. All monopoly employers would do likewise if they concluded that employees had no power to stop them. It is only the credible threat of the partial and complete withdrawal of labour that lends unions any power to protect or advance the interests of their members.

In the confusion that now reigns in Ireland about the meaning, purpose and legitimacy of trade unions, all kinds of doubts are expressed about the morality of taking industrial action with the implication that it is the employees who bear the entire burden of responsibility for adverse effects that inevitably ensue. The media furore surrounding the delays in the issuing of passports due to industrial action by the CPSU focused blame entirely on the workers. The reality of course is that the blame, such as it is, accrues to both

the employer and the employees in dispute. Each side is seeking to achieve its own objectives. The services provided are a product of a contract between both sides, the terms of which are in dispute. It is the failure to reach agreement that results in the services being suspended. It is equally in the power of both parties to arrive at agreeable terms – by shifting to meet the demands of the other side. In so far as anyone is to blame for the loss of services, it is the party that is most unreasonable in its demands. In no sense can it ever be taken as a given that workers, because they take industrial action, are the ones to blame. Employees, as with all people in all circumstances, are only to blame if they are using their power unreasonably or unjustly. Whether they are seeking too much and whether the employer is seeking to avoid giving enough is the only basis for a moral calculus on the justice of industrial action. Unfortunately there is no ready reckoner to arrive at such an estimate. All that can be concluded with certainty is that the taking of industrial action, no matter what the consequences for others, is no basis for deriving any conclusions about the moral responsibility of employees. Either the employer or the employees, both or neither, may be to blame. It depends on the circumstances and it depends on one's estimate of how just is the cause of each party.

In the case of the current dispute between public servants and the state, the stakes for employees are extraordinarily high. If they fail to prevent the government imposing pay cuts and changes in conditions of service, it will mean the end of trade union protection, which in the monopoly employer circumstances of most public servants, will result in a situation of shocking vulnerability.

Unable to use the labour market to obtain better pay and conditions, public servants will be entirely at the mercy of government policy. They will have no choice but to take what they get. What they will get, in a country where the forces of capital hold enormous sway and in the absence of any countervailing pressure without any effective organised labour movement, will be very poor pay and very poor conditions indeed. In addition they will become complicit in the dismantling of public services and the wholesale transfer of wealth from the public to the private domain with all the deleterious consequences that follow for equity in Ireland.

In such circumstances, the moral compass switches entirely in favour of the employee taking industrial action. Not to do so would be so foolish and with such long-term adverse consequences that any level of national disruption is entirely morally justified. That the whole demand for pay cuts emanates from a determination by an ideologically-driven government seeking to protect the interests of the most wealthy and privileged and to transfer vast resources from the public at large to those very interests puts the morality of industrial action beyond all question or doubt. All blame lies with the employer in this case and no blame whatsoever can justifiably accrue to the employees for any consequences of industrial action they take. Indeed, a failure to take industrial action to reverse current

government policy would be the paradigmatic case of Edmund Burke's admonition: *'When bad men combine, the good must associate; else they will fall one by one, an unpitied sacrifice in a contemptible struggle*,[43]' a quotation, which has been transformed into and popularised in the form of '*All that is required for evil to triumph is for good men to do nothing.'* Inaction by trade unionists at this juncture would be the rankest form of collaboration with evil through passivity. Any suggestion to the contrary must be discounted as propaganda from sources inimical to the interests of both public servants and to those of society at large. The most dangerous of such sources are firmly imbedded within the trade union movement. It is the enemy within we all most need to fear.

[43] Speech by Edmund Burke to the U.K. Parliament, 'Thoughts on the Cause of the Present Discontents', on April 23, 1770