STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions

24th June, 2014

Mr Martin Frazer
Secretary General
Department of An Taoiseach
Government Buildings
Merrion Street
Dublin 2

26 JUN 2014

Re Draft National Risk Assessment 2014

Dear Martin

Your letter of 8th May, 2014 refers.

The Draft National Risk Assessment appears to be quite comprehensive. I offer the following observations for your consideration:

1. The great danger is that a number of risks might materialise at the same time inducing a multiplier effect beyond what each individual risk might entail. A case in point is the Tsunami/Nuclear catastrophe that hit Japan a few years ago. Indeed in our own experience the property market crash was made much worse in its effect by the inter-bank liquidity freeze which followed the collapse of Lehmann Bros. Bank. As such there might be some value in taking the process forward via an effort at scenario modelling of potentially conjoined risks.

   Continuing this theme, there are potential social risks which need to be looked at in a joined up way. These are not unique to Ireland. Take, for example, the sustainability of welfare state models. The risk assessment takes account of the impact of changing demographics but I believe there are implications even beyond this. What I mean is that the post-war welfare state is predicated on dealing with certain social risks – mainly unemployment, old age, child poverty – which are changing in profile. The male breadwinner model of labour market participation is changing to one which is highly feminised, does not assume life-long employment in one industry and requires regular updating of skills. This throws up a number of new social risks associated with caring, education and training. Catering for this changing risk profile requires considerable social investment. It is investment which can only be sustained by a tax base underpinned by high levels of labour market participation by people in good well paid and not precarious jobs. The challenge is to make fiscal prudence and social investment self-sustaining.

2. This leads on to the related question of industrial policy. Our extreme dependence on the one trick pony of low corporation tax as an attraction for FDI is recognised in the draft document. However, there is also the dimension of MNC's threat of exit on the sustainability of social policy to be considered. As we have seen in recent weeks these threats are an existential reality. They can be used to keep corporation taxes low, deregulate labour markets and reduce wages, all of which tend towards the erosion of the tax base needed to maintain social investment.

32 Parnell Square
Dublin 1
T +353 1 8897777
F +353 1 8872012
congress@ictu.ie
www.ictu.ie

Affiliated to the European Trade Union Confederation

General Secretary David Begg

3. These problems are compounded by long run secular trends leading to polarisation of labour markets into high end and low end jobs. The latter are associated with the kind of economic restructuring which has seen significant growth in private services as a share of total employment. Fiscal pressures arising from high levels of sovereign debt is increasingly leading to outsourcing of Government services (with consequential implications for the quality of those services as can be seen from the performance of G4S and Serco in the UK).

4. The possibility of a British exit from the EU is also recognised in the Draft Risk Assessment as is the likelihood of deeper integration of the Eurozone. Indeed the clear lesson of the financial crisis is that it is not possible to have a monetary union without a fiscal and political union. If this materialises, with stronger institutions at the centre, there are implications for the institutional architecture in member states too. It seems to me that, without some form of distributional settlement, Ireland will find it difficult to navigate the economy in new circumstances. This is especially true if wage pressures build up and there is neither the institutions nor the institutional knowledge to manage the situation. Such matters will be less contentious in the other Eurozone countries, where liberalism is embedded, to some degree at least, in a social market economy context. Ireland will be an outlier as the only liberal market economy. This to me is unsustainable in the long run. The risk lies in leaving it too long to address the current institutional deficits such that the distributional settlement referred to above floats out of reach.

As you will see many of the foregoing risks are interconnected. Moreover, they require an active mitigation strategy which essentially means the country reimagining itself as a social market economy over time.

On the first page of the draft document reference is made to Donovan and Murphy (2013) and their view that an absence of sufficient self-questioning lay at the heart of the underlying causes of the crisis. It may be worth noting that they also referenced the small open economies of Northern Europe as examples that Ireland might follow. Good advice in my view.

With best wishes.

Yours sincerely

David Begg
GENERAL SECRETARY

db/es