Comments on Draft National Risk Assessment 2014

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1. Introduction

The Draft National Risk Assessment 2014 is very welcome. It identifies a comprehensive range of risks and sets them out in a coherent and useful framework. My comments concern one major area of risk I believe is not covered and does not fit within the categories identified in the assessment provided (i.e. culture – the core meaning of society at section 2 below), together with a number of other issues which fit within the current framework but need to be named and/or developed further as required. One of these (sustainability – at section 5 below) could be seen as an over-arching lens through which risks are assessed.

2. Culture - the core meaning of society

Ireland faces a growing risk that a large proportion of its citizens will withdraw their support for the core meaning of Irish society i.e. its dominant culture, and in this process de-legitimise its decision-making processes and undermine its capacity to develop along the lines set out by the state's leaders.

The culture or the dominant core meaning of a society provides the society's binding, what holds it together. It includes an analysis of the present situation and a vision of the society's desired future. In a great many cases these are not analysed in any great detail; rather they are taken as 'given'. However they provide the infrastructure of meaning that enables society to function economically, politically and socially. The dominant core meaning is transmitted principally by mass media, education and religion.

In Ireland there is a growing challenge to the legitimacy of much that has happened in recent years. Many people feel aggrieved. They believe that Ireland has been treated very unfairly. There are signs that many are already rejecting the core basis on which development is predicated.

Decisions made during the economic crisis have raised serious questions as to democratic legitimacy of the processes by which these decisions are made, both in Ireland and in Europe. In Ireland, decisions allocating vast resources to the financial sector were made by a few senior politicians and officials without a full debate.

The establishment of NAMA is a prime example; NAMA was established rapidly, and its operations were initially extremely opaque. In its disposals of assets, NAMA makes decisions affecting communities throughout Ireland, but those communities have little power to influence NAMA.

At the European level, the structural adjustment programmes have been overseen by the IMF, European Commission and the European Central Bank, none of which has a directly elected component. The Troika are involved in making major decisions about resources and economic policy areas which were traditionally the preserve of democratically accountable national governments. Often represented as mere technocrats, Troika members actually have differing and very political views on the role of government in society, the functioning of the labour market, and appropriate level of the social security. For example, the President of the ECB, Mario Draghi, informed the Wall Street Journal in February 2012 that 'The European social model has already gone'.

The stricter European fiscal rules (cf next item below) were adopted with relatively little national public debate, and their implications – particularly the increased supervisory powers of the Commission - have not been fully absorbed, except perhaps when the German Bundestag sees elements of the Irish budget before the Dáil does. Streek (2011) has noted that these increased powers may lead to citizens in the EU – particularly in the Programme countries – viewing their governments as nothing but the agents of the Commission, ECB or the IMF.

Many people today believe a new social model for Ireland must be founded on the idea of deliberative democracy, in which decisions about what kind of society and economy Ireland needs are founded upon reasoned and enlightened debate, and in which decisions taken by government are justified and accessible to the general public.[1] A deliberative decision making process is one where all stakeholders are involved, but the power differentials are removed (Healy and Reynolds, 2011).

In such a process stakeholders would be involved in the framing, implementing and evaluating of policies and measures that impact on them. Each citizen would have a role and voice in how our society is governed. This would not be confined to five-yearly general elections, particularly when election debates do not provide substantive discussions on our country's future. The proposed Public Participation Networks to be introduced in Local Authorities as part of the reform of local government provide an opportunity for real engagement between local people and the local authorities across the country along these lines.

There is a great deal of evidence that many people in Ireland are seriously questioning the basis of this society and how it operates. They could easily withdraw their support for the core meaning/culture of society. In doing this they would effectively undermine much else that is being done. This is a major risk to Ireland; it should be included in the national risk assessment; this could ensure that it was addressed effectively in the years immediately ahead.

3. Economic - the Fiscal Compact contains major risks

One of the results of the diagnosis of the financial crisis as a public finance crisis was the strengthening of the framework – the Stability and Growth Pack (SGP) – which governs member-states fiscal rules, increasing the surveillance and disciplining role of the European Commission. Additionally, the Commission was tasked with identifying and preventing macroeconomic imbalances, such as the persistent current account imbalances

[1] See Gutmann & Thompson (2004) and Healy and Reynolds (2011) for more on the concept of deliberative democracy.

which built up during the early and mid-2000s. This framework may remain in place for some time and shape Irish fiscal policy over the next decade. Persistence with the Fiscal Compact will see Ireland facing a major risk on the economic front for years to come.

The legal framework is contained in the 'six pack' of five regulations and a directive, applying to the EU-28, the 'two pack' which applies to the Euro area member-states and increases monitoring by the European Commission – including submission of national budgets no later than 15 October – and the 'Fiscal Compact', an intergovernmental treaty (Britain and the Czech Republic did not sign it) which requires the direct transposition of the SGP measures into national law.

The SGP rules state that government deficits must be 3% or less; government debt to GDP ratio must be 60% or less; and that Government structural deficits must be 0.5% or less. The structural deficit may be up to 1% if debt to GDP is significantly below 60%, and requires a 1/20th reduction in debt per year if a country has a debt to GDP ratio above 60%. The requirements of the Fiscal Compact have been given effect in Irish law in the Fiscal Responsibility Act 2012. Ireland is currently in the Excessive Deficit Procedure (EDP) which requires the reduction of the General Government Deficit to under 3% of GDP by 2015. The 1/20th rule applying to the path of debt reduction will begin to fully apply in 2019.

Between 2015 and 2019 Ecofin and the European Commission will determine whether the pace of debt reduction is adequate (Department of Finance, 2013a: 5). Following 2015, Ireland must attempt to attain its medium-term budget objective (MTO), a medium-term budgetary position which must be achieved with reference to structural measures (that is, taking account of the difference between potential and actual GDP). Ireland's current MTO is balanced budget in structural terms (Department of Finance, 2013b: 48).

Public spending is governed by an 'Expenditure benchmark', which limits growth in government expenditure. When a member-state has not achieved its MTO, a reference rate for growth in government expenditure is calculated based on potential growth estimates and a convergence rate of expenditure is provided which must be followed to achieve the MTO. In Ireland's case, the reference rate is 0.6% of GDP and the convergence rate is 1.4%, leading to rounded figure of -0.7% of GDP for real expenditure growth - in practice a reduction - between 2014 and 2016 (European Commission, 2013: 30).

Social Justice Ireland raised questions concerning the Compact and wider EU fiscal rules on a number of bases:

- that it does not address what is essentially a balance of payments crisis created by persistent and excessive private credit creation;
- that there is considerable debate and confusion about the measure of 'potential' output severely affects the view of structural output; and
- that it is undemocratic, removing decisions about resource allocation and tax and spending from parliaments.

However, it is likely that these rules will remain in place and will have to be adhered to. Given the operation of the 'Expenditure benchmark', any increase in expenditure above the benchmark will require discretionary revenue increases. Given this, there should be a serious debate about the level of revenue required to finance public expenditure over the coming years.

The ESM was accompanied by the Fiscal Compact, which requires the writing of fiscal rules into the law of member-states, a price extracted by Germany for the creation of the ESM. Additionally, the Directorate-General for Economic and Financial Affairs, the most hawkish element of the European Commission, has been given additional powers to monitor both countries fiscal and wider macro-economic policies, including excessive current account surpluses through the 'six-pack' and 'two-pack'. The latter is a belated recognition within the Commission that Germany should engage in a more expansionary fiscal policy.

The current strategy of placing the burden of economic adjustment on prices, wages and government spending throughout the EU is leading to rapid reduction in inflation, and even raising the possibility of deflation. Deflation would raise the real debt burden facing both private and public debtors in Europe, potentially extending a 'balance-sheet' recession. A set of policies – structural adjustment and austerity – intended to reduce debt burdens will actually perpetuate them. This approach is clearly unsustainable. Persisting with this approach is a major risk for Ireland and its implications need to be much more strongly outlined in the Draft National Risk Assessment 2014.

4. Economic – the need for investment

Ireland's GNP, measured at constant market prices, remains 10% under its peak in 2007. GDP remains over 7% under its peak, and domestic demand remains 18% under its 2008 level (CSO, 2013). **Investment as % of GDP in Ireland in 2013 was 10%, the lowest in the European Union** (Eurostat 2013).

Both the Troika and Department of Finance have acknowledged that consumption and domestic demand have remained stagnant, and they have previously relied on growing exports to boost growth in their projections. There is some disagreement about the growth in investment in 2013 and 2014 (see Table 1).

Table 1 – Projected Growth in Investment, 2013-2014*

	Department of Finance	*ESRI*	*IMF*	*European Commission*
2013	4.9	2.1	2.9	2.9
2014	6.8	4.5	4.4	4.4

Source: Department of Finance (2013), Duffy et. al. (2013), IMF (2013), European Commission (2013).

Notes: *The Department of Finance projections were published in October 2013; December 2013 for all others

These figures are from an extremely low base. Domestic economic investment is sorely needed to provide employment and much-needed infrastructure; this would reduce short-term unemployment and increase the long-run productivity of the Irish economy. The government has created a new investment fund which is welcome. However, the fund is orientated towards commercial investment opportunities such as energy, broadband and water. Much more is required if Ireland is not to face a serious risk to its economic health in the years immediately ahead.

5. Environmental - Sustainability should be a core category or overarching 'lens'

Sustainable development is development which meets the needs of the present while not compromising the needs of the future. This means that financial, environmental, economic and social sustainability are all key objectives. It might be useful to include sustainability as a category in its own right or to review all categories through a sustainability 'lens'.

Sustainable development is our only means of creating a long term future for Ireland, with the environment, economic growth and social needs met in a balanced manner with consideration for the needs of future generations. Sustainability and the adoption of a sustainable development model presents a significant policy challenge: how environmental policy decisions with varying distributional consequences are to be made in a timely manner while ensuring that a disproportionate burden is not imposed on certain groups e.g. low income families or rural dwellers.

This policy challenge highlights the need for an evidence-based policy process involving all stakeholders. The costs and benefits of all policies must be assessed and considered on the basis of evidence only. This is essential in order to avoid the policy debate being influenced by hearsay or vested interests or the thoughtless exercise of power. Before the current recession began the global economy was five times the size it had been 50 years before and, had it continued on that growth path, it would be 80 times that size by 2100 (SDC, 2009). This raises the fundamental question of how such growth rates can be sustained in a world of finite resources and fragile ecosystems. Continuing along the same path is clearly not sustainable. A successful transition to sustainability requires a vision of a viable future societal model and also the ability to overcome obstacles such as vested economic interests, political power struggles and the lack of open social dialogue (Hämäläinen, 2013).

Promoting a sustainable economy requires that we place a value on our finite natural resources and that the interdependence of the economy, wellbeing and natural capital are recognised (EC 2011). A sustainable economy requires us to acknowledge the limitations of finite natural resources and the duty we have to preserve these for future generations. It requires that natural capital and ecosystems are assigned value in our national accounting systems and that resource productivity is increased.

Such an approach would require policy frameworks and business models to give priority to renewable energy, resource efficiency and sustainable land use. A sustainable economy would involve transformative change and policies being implemented similar to those being proposed by Stahel in the 'performance economy' and Wijkman in the 'circular economy'. The 'circular economy' theory is based on the understanding that it is the reuse of vast amounts of material reclaimed from end of life products, rather than the extraction of new resources, that is the foundation of economic growth (Wijkman, 2012:166). This theory involves a shift towards servicing consumer products rather than constantly producing new goods to be consumed. The policy instruments proposed to implement a circular economy are those which are also considered to be at the heart of the sustainable development debate. They are:

- Binding targets for resource efficiency;
- Sustainable innovation and sustainable design being given priority in terms of research; and
- Tax reform: lowering taxes on labour and raising taxes on the use of natural resources.

Alongside the theories of the 'performance economy' and the 'circular economy' is the concept of the 'Economy of the Common Good'. This model, designed by Felber (2010) is based on the idea that economic success should be measured in terms of human needs, quality of life and the fulfilment of fundamental values. This model proposes a new form of social and economic development based on human dignity, solidarity, sustainability, social justice and democratic co-determination and transparency.

It is clear that the current economic path is not sustainable and consideration must be given to how we, as a society, can transform our present system and move to a more sustainable future pathway. Creating a sustainable Ireland is one of the urgent priorities facing Ireland. Failure to put sustainability at the core the development model will create major risks for Ireland in the years ahead.

6. Social - ongoing poverty is a risk

Since the onset of the recession the number of people in poverty in Ireland has increased by almost 120,000. Today there are more than 750,000 people living in poverty. This is a real concern and carries a major risk for Ireland's future. The most recent data on poverty also shows that:

- 16 per cent of Ireland's adults who have an income below the poverty line are employed—these are the working poor.
- 58 per cent of those in poverty are not connected to the labour market (i.e. retired, students, caring roles or ill/disabled. Consequently, jobs are not the key means of reducing poverty for this group.
- Almost one in five children live in households with incomes below the poverty line (18.8%). Overall children represent one-quarter of Ireland's poor.
- Without social welfare payments more than half of Ireland's population would be living in poverty. Social welfare payments reduced this to 16.5%.

Income alone does not tell the whole story concerning living standards and command over resources. Since 2007 the deprivation rate, which measures the number of people forced to go without at least 2 of the 11 basic necessities examined, has more than doubled. There are now more than 1.2 million people (26.9 per cent of the population) experiencing deprivation at this level. This is all happening as the poverty line has been falling (down more than 10% since 2007).

The risk created by this level of poverty is exacerbated by the fact that the vulnerable have not been sufficiently protected during the recession. The poorest 10% of the population took the largest hit (when earnings, welfare and tax changes are all included) losing 18.4% of their income compared to the next hardest hit group (the richest 10%) who lost 11.4%.

Although all groups experienced added financial stress, only those on the lowest incomes recorded levels well above the average for both the 2004-8 period and the 2009-2011 period. This statistic exposes the fallacy of 'the squeezed middle' which has been receiving a great deal of attention recently.

The inequality in Ireland's income distribution is also problematic in this context. The top 10 per cent of households received 24 per cent of the total disposable income while the bottom decile received 3 per cent. Collectively, the poorest 60 per cent of households received a smaller share (37.9%) than the top 20 per cent (39.1%). Overall the share of the top 10 per cent is more than 8 times the share of the bottom 10 per cent.

Continuing along these lines is likely to cause growing social unrest as inequality grows, the gap widens between rich and poor and the vulnerable are not protected on the scale required. Consequently, ongoing poverty should be included as one of the societal risks Ireland currently faces.

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Social Justice Ireland is an independent think-tank and justice advocacy organisation of individuals and groups throughout Ireland who are committed to working to build a just society where human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected.

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