2.
ECONOMIC SECURITY

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Introduction

This chapter reviews issues relevant to the long-term security of the Irish economy. Economic security and the development of a fairer and better Ireland are inter-related issues. A secure, stable and strong economy can contribute to developing a fairer Ireland. Similarly, the evolution of a more inclusive Ireland offers major opportunities to enhance this county's economic position. Recognising this reciprocal relationship is important.

The chapter first examines a number of key issues necessary to achieve economic security. It then considers how those issues may be pursued in Ireland in the years to come.

Key Issues

Ensuring the long-term security of an economy requires the consideration of a broad set of issues. This section reviews a number of those issues. The list below is not intended to be comprehensive; its sole intention is to pinpoint many of the key issues.

(i) Political stability

Political stability is an intangible phenomenon; not noticed when it is present but greatly desired when it is absent. Fortunately, Ireland's political structures are stable. In recent years the social partnership process has played an important role in enhancing that stability. Indeed, it is difficult to conclude anything other than that the major contribution of the social partnership process to the Irish economy has been its ability to generate and sustain stability across the political and economic spectra.

(ii) Economically sound

Intuitively, the security of an economy is also dependent on the soundness, or strength, of that economy. Judging that soundness is difficult given that there is no agreed set of indicators. One avenue of relevance is to consider the set of measures established in the 1992 Maastricht treaty as part of the European Monetary Union (EMU) process. These rules required each potential eurozone member state to have a strong and stable economy before it could join the European single currency. The rules required low inflation, public-borrowing to be less than 3% of GDP, a low debt/GDP ratio alongside stable interest and exchange rates. These rules remain for any new entrants to the single currency. Within the eurozone, the Stability and Growth Pact continues to monitor the inflation, debt and borrowing rules.[1]

Over recent years Ireland has been performing well on these indicators. Some problems have emerged due to high inflation rates, though these have been addressed.[2] On an ongoing basis, one way of judging the soundness of the Irish economy is to continue to monitor these indicators.

Finally, an important point to note as we consider this issue is that a sound economy is not all about GDP or GNP growth. Positive growth and small output gaps (the difference between actual and potential GDP) are important. However, solely pursing economic growth may in fact undermine an economy's strength via causing problems such as demand driven inflation. In that light, it is welcome to see a growing interest in Ireland in addressing the question 'how much growth is enough?'

1 The annual Department of Finance Budget documentation contains a detailed update and review of Ireland's performance against these measures (see Department of Finance, 2004:E1-E30).

2 One of the key aims identified in Sustaining Progress was "securing competitively low inflation" (Government of Ireland, 2003:36).

(iii) Internationally integrated

For a small open trading economy such as Ireland, being integrated in the international community is also a key ingredient in long-term economic security. Our membership of international organisations such as the European Union, World Trade Organisation and United Nations plays an important role in our performance on this issue. Furthermore, the 2005 AT Kearney Foreign Policy magazine globalisation index ranks Ireland as the second most globalised country in the world, behind Singapore.[3] Overall, Ireland exports 57% of what it produces (2004 export/GDP ratio) with foreign owned firms exporting approximately 95% of their output. In the first five months of 2005 the leading destinations for Irish exports were: Britain (16.7%), other European Union countries (45.6%), United States (19.6%), Switzerland (4.4%), Japan (2.6%), China including Hong Kong (1.7%), Singapore (0.8%) and Australia (0.7%).[4] In per capita terms, Ireland exports over seven times that of the US, over four times that of the UK, and over three times the per capita figure for Germany (Enterprise Ireland, 2004:7). In 2004 the value of exports and imports combined amounts to €135 billion or 91% of GDP.

The sustained success of the Irish economy depends on maintaining that integration and through it facilitating trade. Among the key internal factors necessary to ensure this is further investment in infrastructure and the development and maintenance of sea and air (cargo and passenger) routes. Focusing on the latter, the importance of frequent access from Ireland's three mains airports (Dublin, Shannon and Cork) to the primary European airport hubs at London Heathrow, Paris Charles De Gualle, Amsterdam Schiphol and Frankfurt International is greatly underrated and generally unappreciated. A trading county such as Ireland needs these links. These route, whether they currently exist or not, play a far more important role in facilitating Ireland's globalised economy

3 This index measures factors such as economic integration, personal contact, technological connectivity, and political engagement (see www.atkearney.com). Between 2002-2004 Ireland held first place on the index.

4 Calculated from CSO External Trade Statistics (August 2005:2) and CSO Quarterly National Accounts (July 2005:4).

than they do in tourism, regional policy or airline profits. Given this, future aviation policy should be framed with that in mind.

(iv) Sustained competitiveness

That an economy is in such a position that it, and those within it, can compete with other economies is what is referred to as competitiveness. References to enhancing competitiveness have become commonplace in political and policy discussions. Generally, these address price levels and wage rates. While both these factors are important, the competitiveness agenda is much broader.

Sustaining Progress identified that competitiveness incorporated issues such as prices, wages, incomes, competition policy, infrastructure, regulation, labour market policy, education and social inclusion (Government of Ireland, 2003:40-41). In international assessments of competitiveness, Ireland's position has deteriorated in recent years. Annually the World Economic Forum publishes a *Global Competitiveness Report* which ranks the most competitive economies across the world. Between 2001 and 2004 Ireland's position on that ranking slipped from 11th to 30th. The reasons stated for that decline included decreases in economic growth, poor performances by public institutions, a decline in technological competitiveness and inadequate infrastructure (2004:xiii). Interestingly, a major factor in that decline would seem to be related to underinvestment in state funded areas: education, research, infrastructure and broadband connectivity. Further public sector investment in these areas is needed.

Taking a more long-term view, there are a series of threats to Ireland's competitive position that are generally overlooked by those interested in the competitiveness agenda.

The first of these is the extent to which a large proportion of the Irish population are now living with an income below the poverty line. The 2003 EU-SILC study found that 22.7% of the population live on an income below 60% of median income. As percentages and medians mean little to most people, these figures are best interpreted using numbers of people and cash amounts. Fortunately, CORI Justice Commission provides these figures and details of their calculation in their recent socio-economic review, *Pathways to Inclusion* (2005:20-22). In 2003 903,188 people were living on an income below the poverty line. In 2005, for a single adult the poverty line corresponds to €199 per week, for a single parent with one child the poverty line is €265 per week, for a household of two adults it is €331 per week and for a household of two adults and two children the poverty line is €462 per week.[5] Of those who are poor, 160,000 are workers (the working poor). Half of those who are ill and disabled live in poverty as do a similar proportion of the retired. Four out of every ten unemployed people live in poverty (CSO, 2005:9).

These are low incomes, amounts that impede participation in society. Having such a large proportion of the population dependent on so little must be a concern. The thread to Ireland's economic stability of this growing problem was best summarized by the closing line of an Irish Times editorial in September 2002. Responding to the publication of the 2000 poverty figures, when the poverty rate was lower at 20%, it asked "how viable is such a society in the long run?" (5th September 2002).

Related to this, and perhaps more fundamental, is the threat from child poverty. In 2003 the CSO concluded that one in every four Irish children live in households with an income below the poverty line. This equates to 223,756 children living in poverty. All the available evidence suggests that the early years of a child's life have a major influence on his or her long-term development and success. Results previously established through cross-sectional studies are now being backed-up by the findings of detailed longitudinal studies that have tracked people from their birth to adulthood.[6] The costs of child

5 These poverty lines differ for different types of households in recognition of the fact that more money is required to support households with more than one person. As the household size increases, the poverty line increases.

6 These include results from the British National Child Development Study which commenced in 1958 and the 1970 British Cohort Study (see publications by Feinstein ,2003; Gregg et al,1999).

poverty are long-term and fall on both the individual and on society generally. As these children grow up those costs, which to date are not easily identifiable, will become apparent. They are bound to impact on the economy's future development. There are few bigger impediments facing this country's desire to transform itself and its people into a knowledge-based economy.

A third threat manifests itself in the form of illiteracy. Even the most basic functions in society now require some level of literacy and that situation is unlikely to change at any time over the next few decades. Consequently, the OECD (1997) conclusion that one quarter of all Irish adults are functionally illiterate is of concern. That level of literacy is very basic and defined as "performing at best tasks which required the reader to locate a simple piece of information in a text, with no distracting information, and when the structure of the text assists the task" (OECD, 1997). Those at greatest risk of being in this category included early school leavers, the elderly and the unemployed. While this problem is being addressed, by the National Adult Literacy Agency (NALA) among others, there are some worrying trends among younger people, particularly those living in disadvantaged areas. A 2004 report prepared for the Department of Education examined literacy standards in disadvantaged primary schools. It found that more than 30% of children in those schools suffer from severe literacy problems. Furthermore, it concluded that only a small minority of 12-year olds from these areas take a positive view of their own reading achievement (Eivers et al, 2004). Like child poverty, the costs of illiteracy are individual, societal and ongoing. Illiteracy and low-literacy pose long-term threats to this economy's ability to compete.

Keeping Ireland competitive is an important goal and one crucial to our long-term economic stability. Elements of that goal are obvious (prices, wages); however others are not as immediately apparent despite their major significance in the long term. When addressing competitiveness, issues of low income, child poverty and illiteracy cannot be overlooked. From a social partnership perspective there is common ground here between all parties and it is in all their interests to address them.

(v) Socially inclusive and fair

Finally, another key issue for any economy's long-term security is that it is socially inclusive and fair. The post-hurricane flooding disaster that struck the American city of New Orleans in August 2005 illustrates the dangers attached to letting a society drift apart. Those excluded from society are usually quiet, their voices rarely heard, and as such they often slide down the list of policy priorities. Economies should serve societies that are socially inclusive. There are costs attached to achieving that inclusion, however those costs are best seen as investments. The security of any economy depends first and foremost on those who are in it.

Pursuing These Issues

In pursuing these goals, a number of points are worth addressing:

(i) Fiscal policy management

One ingredient of a sound economy is a sound exchequer. Based on figures from Budget 2005 and on the economic bulletins from the Department of Finance (2005), one can only conclude that the Irish exchequer is in superb health. Over the next few years the exchequer expects to record fiscal deficits, with Department of Finance data indicating that these are being driven by sustained levels of capital account investment amounting to over €6 billion a year. This investment represents an important part of Ireland's infrastructural catch-up with the rest of Europe, and Eurostat notes that the scale of this investment is such that if it were halved to the EU average Ireland would be recording an overall exchequer surplus (2004:167). However, for the years 2005-2007 the Department of Finance has projected that current account surpluses will average at €4.8 billion annually.

Given these figures, it is clear that there is room for further current account spending over the next few years. For example, the effect of spending an additional €1.5 billion a year over the next three years

(2005-2007) would only be to reduce the sizeable current account surpluses and to increase marginally the scale of overall budget deficits. Following such a move, the General Government Balance (GGB) as a percentage of GDP (the key indictor used by the European Central Bank to judge fiscal policy control) would be 1.7% in 2005, 1.5% in 2006 and 1.4% in 2007.[7] These outcomes comfortably comply with the 3% limit set in the Stability and Growth Pact and would in no way undermine the stability of the economy.[8]

(ii) Investment in public services

Points (ii) and (iii) address issues related to competitiveness. As highlighted in the aforementioned international assessments of Ireland's competitiveness, there are public service deficits that require addressing. Capital investment in infrastructure is already high and ongoing. Demographic projections suggest that over the next decade, further attention needs to be given to investment in public transport facilities across all our major cities. Similarly, significant public sector capital investment (i.e. much more that at present) will be required at all levels of our nations education facilities and for health facilities.

(iii) Income adequacy

To address the issues of adult poverty, child poverty and social inclusion closer attention needs to be given to issues of income adequacy. The National Anti-Poverty Strategy Review (2003) commitment to increase social welfare rates will go someway towards addressing this problem. However, while it will deliver a more adequate income, it is unlikely that those increases will raise its recipients above the poverty line. Having achieved that commitment, Irish society will need to begin to consider not just the nominal value of low-incomes but also their adequacy in sustaining a person's ability to participate in society.[9] Therefore, issues such as the depth and

7 Calculated from data published with Budget 2005 (2004:D5).
8 For more details see Collins (2004:9-11).
9 An interesting first insight into that issue has been provided by a 2004 Vincentian Partnership study. It employed the UK budget standards methodology to establish a figure for the minimum amount of expenditure an urban Irish household needs to subsist on a low cost but nutritious diet.

persistence of poverty need to be measured and addressed. Similarly, we need to begin to recognise that, like unemployment, there is probably a 'natural-rate' of poverty which will exist irrespective of any policy intervention. Certainly, that rate is well-below 22.7% of the adult population.

For child poverty, the feasibility of an additional child payment, separate from child benefit, requires closer examination. It would seem clear that it is in the long-term interest of Irish society, and its economy, to invest in such a payment. That payment would be more effective in addressing child poverty, and cheaper for the government to implement, if it was constructed such that it contributed to the pre-tax gross income of parents.

(iv) Planning ahead

One obvious impediment to the future security of the Irish economy, is the lack of detailed long-term public policy planning. The CSO's population projections (2004 and see the chapter by Aidan Punch in this book) highlight the enormous change in the structure of the Irish population that has occurred over recent years and will occur over the forthcoming decades. Rather than cope with the implications of that population growth once it has happened, there is a clear need to use this and other data to plan for the future. Future requirements of: transport (road, rail and air), housing, healthcare (facilities and staff), education (facilities and staff), pensions and burial plots are all possible to assess from these figures. It is time for Ireland's policy making process to look beyond the short-term and plan for the next 25 years.

(v) Better measurement

Increasingly, it has become recognised that national income based assessments of an economy's performance provide an incomplete picture of the well-being of an economy and of those living and working in it. Consequently, broader based assessments of progress are gaining added attention. In particular, methods of monitoring societal phenomena such as social exclusion/inclusion. social capital, service availability and health outcomes are receiving attention. Methods to accurately measure these are slowly emerging from the international research literature on social indicators. If we recognise the relevance of these issues to future economic security, then Ireland needs to begin to address ways by which we can measure and monitor them. Achieving that will be an essential element in incorporating this issue into the policy making process.

Conclusion

For a small nation like Ireland a secure economy is one that is politically stable, economically sound, internationally integrated, competitive and inclusive. This chapter has considered those issues and in particular highlighted the reciprocal relationship between economic stability and fairness/inclusion. Looking to the future, the economic security of Ireland can be sustained and enhanced through further investment in infrastructure, public services and through addressing disadvantage. The chapter has also highlighted the need for Ireland to develop more comprehensive long-term planning strategies and to adopt more broad-ranging methods of measuring progress.

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