

There is
Still a Better,
Fairer Way



Introduction

From the outset, it is important that there is clarity about the course of action upon which Congress has embarked. This campaign is based on the very clear principles of equity and fairness and is concerned not with isolated or discrete sectors of the workforce, but with the great majority of Irish society.

It bears repeating that Congress is the largest civil society body on this island with some 850,000 members and their families. Sheer weight of numbers gives the trade union movement a presence in virtually every town and community, north and south. And this brings with it a responsibility to demonstrate leadership at this time and the imperative to make a genuine contribution to the resolution of this crisis.

This will be informed by the ideals and values on which the trade union movement was founded and continues to be organised. It will also draw on the great wealth of our collective experience. Trade union members did not cause this crisis, but we are determined to be part of the solution.

Consequently, it is our strong conviction that a successful resolution must ensure that the society which emerges from this troubled period will be one which is based on equality, justice and inclusion. Above all it must be based on a complete disavowal of the failed policies that have brought us to this sorry pass.

Background

In January of this year, Congress responded to the Government's 'Smart Economy' plan - launched in December 2008 - by proposing a Social Solidarity Pact as the conceptual framework within which a plan for national recovery could be fashioned.

Congress advanced its own 10 point plan for national recovery - There is a Better, Fairer Way - which envisaged a process where "the burden is shared fairly across society, where we prioritised the protection of people's jobs, removed the repossession threat from their homes, get the unemployed back to work and ensure the weakest are protected."

It contained specific proposals: immediate action on jobs, a new model of social insurance to tackle training and unemployment, a tax rate of 48 percent for high earners, taxing capital and wages at the same rate, establishing a national recovery bond and action on pensions. The Government did not formally respond, although this did not prevent other, more opportunistic elements from taking 'ownership' of certain proposals, particularly the National Recovery Bond.

On foot of that plan, Congress later proposed a three year National Recovery Deal that would help see us through the crisis.

On May Day 2008, in an effort to focus much-needed energy and attention on the escalating

Jobs Crisis, Congress published a *€1 Billion Job Creation & Protection Plan*. The plan called for an “all of Government approach” and contained a number of innovative suggestions for tackling the crisis. In this, it drew on the experience of other EU states to demonstrate that there were initiatives and measures already in existence that had a proven capacity to create and protect jobs. For example, in Germany state intervention in the labour market has kept some 1.5 million people in work and out of the dole queues.

Significantly, the Congress initiative on jobs attracted support from employer groups. However, Government responded with a limited jobs subsidy scheme that applied only to companies in the export sector and was backed by just €250 million. The contrast with the banking sector could not have been starker.

While our position today has been adapted to take account of changed conditions, our basic philosophy and principles remain the same: there will be no sustainable recovery unless it is rooted in fairness and equity.

At a very fundamental level, Congress is convinced that it is simply not possible to negotiate a way out of this difficult situation by effectively ignoring the jobs crisis, by cutting peoples’ incomes and reducing essential services.

Unfortunately, the prevailing consensus appears to point us in that very direction.

Quite apart from the obvious fact that this could do irreparable damage to our society, it should be remembered where the previous ‘prevailing consensus’ has brought us.

Jobs, Jobs, Jobs

To date, the official response to this crisis has seemed confused and incoherent, the result of attempting to grapple with it in a sequential fashion, as opposed to developing a coherent overall strategy. One after another, there was April’s ‘emergency’ budget, the NAMA legislation, the McCarthy report and the Commission on Taxation - all serving to reinforce a sense of continued and ongoing crisis.

But if you take the above list to represent Government’s key priorities, then it is telling and rather shocking that it contains no initiative on jobs. And the lack of priority accorded to this fundamental issue was confirmed by our own meandering and frustrating engagement with Government, which ended in late June 2009.

A primary goal was to convince Government that the Jobs Crisis was, at the very least, of the same magnitude as the banking crisis. Unfortunately we failed.

Of course this is in stark contrast to the alacrity and ingenuity that has characterised the response to the banking crisis. But given the highly corrosive impact of unemployment

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- in social and economic terms - it is clear to Congress that jobs must be the number one priority, at a national level. Here again, we find ourselves clearly at odds with a Government fixated on banking to the virtual exclusion of all else.

Equally worrying is the fact that we appear to have learned nothing from events of the last 12 months and nothing whatsoever from the experiences of other countries, over the same timeframe. We repeatedly take bad advice from the wrong quarters and continue to make the same mistakes.

Globally, it is not disputed that the policy of pumping money into national economies - in the form of economic stimulus packages - has prevented a recession mutating into a depression. Equally, other governments in the EU see the logic in intervening to protect employment, to keep people in work and help create new jobs. Their policies are neither avant garde, exceptional or radical, just plain common sense.

But here at home, we appear to exist in some parallel universe, one in which the logic and reason is turned on its head. It appears Government is willing to sacrifice society in order to save one sector of the economy. Ultimately, their policy approach could destroy both.

Any process of national recovery should not be achieved at the expense of dismantling hard-

won protections for the vulnerable and weakest in our society. Any Plan for National Recovery should include a strong, effective, independent and adequately resourced equality and human-rights infrastructure so that we can emerge from this crisis with a better, fairer society that respects and protects the dignity of all its members.

Deflation as a 'fetish'

Somehow, it has become popular in certain quarters to assert that taking substantial sums of money out of the economy amounts to a guaranteed formula for national recovery. It is nothing of the sort. It is a theory based on supposition, hope and a good degree of blind faith. There is no evidence to support this 'silver bullet' theory and all available evidence points in the opposite direction. Even those who advocate cuts - such as the ESRI - acknowledge that it will exacerbate deflation and unemployment.

The proponents claim that, over time, such cuts will serve to restore our 'competitiveness', even though wages make up only a small proportion of the overall competitiveness issue. Unless the real agenda is to reduce wages to a developing world level, the impact will be insignificant.

Thus, it is clear that those pushing cuts as a recipe for recovery have based the plan on nothing more than a hunch, a faint hope that it might at some stage have a positive impact.

'Might, maybe'....hardly a sound basis for public policy formation.

Let's be clear: cutting peoples' incomes and services will depress the economy further and will guarantee only one thing - more job losses. And that in turn will put more pressure on public resources. Very quickly we will find ourselves in a downward spiral, in economic and social freefall. We could end up in a similar situation as Japan in the 1990s, locked into a 10 year slump.

Equally, it is wrong and counter-intuitive to cut funding for essential public services - at a time when overall need is growing - to such a degree they may lose their capacity to function. Taking €4 billion out of public spending as Government proposes will surely collapse crucial elements of public service provision.

And then there is the folly that is NAMA, the 'black hole' for the banking system that sucks in all available resources and elevates the needs of private bondholders and shareholders above the rights of the country's citizens. Again, we stubbornly refuse to learn the lessons from our immediate past and the experiences of others.

It is our view that this overall Government strategy, if it can be called that, constitutes a real danger to the long-term viability of our economy and the cohesion of our society.

The Cheerleaders

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It would be wrong and inaccurate to claim that Government is entirely alone in this dangerous endeavour. Throughout, they have been ably assisted by many within the commentariat, whose only real argument with the powers that be is that they do not propose to cut deep enough or fast enough.

Some have become no more than cheerleaders for Government policy, fans with laptops and privileged media access. They have used that access to construct a pseudo-intellectual framework to justify cuts in social welfare rates, a cut in the Minimum Wage and drastic cuts in essential public services. The unthinkable becomes utterly plausible in their capable hands.

Thus we are constantly reassured that ongoing deflation means that social welfare recipients will soon qualify for inclusion on the rich list, while it is received wisdom that the public sector is 'bloated' and 'swollen', its cost having 'spiraled out of control'. From the same quarters can be heard the assertion that tax rises would be 'deflationary' and also pointless, because there are simply no wealthy left in Ireland. Their every last penny has evaporated.

Needless to say, none of their number will ever depend on social welfare, work for the minimum wage or rely exclusively on public services. And while there is some consistency in their case, there is also intellectual dishonesty on a grand scale.

6 How can tax rises for the wealthy - who hoard more and spend abroad - be characterised as 'deflationary', while cuts in the incomes of lower and middle earners - who constitute the great bulk of spending in the economy - are presented as a stimulus package in disguise? Why ignore the fact that the bulk of current deflation is comprised of mortgage repayments that have minimal impact on social welfare recipients, while the price of basic foodstuffs and other essentials have either risen or seen only minor falls?

Is it acknowledged that it was not rapidly rising public spending that caused the shortfall in our public finances, but a rapidly shrinking tax base? It is like claiming the boat sank because it was in the water and not because of the gaping hole below the waterline.

The tax base was dismantled from the late 1990s onwards, in order to fund and facilitate the Great Government Giveaway - tax rates for the wealthy and business slashed, tax subsidies and shelters introduced....millionaires paying no tax with the imprimatur of the state.

And all that extra cash sloshing around our system went not on productive investment, but to fuel property speculation, purchase lavish trophy homes and generally push up prices for everyone else.

But keep the focus on 'high' public spending and you keep the focus off the tax base (we spend less than the EU15 average on public

services). Keep the focus off the tax base and there is no demand to reform and rebuild it. Point the finger at 'newly-enriched' welfare recipients - in contrast to the impoverished wealthy - and pressure builds for cuts on those who can least afford it.

This is not a conspiracy, simply a coincidence of selfish interests. It is nothing new in history but perhaps this is the first occasion we have seen it so nakedly on display in this society.

There is Still a Better, Fairer Way

The default mode of most conventional, neo-classical economists is to call for a dose of 'sharp pain'. They are wrong. They are doubly wrong in our current circumstances, where the administering of such pain is likely to kill or render the patient comatose.

In its recent commentary, the ESRI noted that in the first nine months of 2009: "...the total exchequer borrowing requirement increased by almost €11 billion. However a large portion of this addition was due to increases in non-voted expenditure, primarily the €4 billion injection of funds into Anglo Irish Bank, plus the frontloading of payments in the National Pension Reserve Fund (NPRF). Indeed voted expenditure fell slightly, relative to 2008, so the proximate cause of the widening of the deficit has been the continued deterioration in tax revenues."

So public spending has already fallen. And it is already among the lowest of the developed economies, as a percentage of GDP.

The ESRI also concedes what the likely impact of sharp cuts would be:

“The consequences of such a further sharp correction are, by our estimation, significantly deflationary. Were there to be a neutral budget in 2010, then our estimates would suggest that the recovery in GDP would occur much earlier in the year leading to positive growth in GDP for the year as a whole. Nevertheless, we do believe that it is necessary to implement these measures in full next year to avoid a widening of the deficit and associated increase in interest payments.”

In other words, it is not only deflationary but will set back any prospective recovery.

For that reason, Congress believes the impact of any process of adjustment could be lightened and certainly made more bearable, if we extend the timeframe over which that adjustment is to take place.

The Government plan is to compress the adjustment into the years leading up to 2013. We believe it could be stretched further, perhaps to 2017. We would not be alone in taking this course of action - the French Government has already indicated that it will be extending its own adjustment until 2015.

It is interesting to note the parallels with the UK, where the Conservatives threaten massive cuts if returned to power after the next election. Yet, there at least, you have a semblance of genuine debate about the proposals.

For example, economist Roger Bootle has advised previous Conservative ministers, but his take on the crisis differs from their ‘cuts prescription’: “A Conservative government could cut too hard,” he remarked recently. “You need a clear plan to reduce the deficit, but need to do it gradually. I’m more worried about deficits than the national debt. If you get deficits down gradually *and let the economy grow, debt will improve over time.*”(our emphasis)

Mr Bootle pointed out that in the wake of World War II, the UK’s debt stood at 250 percent of GDP.

Equally, respected *Observer* columnist William Keegan has criticised Tory proposals for a public sector wage freeze - yes a freeze, not a cut - as it would hurt the economy:

“A wage freeze in a recession is calculated to reduce real incomes and *act as a brake on any economic recovery, possibly throwing the economy into reverse gear again at just the time when people are talking about ‘stabilisation’ and possible recovery.*” (our emphasis)

If either made those remarks in this country they’d be tried for heresy.

Increased Interest Charges?

But what of the claim that increased interest payments will result from extending our borrowing over a longer timeframe? While this is a valid point, we believe it errs far too much on the side of caution and pessimism and appears to consider only worst case scenarios.

Indeed, the ESRI is not alone in having pointed to the likelihood of the beginning of a global upturn, towards the end of 2010. If that transpires, then the Institute itself points out that the “heavy lifting will be done by other economies” as Ireland recovers.

In practical terms this means that servicing the debt will be far less problematic and certainly less painful.

Thus, there is a very serious and fundamental judgment call to be made: do we inflict severe pain today, in the *hope* that it delivers the results that some commentators – many of whom hardly covered themselves in glory over the last decade – claim that it will?

Or do we resist the urge to cut to the bone, spread the adjustment over a longer period instead and avoid the sort of catastrophic economic freefall that seems certain to follow further deflation?

Given that there is a far greater degree of certainty attaching to the impact of further deflation in this economy - including the

certain loss of jobs - then the only credible decision is to extend the timeframe and spread the burden.

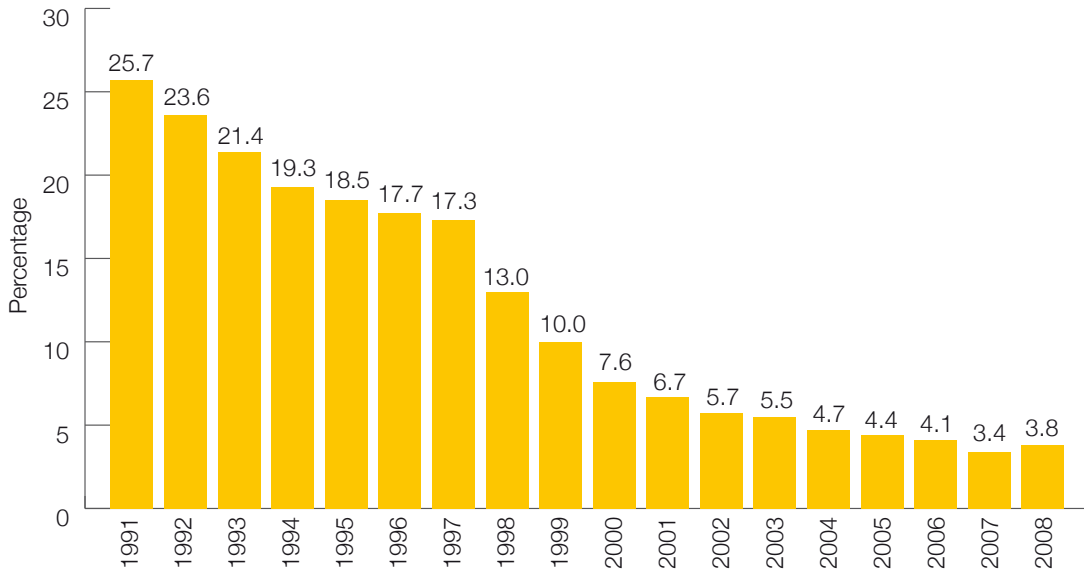
The ESRI estimates that by the end of 2010 “gross general government debt would be equivalent to 76 percent of GDP. Allowing for the build-up of exchequer cash deposits and monies held in the National Pension Reserve Fund (NPRF), the net debt figure would be 51 per cent, up 40 percentage points from 2007.”

But while those figures might look alarming it is important to note that they are not out of line with many other countries. For example, EU Commission data shows our gross Government debt rising to almost 80 percent of GDP next year, compared to 82 percent in the EU15, 101 percent in Belgium, 92 percent in US, 82 percent in the UK and an astonishing 194 percent in Japan. In truth, Ireland’s net debt position is much better than that of many other countries.

The following chart from National Treasury Management Agency (NTMA) shows how interest costs on our debt have fallen as a percentage of tax revenue. And of course, tax revenue has now collapsed, as a result of Government’s dismantling of the tax base. With the rise in the national debt and the fall in tax revenue, this will ratio will of course disimprove.

Yet, as the chart demonstrates, we have paid high levels of interest in the past without adversely affecting the economy. Indeed, the

Interest as a percentage of Tax Revenue



Source: NTMA

charts shows we were paying the highest levels just as the real boom began, in the early 1990s. We do not need to inflict damage on our society simply to impress certain institutions in the EU!

On October 6 the NTMA reported that it “has in effect secured some €28 billion of long term funding.” The agency had borrowed for pre-funding of next year’s borrowing requirement and remarked that this “puts Ireland in a very strong position going into the markets in 2010. Ireland had cash balances in excess of €20 billion in the Exchequer Account at the beginning of the year, in addition to the €16 billion assets of the National Pensions’ Reserve Fund. The

Exchequer cash balances currently stand at €23 billion...not counting the €7bn received from today’s deal.”

Thus the NTMA has some €30 billion in cash on its hands. This gives the lie to the notion that we would not be able to raise new money. Indeed, if necessary, we could hold off raising new money for a year and a half.

While the NTMA is to be congratulated on its prudence, the high level of cash borrowed means that we are paying interest at 4.6 percent on the more recent loans within this sum, while only getting 1 percent on it. It seems to Congress that it would be better to spend more of this investing in jobs and people.

Undermining Confidence

Arguably, it is the Government that is currently doing the greatest damage to our economy. Most recently, Minister Mary Harney attracted international headlines for her claim that the International Monetary Fund would “come in overnight” if Government did not get its way. Her intemperate remarks damaged Ireland’s international standing and forced Government to issue a very prompt ‘clarification’ of her remarks.

Minister Harney’s exaggerations were but one more example of the general hysteria that has characterised the official campaign to ensure that low and middle income earners bear the brunt of this crisis. However, what they fail to appreciate is that their repeated apocalyptic warnings are actually draining all confidence from the economy - nationally and internationally.

This Government is now borrowing heavily for day to day spending and also for investment. Congress believes we can afford slightly more borrowing and for that money to be put to good use in the economy. Much of the current borrowing is being used prop up the banks, not to create jobs or help vulnerable people.

We find it inconceivable that Government can borrow €4 billion to prop up Anglo Irish Bank, with no likelihood of any return to the taxpayer. In addition, they have taken another €3bn of

our members’ taxes from the National Pension Reserve Fund and put it into AIB and BOI.

If Government can find €7 billion - with more likely to be needed - to prop up the banks, it can certainly borrow a little more to extend our recovery period.

The Nobel prize-winning economist Joseph Stiglitz says it is clear what Governments must do when the economy is weak: “Economic theory and evidence gives a clear and unambiguous answer. It is economically preferable to raise taxes on those with high incomes than to cut state expenditures.”

With 200,000 less people at work now, than in 2007, domestic demand is in freefall. This year it will total some €86 billion, down from €93.9 billion last year. In addition, the savings ratio is rising rapidly as many people stop spending (23 percent of GDP for private savings, up from 18-19 percent a few years ago). These factors - combined with possible pay cuts and less public spending - could spell disaster for the economy.

Taxing the Rich

No one could have made the a stronger case for more taxes on the rich than Minister for Finance Brian Lenihan, when he admitted that a mere 4 percent of earners paid 48 percent of all tax. This fact reveals the inequity of the Irish income distribution. It is even more telling when

top *potential* taxpayers - the Tax Exiles - pay nothing at all. And many other top earners only pay at 20 percent, under the new Minimum Tax regime.

Congress would strongly disagree with the Minister when he says “there is no pot of gold.” We heard the same refrain in the 1980s, before Ansbacher and all the other sordid tales of evasion and avoidance. Equally, one wonders what has happened to the huge sums of money accumulated during the boom? They hardly lost it all on the stock market.

An essential demand of our earlier 10 Point Plan was for a 48 percent tax rate of tax for those on high incomes.

And a reformed tax system could include other measures to ensure fairness: raise the Minimum Tax on the wealthy to at least 30 percent; ensure Capital Gains is taxed at the same rate as the tax on work and effort i.e. 41 percent; abolish tax breaks, especially those on property and private hospitals; a land site tax; a serious clampdown on evasion.

And how can Government claim that there is no ‘pot of gold’ when they have never bothered to look? We need to build a better, fairer and more sustainable society – that requires that all pay their share.

In summary, as part of any sustainable recovery plan the burden of adjustment must fall on those who are most able to carry it.

We must therefore:

- Extend the period of adjustment over a longer timeframe, to 2017 instead of 2013 as the Government suggests. We should allow our debt to GDP ratio to rise in line with that of other EU countries. What is proposed now is too brutal and too quick.
- Cutting incomes and services makes no social or economic sense and will do serious damage to the economy and our public service infrastructure;
- We must invest in keeping people in their jobs, as has been done successfully in other EU countries. A National Recovery Bond should be promoted to raise funding for infrastructural projects, otherwise we will see the almost total collapse of the construction industry and the loss of very valuable skills;
- Peoples’ homes must be protected from the threat of repossession. Those who have lost their jobs and incomes must not also face losing their homes. They must be assisted with realistic and workable ways to deal with problem. It is inconceivable that the tax payer is funding NAMA, while working families face this threat to their homes. With the

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dramatic growth in over indebtedness and the increasing number of families with mortgage arrears it is imperative that we put in place fair and appropriate laws to deal with the casualties of this crisis. The draft NAMA legislation provides the perfect opportunity to put this in place;

- We must rebuild the tax base on the principles of fairness and equity and ensure all pay their fair share.

**Irish Congress of Trade Unions
October 2009**

Notes

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