CONGRESS 10 POINT PLAN

FOR

A BETTER FAIRER WAY

November 2009

Introduction

The challenge facing the country at this time is unprecedented. No other Government has asked its people for, or has achieved, the level of austerity being considered for the forthcoming budget. As the National Economic and Social Council[1] has pointed out in a recent report, there are five component parts to the crisis – economic, fiscal, social banking sector and reputational – which require an integrated response. They cannot be effectively dealt with in a sequential or partial way.

Our concern is that the current stance of public policy fails to grasp the importance of this. It risks increasing inequality in society and casting the economy into a prolonged slump. Neither does it seem to appreciate that what is happening in the world is the collapse of an economic model which has dominated for 30 years. What we are facing is much more complex than simply accepting a short sharp and painful correction on the road to recovery. There will be no return to 'business as usual'.

That is why Congress is advocating for a better fairer way of confronting this crisis. What this means in practice is explained in the following pages.

1. Parameters for Budget 2010

Economists theorize about the behaviour of economic actors-firms, workers, and consumers – based on an abstract, a historical conception of markets, and their theories are supposed to apply anywhere and everywhere. Political economy, by contrast, is about understanding that market behaviour is embedded in societal institutions[2].

A country is not simply an economy, society matters too. That is why the solutions offered by economists trained in the neo-classical tradition are inappropriate. The problem is that because so many people in important positions are from this background it promotes a kind of establishment 'group think' which is not capable of looking at the problem other than from one perspective. On the other hand

[1] NESC Paper 120 (2009) *Next Steps in Addressing Ireland's Five-Part Crisis: Combing Retrenchment with Reform*

[2] Pontusson, Jonas (2005) *Inequality and Prosperity: Social Europe vs. Liberal America*. New York. Cornell University Press.

Congress sees this crisis as a political economy challenge of the first order. It is this political economy perspective which causes us to think about the problem differently and we see that setting parameters for Budget 2016 in a more flexible matrix offers the best chance of a workable solution.

The response of most Governments to the global recession is to try to compensate for a decline in private sector activity by means of a public stimulus. Because of the unique failure of the banking-developer nexus, and the imprudent reliance on property-related transaction taxes, a large segment of our tax base has evaporated.

Thus we have not reacted with a stimulus in response to unemployment as other countries have. In fact, public policy is focussed on reducing the public sector.

From recent discussions it is clear that these problems are viewed through different prisms by Government and ICTU. In a nutshell the Government intends to cut €4 billion from public expenditure in the forthcoming budget. This is a major policy change since April, when the stated intention was to achieve this adjustment through a combination of tax increases and expenditure cuts. The intention is also to restore public borrowing to a level of 3 per cent of GDP by 2013. This is highly unrealistic and potentially catastrophic. It runs the risk of imparting a severe deflationary shock to the economy which could precipitate a prolonged slump, as happened in Japan during the 'lost decade' of the 1990s.

There is an alternative which will not prevent pain and hardship, but it is better and fairer.

There is no iron rule which says that the adjustment has to be completed by 2013. Whatever other problems Ireland has, it has at least entered this recession with the lowest debt-to-GDP ratio in Europe. Gross debt as a % of GDP is forecast to rise to 61.9 in 2009[3]. The Bruegel Group, a centre right policy body, recently published a paper[4] forecasting that the average debt-to-GDP ratio in the EU would rise to 90 percent and that several countries would exceed that. So we have some headroom to temporarily increase borrowing. The Bruegel paper suggests the desirability of a coordinated EU effort to get the average figure down to 75 percent again by 2020. This is an even longer timescale than we would suggest.

Both The Economist[5] and The Financial Times[6] have opined that fiscal tightening (cuts) should not begin until the economy has started to recover. Current treasury policy in Britain, for example, is to make the adjustment over 8 years.

---

[3] The net debt to GDP ratio in 2007 was 12.2 per cent. This is net of NPRF, social insurance and Exchequer balances (source: ESRI Quarterly Economic Commentary, Table 7)

[4] Von Hagen, Jurgen etal (2009) Exit: Time to Plan: Paper prepared for presentation to the informal Ecofin Council, Goteborg, 1st October, 2009. The Bruegal Group

[5] *The Economist,* 26th September, 2009 'Deflating the State', P. 28

[6] Wolf, Martin (2009) 'Britain's Phoney Debate on Slashing Spending', *The Financial Times*, 9th October, 2009, P. 17

If the Irish Government promise to the EU to reduce debt to 3 per cent of GDP by 2013 is not met there should not be a problem, provided:

a) it is made clear that the Government is making real strides to solve its fiscal problems;

b) that the longer period will ensure more rapid recovery (less deflation, more taxes etc);

c) it will achieve target within a specified [longer] period;

d) It is underpinned by a national agreement.

These points can be conveyed to Europe and to the international markets. It is the credibility of the plan that counts.

Most of the other member states of the European Union are in breach of the rules under the Stability and Growth Pact. This includes some of the larger states.

Reducing the deficit from 12% – the very high level it is now at – by a couple of years, is not a major risk to the Euro or Europe. It will not mean a loss of confidence in Ireland. In fact, it will be seen as a considerable achievement by the Government and social partners in Ireland in years to come. Ireland is in a most difficult position. We need time and space to recover.

It is recognised that the very high deficits are leading to large increases in the overall level of Government debt. But if the level of economic growth in Ireland is predicted to be around 4%–5% in a few years, then the Debt/GDP ratio should fall from 2013/15 with some relative ease.

Can we sustain this level of debt? The answer is yes. Compared to other EU countries, Ireland will not be out of line. In 2010, we will still be down the league, below the EU average, according to the EU, as per this table

Estimated 2010 General Government Debt Levels

	% of GDP
Italy	116
Greece	108
Belgium	101
France	86
Euro-area	84
UK	82
Portugal	82
EU	79
Germany	79
Austria	75
Ireland	73
Malta	69
Netherlands	63
Spain	62
Cyprus	48
Finland	46
Slovakia	36
Slovenia	35
Luxembourg	16

Source: European Commission, Goodbody estimates

The point being made by the Hard Jocks, who want to inflict immediate and sudden pain on the Irish economy and society, is that interest payments may run out of control and will eat into taxes. Interest payment will rise substantially and may double but compared to the levels in the 1980s, they will be a still be manageable – especially if growth returns earlier – which this longer recovery scenario enables.

At the beginning of this year, the Hard Jocks were predicting that Ireland would not be able to borrow at all. In spite of their hysteria, which was heard abroad, Ireland has had no problem in borrowing. To the contrary, the NTMA now has a cash pile of €31.5bn in borrowings and is already well positioned for 12-18 months. The rates of interest on this borrowing are set. This sum, both a liability and an asset and when added to the Pension Reserve Fund of €16bn and other sums, means Ireland's net debt which was very low, is and remains manageable, provided NAMA works.

This is the context in which we have proposed elongating our adjustment period until 2017. To force a quicker pace runs the risk of not just collapsing public service provision in key areas, but of collapsing the economy.

The Government is playing for very high stakes here, and they are playing with our chips!

The Better Fairer Way also involves progressive taxation. It is believed there is currently €1.8 billion out there in uncollected taxes.

Moreover the huge windfall gains made during the boom cannot all have evaporated. It stretches credulity to suggest that they have.

2. Tackling the Jobs Crisis

The reason we need to stretch out the adjustment period to 2017 and to temporarily increase further our debt-to-GDP ratio in the interim, is to create the space for ourselves to engage with the crushing social problems of unemployment, home repossessions and the collapse of private sector pensions.

Almost 450,000 people are now on the live register and although the rate of increase has moderated somewhat there is a danger of many people drifting in to long term unemployment. In addition the construction industry, which directly or indirectly employed 400,000 people at its peak, is in rapid decline. While construction cannot and should not again assume the same share of economic activity it cannot be left to just wither away. Apart from the social consequences of so doing it would mean the loss of capacity to undertake infrastructural projects at a time when Ireland is still seriously deficient in critical infrastructure. This deficiency undermines competitiveness in the economy.

So, we need strategies to keep people in jobs and to get people who have fallen out of the labour market back into employment again – both in their interest and in the national interest. This is what Congress is specifically proposing:

- **A €1 billion fund to promote the type of job sharing initiative pioneered successfully in Germany, other EU countries and even Singapore.** The model involves an intervention by Government, not to pay social welfare, but to fill the gap with education and training where trading conditions force a company to reduce production. Instead of redundancies reduced working time for everyone is adopted as an alternative. If, for example, the company moves to a 3 day week then the state intervenes to use the other two days to upskill the workforce. There are no distortionary effects because the company still only has 3 days of production and is not advantaged over its competitors. But the workers are still paying taxes, have preserved their spending power and, when the company gets back on its feet it will not alone have retained its skilled workforce but the human capital component of the enterprise will have increased. The German Government has 1.4 million people in this scheme. The 20 European countries which have introduced this type of work sharing scheme have seen tangible benefits from it. Unemployment in Europe has risen far less than in the US (which does not intervene in this way). European economies have curbed the social cost of the recession. And by shoring up domestic demand they have arguably helped their own economies recover as well as contributing to global stabilisation. Mr Stefano Scarpetta, head of OECD Employment Analysis is quoted as saying that these schemes represent a good use of public money[7];

- **Congress has proposed the concept of a National Recovery Bond to fund specific infrastructural projects with the objective of meeting a national need and providing construction employment.** This is something that people would see as worth investing in as a patriotic endeavour. It could be marketed at home and amongst the Diaspora. The Construction Industry Council has separately advanced a proposal to utilise pension fund investments for the same purpose. Some combination of these proposals could give the stimulus needed. Importantly for Government it could be done off balance sheet and would not affect our debt to GDP ratio But regardless of whether it can be done on or off the balance sheet investment is especially important during a period of deflation as a stimulus and investment in our future. Borrowing for investment is always good economics. It is never so true as today. Economists agree on borrowing for investment. If the government can borrow billions to subsidise the failed Irish banks in the hope of releasing credit[8], it must borrow to directly stimulate demand, reduce unemployment, invest in training and get Ireland ready for the future upturn. Cutting investment means that later on, our growth rate will be below trend. It will also delay our recovery, and many will lose their skills. The revised Programme for Government in early October indicates further cuts in the NDP. This does not bode well for the future. Congress holds that the state has a major role in kick-starting the recovery, taking advantage of idle resources and lower prices of resources to directly stimulate demand and to build the infrastructure that we need. Ireland still has an infrastructural deficit. Public infrastructure – clinics,

[7] Atkins, Ralph (2009) 'Eurozone Feels Benefit of Short-Time Work Schemes' *The Financial Times*, 29th October, 2009, P. 6

[8] €4bn of taxpayers' cash was wasted on Anglo Irish Bank in 2009 and a double payment of a massive €3bn in taxpayers' euros was invested in the Pension Reserve, to be handed over to the failed banks in taxpayer support.

colleges, schools, roads prisons etc – is far behind most of Europe. Our public transport is far behind that of Europe. We should take advantage of this recession to catch up. We still can borrow the money to do so;

- The creation of a model of apprenticeship for the times we live in. **This involves using the data available on future skills needs to equip people for the jobs which will be available in the future.** This applies equally to matching high level skills to needs and opportunities. There are many countries in Europe, even in recession, which cannot fill jobs in key industries because of skill shortages;

- Introduce a training guarantee for young people and other workers whose skills are obsolete and people with low educational attainment. **In short we need to re-find the capacity that was developed in the early 1990s for labour market interventions and upgrade it for current circumstances;**

- We need to look at America and other countries for best practice models on how to create a green industry. The ESB and BGE are already into this area but it needs a strong push from Government to ensure that the potential for green jobs is pushed to its limit;

- The resources and remit for the state agencies responsible for industrial activity – IDA, Enterprise Ireland, ForFas and FAS – should be examined and refocused for best employment outcomes. **The fact that some of the commercial state companies are giving a lead in job creation initiatives suggests that more might be possible with a coherent whole of Government effort;**

- Rigidities in the Social Welfare Code which prevent people from accessing supports unless they are unemployed as distinct from underemployed need to be removed. **The concept of 'tailored universalism' advocated by NESC[9] could be a valuable route to explore here.**

3. The Dangerous Myopia of the Deflationary Mindset

Cutting incomes across the board in a recession makes no sense. It is unfair as well as being economic folly. Lower and middle income earners – much less those on social welfare – played no role in causing

[9] NESC Paper No. 113 (2005) *The Developmental Welfare State*

this crisis and cannot glibly be asked to pick up the tab with the oft stated mantra 'there is no other way'.

Much of the received wisdom peddled by the neo-classical school of economists has in any event been erroneous. They assumed that wage reductions in the private sector were widespread and advocated that the same should happen in the public sector in the interest of competitiveness. When the data did not support this analysis they questioned the data.

The basic thesis behind this thinking is that Ireland's path out of recession is to boost exports. The normal instrument to achieve this would be to devalue the currency. But because we are member of the Eurozone this is not an option. So the alternative posited is to have a competitive devaluation of wages across the board.

The problem is that none of the people who propose this can give any assurance that it will work. The strongest case the ESRI could make was that it 'could' work[10].

The truth is that Irish exports have held up well in a global market where trade has diminished by a quarter. It is hard to see where the bounce in exports is to come from in these circumstances.

On the other hand we do know that the reduction in GDP experienced so far has come entirely from a collapse in domestic demand, the slump in investment being compounded by the cuts in the volume of public net current expenditure already taking place and even more so by the sharp fall in the volume of private consumer expenditure. If incomes are cut it will exacerbate this trend in domestic demand decline potentially driving us into the type of slump Japan experienced over 10 years in the 1990s.

The respected British economist, David Blanchflower[11], has argued that the current recession is driven by a collapse of demand – the result of a combination of significant imbalances in demand structure and unsustainable increase in credit. The recent dramatic rise in joblessness has little to do with supply-side explanations of unemployment such as the prevalence of trade unions, wage flexibility, the generosity of unemployment benefits or job protection.

---

[10] Barrett, Alan etal (2009) *Quarterly Economic Commentary*, ESRI Autumn, 2009

[11] Blanchflower, David G (2009) 'What Should Be Done about Rising Unemployment in the OECD'. 12A Discussion Paper No. 4455, September, 2009.

Moreover, it is a reality that some aspects of domestic costs, and hence competitiveness, are artificially kept high by public policy. In pursuit of competition, so called, ESB is not allowed, as the dominant provider of electricity, to reduce its prices. The effect of the NAMA legislation will be to underpin property rents. Leaving aside the efficacy of the wage cutting argument discussed above, why should the burden of adjustment be borne by wages if other economic costs are being artificially propped up?

As a medium term strategy to increase competitiveness there may be a case for wage moderation in combination with policies to control other costs and improve the factors which influence competitiveness such as infrastructure. But there are trade offs here and even wage moderation in a recession is deflationary. An accord reconciling medium term unit wage cost trends with competitor countries would be far more beneficial than pursuing deflationary wage cuts now.

The aspect of this issue which is hardest to fathom is that some of the advocates of wage cuts, like the ESRI, acknowledge that they will cause more deflation.

If there is less spending there will be more people out of work. That means less tax revenue and more people dependent on social welfare. What does Government do then, impose more cuts?

4. Protecting Vital Services

With more people out of work - 200,000 since 2007 - there is increased pressure on public service provision.

To cut service provision now makes no sense and could, in the longer-term, fatally undermine vital services such as health and education. It is arguable that our health service has never recovered from the corrosive effect of the savage cuts imposed in 1980s, when hundreds of beds were taken out of the system. It is likely that if cuts of that order were to be imposed again, it could simply collapse our vital services.

There are huge social policy implications to this. The level of suffering that will be experienced by the most vulnerable in the community if €1.3 billion is cut in Budget 2010 will be traumatic. This is not to suggest that more efficiency and better outcomes should not be an objective. Nor does it mean that expenditure cuts can be entirely avoided.

In any debate about what is to be done it can be seen that there are four variables available to Government, viz: to cut expenditure, to raise tax revenue, to elongate the adjustment period and to borrow more money on a temporary basis. The challenge is to ensure that these are calibrated in a way that the best off people make the biggest contribution and the least harm is done to the fabric of society.

5. Protecting Peoples' Homes

The Government needs to look out for the needs of ordinary working families. It's not enough to save the banks, working families need to be thrown a life line too. Working families who have lost their jobs and incomes must be protected from threats of repossession and they must be provided with realistic ways to deal with their over indebtedness. It is unfair that the tax payer is funding NAMA, while at the same time ordinary working families are under threat of losing their home. With the dramatic growth in over indebtedness and the increasing number of families with mortgage arrears and other debts it is imperative that Ireland puts in place fair and appropriate laws to deal with the casualties of this crisis.

Congress is calling on Government to take immediate action and use the draft NAMA legislation to protect households in the current economic crisis. Action has to be taken in this legislation because:

- The threat of repossession is now very real for families, many of whom lost their jobs towards the end of 2008 and early 2009, as the 12 month moratorium on repossession of homes in the Financial Regulators Mortgage Arrears Code, and income protection insurance, is for thousand of families, now running out;

- The political influence currently exerted on the banks to hold them back from repossessing ordinary family homes is likely to become ineffective once NAMA has taken over the banks' toxic assets;

- At that point banks will be tempted to repossess houses as they have nothing to lose, as despite the repossession, the person still owes the full cost of the mortgage (and the banks will also charge the families unrestricted fees for the cost of repossession, sale and court costs!), and in addition lenders will purse the borrower for the outstanding amount;

- Voluntary surrender, where homeowners hand the keys of their property back to the bank, is on the increase. Where the property is in negative equity, there are real issues facing families as inevitably the lender will pursue the borrower for the shortfall and there is no guarantee about how the property will be valued nor is there any obligation on the banks to obtain the best price for the property.

Every person who finds themselves in a situation of severe indebtedness must be given a period of up to three years, free from any legal threat, to sort out their problem provided they comply with a protocol along the lines set out hereunder. The NAMA legislation should be used to introduce this new regime for dealing with indebtedness including the establishment of an Office of Indebtedness. Specifically, this involves:

1. Establishing an office for indebtedness to provide for an easily accessible alternative to courts for people who are over indebted;

2. Where families are in difficulty, require all of their lenders to conclude at least for the period of the recession, an 'affordable mortgage and debt payment arrangement' which protects a 'minimally adequate' standard of living;

3. In repossession and surrender situations, allow the office of indebtedness/courts to take into account the lending practices of the banks, and where loans can be shown to have been recklessly provided, for the Office/Court to vary the overall mortgage and or the repayments and to suspend interest and other charges and penalties as these only exacerbate a family's financial distress;

4. NAMA valuations to extend to family homes and in addition set out what steps should be taken by an lender to ensure that the best price is obtained for a family home when it is repossessed;

5. Restrict the amount that can be charged in a repossession/ voluntary surrender situation, restrict fees, cap resale costs, and

more importantly include an option of a write down of negative equity;

6. Debtors must be guaranteed access and representation by MABs personnel when they are negotiating the 'affordable mortgage and debt payment arrangement';

7. Provide for certainty, no more vague and ambiguous language in Voluntary Codes which make enforcement or even the investigation of alleged breaches by Lenders, very difficult.

6. A Fair Contribution from the Wealthy

An extraordinary effort has been made in recent times to claim that all wealth in the country has evaporated. **This is clearly designed to ensure that a popular demand for higher tax levels on this cohort of the population can be seen off.**

Nevertheless it is a matter of public record that €1.8 billion in taxes remains uncollected. We know that the top 1 per cent of the population made about €75 billion during the boom era. Specifically, it can be computed from revenue data that a minimum of €66 billion was made by individuals between 2002 and 2008 – almost €10 billion a year[12]. The top 1 per cent in 2007 held 20 per cent of the wealth, the top 2 per cent held 30 per cent and the top 5 per cent held 40 per cent. How can this money have disappeared because for every developer who paid over the odds for land there had to be an owner who received the money?

It will not be possible to achieve the consensus needed to tackle the crisis if a person earning €200,000 continues to only pay tax at the same rate as a person earning below average industrial earnings. Therefore, a fair taxation system based on ability to pay a contribution commensurate with the scale of the crisis is critical to success. That is why, in addition to the arrangements currently in place, we should have a third higher tax rate.

7. A National Sustainable Pensions System

The recession and the attendant crisis of global capitalism have wreaked havoc with personal and occupational pensions. Many people from all walks of society are now at risk of facing an old age in poverty

[12] This figure is based on the Revenue Capital Gains Tax Returns

because their pension will not provide what they expected, or perhaps nothing at all.

Unlike most EU countries Ireland relied heavily on private pensions. It is clear that this position is not now sustainable. A new pension's strategy has been promised for years but has not been delivered.

An essential trade off for people enduring a painful economic adjustment would be a social dividend in the future. The pension's crisis is as systemically important in a social sense as the banking crisis is in an economic sense.

Comprehensive proposals for pension reform have been presented to Government by Congress over the last five years. It is not unreasonable to expect Government to either accept these proposals or to publish its own strategy for dealing with the problem.

The immediate crisis with occupational pension schemes in the private sector requires attention. The majority of Defined Benefit Schemes are in difficulty with some high profile cases in which people on the eve of retirement lost everything. Government must move to provide a realistic level of support for people caught up in situations of double insolvency or where an employer packs up and leaves. Indeed the European Court of Justice has already set down parameters which should be followed in this regard. The continuing scandal whereby people who have to buy an insurance annuity are being ripped off to the tune of 20 per cent of the fund's value should be ended by the state providing annuities via the NTMA or other appropriate agency.

8. Social Welfare Rates

Congress believes that there should be a threshold of decency below which society should not go in a crisis. Cutting social welfare rates falls into that category.

Beyond the issue of social justice involved there is also the consideration that money spent on social welfare is, of necessity, all spent in the local economy. It therefore contributes directly to the maintenance of jobs.

9. No Return to Business as Usual

Congress has serious misgivings about the NAMA legislation relating to the estimated default rate on loans and whether the property market has yet reached its trough. It is possible that an enormous liability is being foisted on future generations.

The reality is that the legislation will go through the Oireachtas and the question then will be about the longer term future of the sector. **It is important that bank structures are reformed in a way that prevents a similar crisis happening ever again**. But in doing this bank employees must not be scapegoated.

If the banks are too big to fail, then the rules of all forms of governance for all firms must change too. If "limited liability" no longer applies to banks, then company law must change to take account of this. Congress has called on the Government to move immediately to reform Irish company law away from the Anglo-American Shareholder value model to a more inclusive European-style stakeholder interest model. We also seek wider, more diverse representation on supervisory/regulatory and state boards from employees, consumer interests, to many more women. There can be no return to business as usual when the crisis ends. Everything must change.

10. Workplace Rights

The onset of recession has exposed a pattern of behaviour amongst some employers which, in its vindictiveness and exploitation, is redolent of the early part of the last century. Society should not allow the alteration in the balance of power between labour and business in a recession to facilitate such conduct.

The Government has committed itself to nine separate pieces of legislation over recent years which would, if enacted, go some way to restoring civilised behaviour in the workplace. Congress demands that these commitments be honoured.

With the adoption by the EU of the Lisbon Treaty the Charter of Fundamental Rights will acquire the status of primary laws. Article 28 provides for a legal entitlement to collective bargaining. The Lisbon Treaty also provides for Europe's accession to the European Convention on Human Rights. There is now a clear cut jurisprudence based on Article 11 of the convention in favour of the right to collective bargaining. These developments at international level mean that the Irish Government cannot credibly continue to deny its citizens a basic human right enjoyed by every other citizen of the EU. It no longer has any legal excuse to delay introducing the necessary legislation to allow collective bargaining as of right and to prohibit victimisation and discrimination.

Moreover, there is a very substantial body of research at international level which demonstrates that collective bargaining between employers and unions typically produces a more egalitarian distribution of wages than that which results when wages are set by contracting between employers and individual employees[13].

Conclusion

There is a view that the aftermath of a financial crisis can lead to a prolonged and deep recession[14]. It is crucial that domestic policy should not add to this in a way that pushes Ireland in particular into a slump out of which it might be difficult to extract ourselves.

As has been pointed out, this is a much more complex problem than can be responded to by simplistic demands for short term acceptance of pain in the expectation of a quick return to business as usual. The current global recession is driven by a collapse in demand - the result of a combination of significant imbalances in demand structures and unsustainable increases in credit. It is not amenable to supply side remedies advocated by the dominant neo-classical school of economics. The purpose of this paper is to proffer an alternative.

---

[13] Pontusson, Jonas (2005) *Inequality and Prosperity: Social Europe vs. Liberal America.* New York. Cornell University Press. P. 2.

[14] Reinhart, C.M. and Rogoff, F.S. (2009) 'The Aftermath of the Financial Crisis' cited in David N. Bell and David G. Blanchflower (2009) 'What Should be Done About Rising Unemployment in the OECD'. Discussion Paper No. 4455, 12A, Germany.