Contents

Part One

"I think that anybody who believes that the banks know what they're doing has to have their head examined. Clearly, unfettered markets have led us to this economic downturn, and to enormous social problems."

Joseph Stiglitz

The Broad Economic Outlook

The broad economic outlook for Ireland for 2008/09 is better than for most other developed countries. An economy which was overheating is now cooling. There is a slowdown, but this was long expected after 15 years of unprecedented, high economic growth. Overall, Ireland has enjoyed 25 years of uninterrupted economic growth. But the phenomenal economic growth levels could not be sustained indefinitely.

Indeed, back in 2001, it was believed that the booming Tiger years were over, especially when the dot com bubble burst. Yet economic growth has been strong since then, averaging 5.3 percent. Growth is now expected to be in the region of 1.8 to 2.3 percent in 2008 and between 2.9 to 4.2 percent for 2009[1] – with Ireland still among the highest performing economies in the EU 27.

The economic slowdown was anticipated. Congress has argued in the past that a slowdown has advantages and that we should be aiming for sustainable economic development: "High economic growth is imposing many costs such as continuing soaring house prices, substantial and increasing traffic congestion, long commutes, childcare problems, pressure on public services, schools and increasing stress on relationships." [2]

It is also a time to narrow the widening pay gap in Ireland where some executives and owners of assets have made extraordinary money, widening the pay gap between middle and lower paid workers. Part II of this paper will investigate this widening gap and suggest how it can be narrowed.

The OECD says that the outlook for the eurozone economy "remains relatively good" with growth projected to return to its near potential." For the world economy, OECD says that in spite of the financial turmoil, housing weakness (and it cites Ireland) and high oil prices, the "main scenario remains relatively benign."[3]

The European Commission comments: "There is still a benign global environment, high profit margins, confidence indicators remaining above the long term averages, continued employment growth in the EU and, in some cases expansionary fiscal policies, suggest that growth should hold up reasonably well. Real GDP growth is therefore forecast to decelerate from 2.9 percent in 2007 to 2.4 percent for 2008 an 2009 in the EU, close to potential growth.[4]"

The EU's forecast for Ireland is for GDP to grow by 3.8 percent in 2008 and 3.75 percent in 2009[5]. Its most recent forecast, for 2008, is slightly lower that the one delivered six months ago, for the EU and Euro area. It says housing is a drag factor on growth, but this should become more balanced "with a significant

1 The ESRI has the lowest growth rate forecast at 2.3 percent growth for 2008 with the OECD, EU, Government and some banks at 3.8 percent EU forecast for Ireland. (see T1).

2 See for example our Spring 2006 publication on productivity (the Coming Challenges on Productivity) where we argued against what we termed "the headlong rush for economic growth" in favour of a change in emphasis on economic *development*.

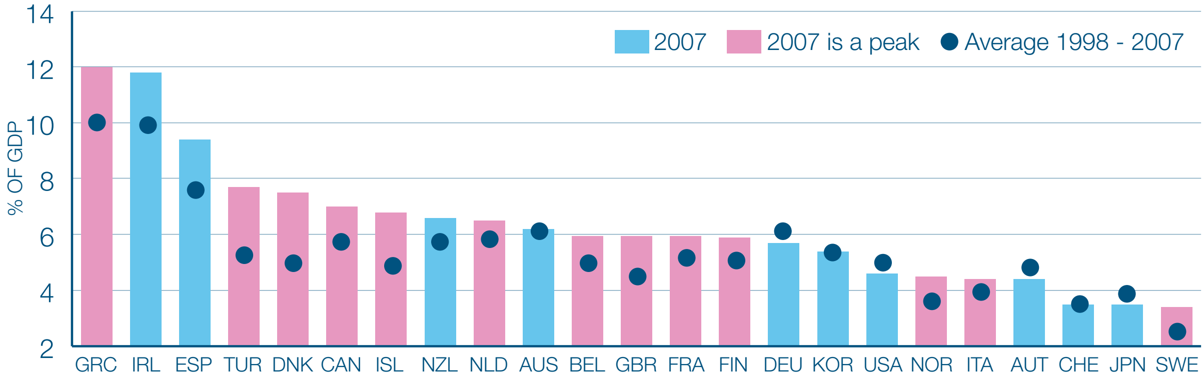
3 OECD, *Economic Outlook* No 82, 2007, Dec., Paris.

4 European Commission, 2007, *Economic Forecast in European Economy*, No 7 Autumn, Brussels.

5 EU Commission in *European Economy*, Autumn, 2007

Figure 1.1

Housing investment is at a ten-year high in many countries



Source: OECD Economic Outlook 82 database

positive contribution from net exports". It says productivity will rise in terms of output per person, with the shift from construction.

Most commentators agree that the Irish economy will recover in 2009. Housing is the domestic drag factor reducing economic growth by almost 4 percent in 2008. The international financial crisis, caused by perverse pay incentives to corporate executives, has been the other factor, a point we will develop.

Investment

Congress sees the role of public investment in the economy, through the NDP, as extremely important. While the private sector investment in the economy has been strong for many years, it is in times of slowdown that the benefits of state investment in both physical infrastructure and in skills and other areas comes into its own, both for its own intrinsic value and as a stimulant, as the private sector reduces its investment.

Investment in housing was at a 10 year high in 2007 in Greece, followed by Ireland and then Spain, as Figure 1.1 (above) shows. It also shows that Ireland and Greece had the highest average growth in housing investment in the 10 years, of all 23 countries. There were good reasons for this high investment: high population growth, boosted by immigration, rising real incomes, low interest rates etc. It is inevitable that housing booms "are followed by sharp reversals" as the OECD says, though most were preceded by sharp rises in interest rates which has not yet occurred and seems unlikely to.

The OECD predicted that housing slowdowns will impact severely in only a few countries, but included Ireland (the US and to lesser extent Spain). It said that the housing wealth effect will impact on demand in US and UK[6]. There has already been a correction in house prices, with a fall of around 15 to 17 percent in prices in 2007 and the number of completions was down to 75,000 in 2007 (from over 88,000 in 2006) and is likely to fall to perhaps 45,000 to 50,000 housing units in 2008.

However, population and incomes - major determinants of housing demand, are very strong in Ireland and it is known that the former will remain strong. Provided there is a fair wage settlement in this round of Towards 2016, then demand for housing will pick up again. Furthermore, household size is still shrinking in Ireland and if interest rates remain steady or even fall, then, when the correction is completed, demand will revert to sustainable levels.

The construction downturn has long been predicted, as was the fall in house prices. The downturn came as no surprise. The unknown was whether it would be a crash or if the bubble would slowly deflate. It appears that the 'price correction' may be nearly complete and while 2008 will see a considerable fall in house completions, there is general agreement that there will be a pick up in housing construction in 2009, though there are some who strongly disagree.

6 OECD ibid, p 13 and Figure 1.8 on p 29.

Public Finances

As the economy slows, the public finances are in sound order and can ride out the expected reduction in revenue from taxes, particularly when compared to the current account deficits in the US (-4.9 percent), the UK (-4.4 percent), Italy (-2.7 percent) and France (-1.8 percent). While there was a fall in revenue from property related taxes last year, the outturn for the 2008 on the current side is not at all bad, although the ESRI has revised the expected budget deficit from under one percent, to 1.2 percent, in its Spring 2008 forecast.

And with the expected upturn in 2009, after construction has stabilised, there will be revenue for increased provision of public services. In addition, there is now a strong case for increases in capital taxes, for a reduction in unassessed subsidies to business, for the curtailment of evasion and of avoidance schemes and for some more progressive taxes, revenue from which could fund substantially improved public services.

The extent of the national debt and the Pension Reserve Fund combine to give a debt level of negligible proportions. The National Debt is 25 percent of GNP and the Pension Reserve at €21bn, at end 2007 or over 13 percent of GNP, means a net national debt equivalent to only 12 percent.

A problem which may arise lies with the interpretation of the EU's Stability Pact. It states that borrowing may not exceed 3 percent of GDP (or over 60 percent of national debt - which does not pose a problem) but once borrowing goes over 2 percent, the EU, the ECB and Irish Central Bank and some other bodies start getting agitated. However, there is still plenty of room to borrow and to raise borrowings close to 3 percent if necessary, in order to build our infrastructure and to reform taxation to finance better public services.

Capital spending is budgeted to rise by 11 percent in 2008 and in the event of a downturn, it should be slightly boosted to an even higher level to maintain employment in construction and to provide much needed public infrastructure – hospitals, schools trams, buses, ports etc.

The assets of the Social Insurance Fund, under the control of the Departments of Social & Family Affairs and Finance has been raided by its 'guardians', on a number of occasions. This is no longer acceptable. This fund is collected from employees and employers, supposedly for the benefit of Irish workers. Its total assets were €3.3 billion at end 2007, up from €2.7 billion the previous year. Congress has made the case for the establishment of a proper modern, governance structure to properly oversee this vast fund of money. Government cannot continue to treat this asset as some form of emergency reserve fund, to be raided for short term political purposes. These funds will be very necessary in the years ahead.

The slowdown has been greeted as a ‘disaster’ or ‘crisis’ by some financial sector economists.

Table 1.1
Growth Rates & Forecasts

Year		2006	2007	2008*	2009*
GDP	ESRI	5.7	4.9	1.8	3.1
	Central Bank	5.7	5.3	3.0	
	Dept Finance	5.7	4.8	3.0	3.5
	OECD	5.7	5.2	2.9	4.2
	EU	3.5	3.8	3.8	
GNP	ESRI	6.5	4.6	1.6	3.0
	Central Bank	6.5	5.1	2.6	
	Dept Finance	6.5	4.2	2.8	3.3

Sources: ESRI Quarterly Spring 2008, Central Bank January 2008, Dept Finance Budget 2008 and website to 1st April, OECD Economic Outlook, Dec. 2007 and European Commission, Economic Forecast No 7 and websites at 1st April 2008.

The Economy Finally Slows

The slowdown in the economy, long anticipated, arrived in Autumn 2007. The average growth rates for the decade were so high that it was remarkable that they were sustained for so long.

The slowdown has been greeted as a ‘disaster’ or ‘crisis’ by some financial sector economists. It must be remembered, however, that their bread and butter is made by selling their financial products (loans, income security etc.) and many have a strong vested interest in keeping their own names, or that of their bank, in the media spotlight.

Inflation & Wages

Towards 2016

The pay element of *Towards 2016* gives a rise of 10.3 percent cumulative, which is equivalent to an annualised rise of 4.6 percent. The unexpected and persistent rise in Irish inflation, as measured by the CPI, has eroded the gains originally expected under *Towards 2016*. Because of the high inflation in 2006 and 2007, there will be a net loss for workers under the full period of this 27 month agreement and thus no improvement in living standards.

There was a gain of 0.6 percent in 2006, a small loss on 2007 and a loss in the first three months of 2008. Table 1.2 sets out the changes over the 27 months for those workers who came into *Towards 2016* on 1 Jan 2006.

Table 1.2
Small Gains Under T16 Agreement.

Year	2006	2007	2008* (3 mos)
CPI, annual average	4.0	4.9	3.8
Average rise under T16	4.6	4.6	4.6 (a small loss)
Wage increase (per ESRI)	5.3	5.8	4.6 (a better gain)
Central Bank (Spring 08)	4.0	4.9	3.5
Central Bank (No 2 06) f	3.0	2.5	
ESRI (Winter 07)	4.0	4.9	4.9
ESRI (Spring 06) f	2.8	2.6	2.6

- estimates for 2008. For ESRI, based on no rise in interest rates by ECB!
- f = forecast for inflation made at that date.

When a straight line calculation is made from January 2006 when the agreement kicked in for early starters, to March 2008, the rise in inflation was 12 percent. With a cumulative increase of 10.3 percent, this is a loss of 1.7% in real terms. While Budget 2007 gave an improvement in take home pay, Budget 2008 did not. As economic growth rose by almost 12 percent in the 27 months, workers' share in this growth was nil. Thus there is ground to be made up in the new wage round in Spring 2008.

Since December 2006 food prices have risen by almost 10 percent, which is more than twice the price of *all goods*, which rose by just 4.1 percent, in the same period.

The wage increase in the third line in Table 1.2 (above) is the expected average rise in wage earnings per worker, according to the ESRI. Thus some workers will have enjoyed a higher gain than in the basic terms of the 27 month agreement.

Inflation & Price Levels

Inflation measures the rise in prices and it has been high in Ireland for several years. But this is on top of *price levels* which are among the highest in the world. It can be seen from Table 1.3 below that Irish *price levels* continue to be among the very highest in Europe and are the second highest after Denmark.

Wages cannot be reviewed without considering price levels. Irish trade union members pay the second highest consumer prices for both consumer goods and especially for consumer services in the world.

Table 1.3

Comparative *Consumer Price Level* indices (EU15=100)

	2006	2006
Countries Vs EU15	**Services**	**Goods**
European Union (15 countries)	100	100
Belgium	101.8	101.5
Denmark	136	130.2
Germany	97	100.9
Ireland	**123.1**	**113.9**
Greece	80.3	89.6
Spain	89.9	87
France	109.6	96.1
Italy	95.8	102.6
Luxembourg (Grand-Duché)	104.3	96.9
Netherlands	100.4	97.9
Austria	93.5	98.9
Portugal	74.2	89.9
Finland	121.3	111.5
Sweden	113.1	111
United Kingdom	106.1	105.6

Source: EU Commission, Europa Database 2008.

It can be seen from Table 1.3 (above) that price levels for even Finland and Sweden are lower than in Ireland. The average price in Ireland, for both consumer goods and service, is 17 percent above the EU15 average.

For those who assert that the Irish minimum wage is high, we present the very, very high cost of living in Ireland. When consumer services cost a staggering 23 percent more here than in the other 13 richest countries in Europe, and the average price of goods consumed by workers is 14 percent higher, the minimum wage in Ireland is clearly inadequate. The case for ensuing the lowest paid are protected is very clear with Ireland's high cost consumer climate. A substantial rise in the minimum wage is indisputable in 2008.

Inflation averaged 4 percent in 2006 and 4.9 percent in 2007. The Central Bank and ESRI said it would average only 4.6 percent in early 2007 but Congress estimated a higher figure for 2007 and for 2008[7]. The forecasts of both bodies have been proven wrong and each subsequently revised their inflation forecast upwards. It is likely on their past forecasting performances that they have underestimated inflation for 2008 too. While both bodies are reputable and highly professional, they do not err on the side of exuberance when forecasting inflation.

At the time of negotiation of *Towards 2016* in early to mid-2006, most commentators were making inflation forecasts averaging around 3 percent for 2006, with some forecasting even less[8]. For 2007, their forecasts were around 2.5 percent at that time, half the resulting figure. The persistent rise in inflation has been unexpected. The main contributors in 2006

7 Congress, *A Note on Inflation* 18th January 2007 and *A Further Note on Inflation and Towards 2016,* 18th April 2007.

8 As Congress said in January 2007, the forecasts of many commentators were too low. For example, those of the ESRI and Central Bank were only at 2.8 percent and 3 percent respectively for 2006, and 2.6 percent and 2.5 percent resp. for 2007, with AIB at 3.8 percent and 3 percent resp. (June 2006, as on Table 1). Congress was substantially more accurate at 3.7 percent for 2006 but while more accurate for 2007, we still underestimated.

Table 1.4

Total Labour Costs – Income tax plus employees and employers' social security contributions
As % of labour costs, 2007[1]

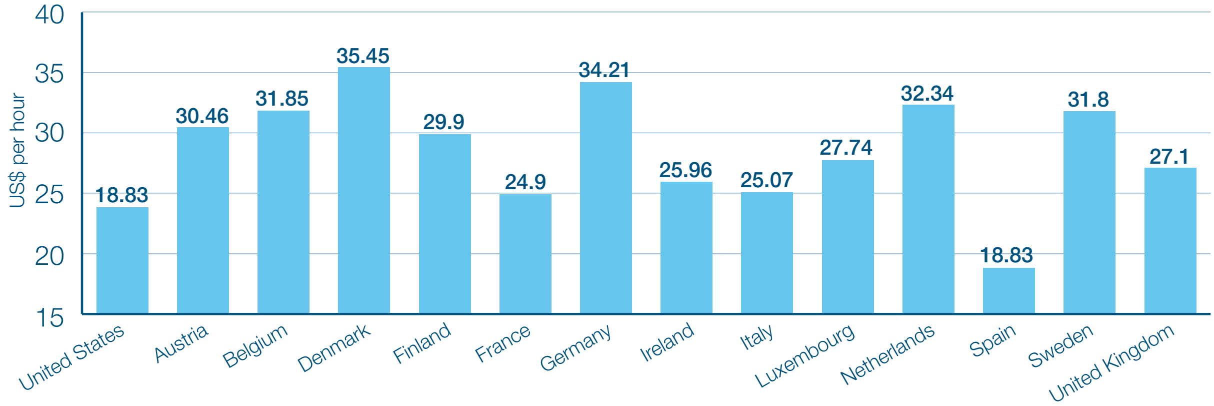
Country[2]	Total tax wedge[3]	Income tax	Social security contributions Employee	Employer	Labour costs[4]
	(1)	(2)	(3)	(4)	(5)
Germany	52.2	18.4	17.4	16.4	59,526
Belgium	55.5	21.5	10.7	23.3	57,141
Austria	48.5	12.0	14.0	22.6	56,630
United Kingdom	34.1	16.0	8.4	9.7	56,612
Luxembourg	37.5	13.0	12.6	11.9	54,000
Norway	37.5	19.3	6.9	11.3	52,048
Netherlands	44.0	12.1	18.6	13.3	51,828
France	49.2	9.9	9.6	29.6	50,260
Sweden	45.4	15.6	5.3	24.5	48,763
Switzerland	29.6	9.7	10.0	10.0	48,489
Japan	29.3	7.2	10.6	11.4	46,916
Korea	19.6	4.2	6.7	8.7	46,604
Finland	43.7	18.9	5.4	19.4	45,302
United States	30.0	15.7	7.1	7.2	44,347
Greece	42.3	7.9	12.5	21.9	44,304
Australia	27.7	22.1	0.0	5.7	42,579
Denmark	41.3	30.2	10.6	0.6	41,252
Canada	31.3	14.4	6.6	10.4	38,627
Iceland	28.3	23.0	0.2	5.1	38,232
Italy	45.9	14.4	7.2	24.3	36,692
Spain	38.9	10.8	4.9	23.2	36,329
Ireland	**22.3**	**7.9**	**4.7**	**9.7**	**34,379**
New Zealand	21.5	21.5	0.0	0.0	29,037
Portugal	37.4	9.3	8.9	19.2	27,453
Czech Republic	42.9	7.7	9.3	25.9	23,604
Hungary	54.4	16.1	12.6	25.7	21,552
Turkey	42.7	12.6	12.3	17.7	20,182
Poland	42.8	5.4	20.5	17.0	19,847
Slovak Republic	38.5	7.1	10.6	20.8	18,215
Mexico	15.3	3.4	1.3	10.6	11,766

1. Single individual without children at the income level of the average worker.
2. Countries ranked by decreasing labour costs.
3. Due to rounding total may differ one percentage point fom aggregate of columns for income tax and social security contributions.
4. Dollars with equal purchasing power.

Source: Taxing Wages, 2007, OECD, Paris

Figure 1.2

Hourly Compensation Cost for Production Workers in Manufacturing, 2006



Source: US Bureau of Labour Statistics, January 2008. (Includes pay, employer's social insurance & other labour taxes.)

and 2007 were higher mortgage interest rates (driven by higher interest rates and higher house prices), high energy and some high domestic price rises - especially in services. There are still strong inflationary pressures worldwide, including high commodity prices, which will keep inflation up in 2008 and 2009, as will be demonstrated.

It can be seen from the above Table 1.4 (previous page) that Irish employers pay little in the way of social contributions, compared to the contributions made by bosses in other countries. But more importantly, in spite of the rhetoric from employer bodies, total labour costs in Ireland are still low compared to our competitor countries. This fact is also glossed over and sometimes denied by some stockbroker/bank economists who make most noise on the economy, in the Irish media.

The total cost of employing the average Irish worker in 2007 was just under $34,379 compared to $59,526 in Germany, or a similar $56,612 in the UK. Thus the cost of employing an Irish worker is only 58 percent that of employing an average German worker. The Table above sets out the tax and social security paid by workers and bosses. It can be seen that income taxes are very low here, at under 8 percent of the total, while the employer pays under 10 percent in social security. Compare this less than 10 percent to 30 percent payable by employers alone in the highest country, France, or the early 20s in many European countries.

The essential point is that, in Ireland, the cost of employing a worker is the 22nd lowest of the 30 richest countries in the world. Total labour costs are only lower in countries such as Portugal, Turkey and Mexico.

The cost of employing a worker in Ireland is the 22nd lowest of the 30 richest countries in the world

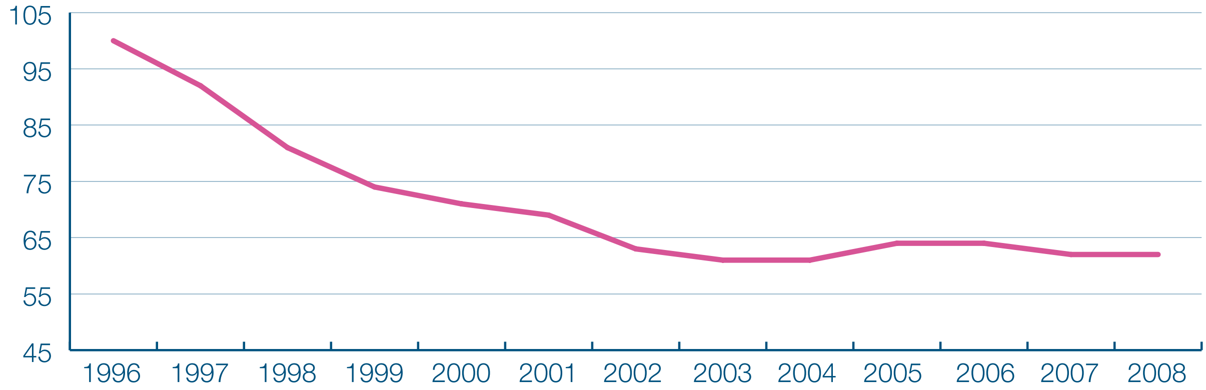
From the Figure 1.2 (above) it can be seen that Irish wages for production workers in manufacturing are still competitive, compared to many other countries, according to the latest US data (which uses different data than that of T4). The hourly cost of employing a worker in a factory in Ireland was $25.95, in 2006. This is much lower than in Denmark at $35.45, Germany at $34.21, the Netherlands at $32.42, Sweden at $31.80, or Belgium at $31.85. It is lower than Austria, Finland, Luxembourg and is lower than the UK, our largest trading partner. However, Ireland went ahead of the US, which is now lower than Ireland, at $23.82 since 2005. Ireland came abreast of France in that year, 2005, and went ahead in 2006. The graph shows Ireland is just ahead of Italy and remains well ahead of Spain.

This graph is not comparable with Table 1.4 above as it is in actual dollars per hour whereas the OECD data is based on dollar purchasing power parities and uses different databases. Both the US of Labour Statistics and the OECD's *Taxing Wages* are reputable sources.

Ireland is level with Canada on labour costs (not on the graph) and slightly below Australia. Ireland is a good deal behind Switzerland and far behind the leader, which is Norway at over $41 per hour!

Figure 1.3

The dramatic fall in Unit Labour Costs stablises



Source: Central Bank of Ireland. Unit wage costs in Ireland.

But labour costs are only one part of the competitiveness debate. Unit labour costs are more important and while both are important, many other factors contribute to make an economy competitive. We will turn to this issue later, after an examination of the international pressures which may mean that inflation will remain higher than many believe.

Productivity

The overall level of productivity in Ireland is very high – the fourth highest in the industrialised world, after the US, Luxembourg and Norway, in 2006[9]. Yet in some areas, as one would expect, it is not high and in others it could be improved. One of the problems with a globalised economy is that there is always pressure on productivity. It can be improved in many ways – more investment in skills, in education, in infrastructure, machinery, in private and public services and in better management.

Figure 1.3 (above) shows that Irish unit labour costs declined considerably over the years to 2002/03, but have not moved much since then. But they have not disimproved.

By this measure of productivity there was a little improvement in 2007, and while this forecast by the Central Bank does not predict an improvement in 2008, indications are for some improvements in manufacturing and exports and, with the reduction in employment in low productivity construction, there is likely to be a further improvement this year. The Bank warns that this data is for the whole economy and if pharmaceutical and chemical sectors are taken out, the improvements are not so dramatic in the decade. This is a valid point, but could also apply to many small economies which may have an overdependence on FDI.

Irish labour productivity rose very rapidly in the 1990s and slowed in this decade, largely because of rapid employment growth in construction where productivity is low. The EU says productivity rose by 2.6 percent in 2007 and will rise by 2.4 percent this year, compared to 1.1 and 1.2 percent respectively for the Euro area[10].

Productivity is important and it is not just the employers' role to boost productivity, but workers and unions can help by demanding more opportunities to retrain and upskill, ensuring that poor management is upgraded or moved, and by suggesting process and product improvements etc.

As the EU Commission says, the labour market performance over the past decade "has been a positive surprise." Since the Lisbon Agenda was agreed in 2000, 10 million jobs have been created and employment and participation rates have reached 64.4 and 69.9 percent up by 2.3 and 1.4 percent respectively[11].

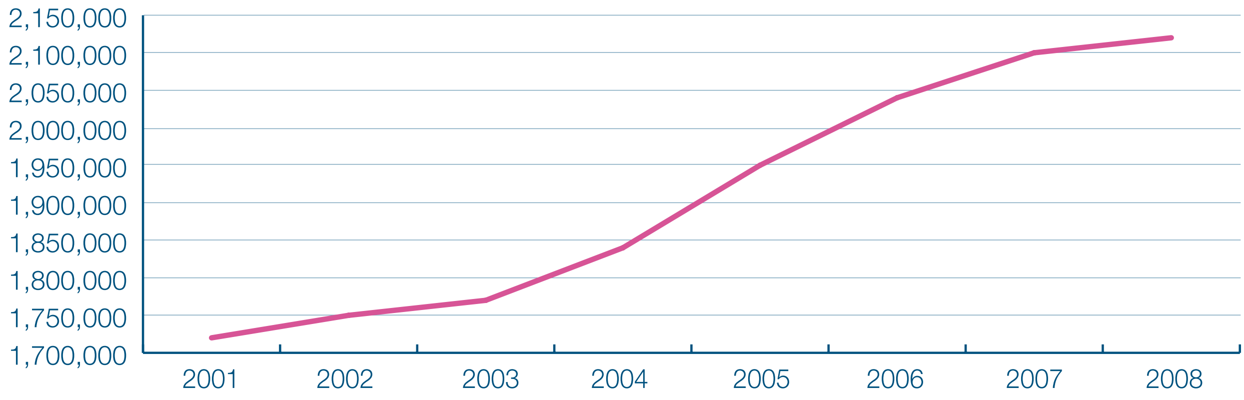
While many EU countries have seen labour productivity decline in the first half of the decade, there has been a turnaround since mid 2005 in both EU and Euro area and a little later in Ireland. A major part of the acceleration of the Euro area productivity seems due to the

9 OECD, 2008 Going for Growth, Fig 1.1.

10 European Economy, 2007, Economic Forecast for real GDP per head. Autumn, 2007.

11 European Economy, 2007, No 8 Moving Europe Productivity Frontier and the 2007 Review, Brussels.

Figure 1.4
Employment Growth Ireland, 2001-2008 inclusive



Source: CSO and own estimates for later years.

private business sector (all sectors including manufacturing, trade, finance and construction) in Germany, driven by the cyclical upswing in the Euro area.

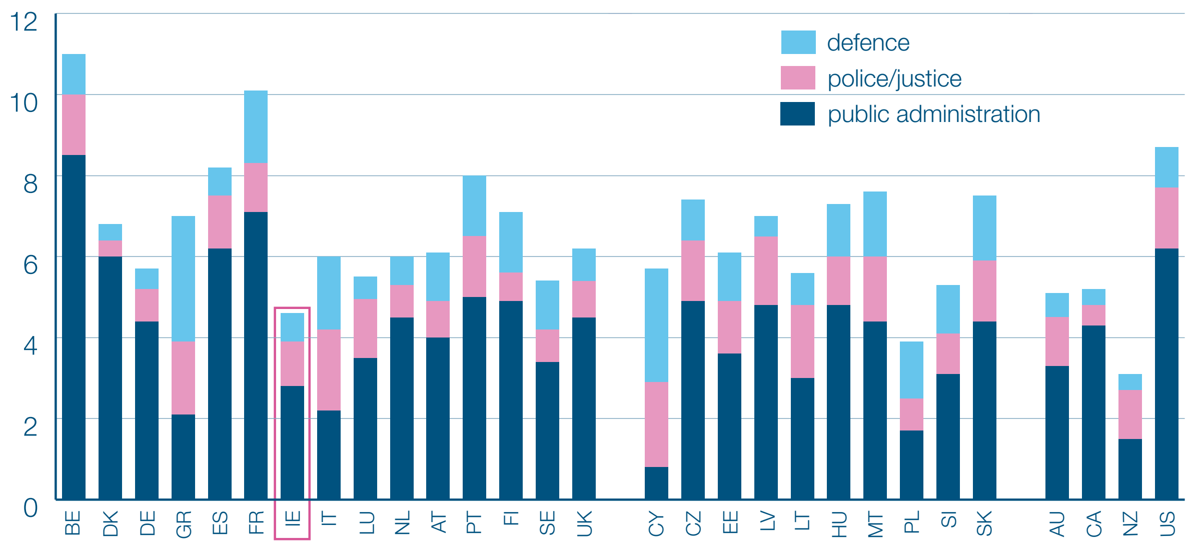
Employment

The performance of the Irish economy on job creation over the past 14 years has been phenomenal. Employment soared from 1,220,000 jobs in 1994 to 2,110,000 in 2008 - a rise of 890,000 or 73 percent. However, the rapid rise in jobs will slow dramatically in 2008. Last year was a good year, with around 70,000 new jobs created. Of this total, 72 percent went to foreign workers. The natural increase in job seekers in recent years has been well below the numbers of jobs created. However in 2008, the number of new jobs will be only nil to 30,000, depending on the forecaster. It seems that a rise of 15,000 or just 0.7 percent would be a good outcome, particularly with the reduction in constructions jobs which has been expected for some time.

Figure 1.4 (above) shows the strong in employment growth in recent years but also the tailing off in that growth. This growth in jobs may pick up again in 2009, but Ireland is unlikely to see the same level of job creation again.

The size of the Irish public sector as a percent of total employment was small compared to many other countries in 2000, as Figure 1.5 (below) shows (Ireland is IE, sixth from left – the graph also disaggregates employment by broad sector). While there has been growth in public sector employment since then, as the population grew, it is likely to be still small compared to most European countries in 2008, reflecting the low level of public spending in Ireland.

Figure 1.5
Public administration and defence as percentage of total employment, 2000



Source: Public Service Efficiency, An international Comparison, Dutch Government, The Hague, 2004.

The Central Bank and ESRI forecast a rise in the numbers out of work this year, of approximately 27,000.

The government has employed the OECD to undertake a study of Irish public service efficiency and this is an area which has an impact on overall productivity in the economy.

Labour force participation rates have risen from under 60 percent in the late 1990s to 64 percent at end of last year and female participation rose to 54 percent in 2007. Part time employment has been rising and so far, most of this is voluntary, but rising unemployment may generate rising involuntary part-time work.

Employment in High & Low Value Added Services

There is a growing dichotomy in employment in the Services Sector between high road and low road services. This is similar to the dichotomy in manufacturing - between foreign high tech, high value added manufacturing and traditional, indigenous manufacturers, with lower productivity. Many new jobs in retailing, in personal services, in catering etc. are low end services, but on the other hand, there is a rapidly growing number of very high value-added, high end service sector jobs in financial services, business services, in software etc.

There has been phenomenal growth in these services which are exporting and which have a high domestic value-added content and enjoy better terms of trade than goods exports, where prices are declining. This is where the bulk of the best new jobs will be in the future.

On the other hand, the low value added personal services – in retail, care, catering -requires lower skilled workers but is essential for the functioning of the economy and our society. There may be some areas in these sectors where analysis might profitably assist in policies which help generate benefits in higher productivity with the aid of ICT, better work organisation, skill enhancement, better management and so boost incomes for these workers.

Labour Market – Rising Unemployment

After the recent remarkable rise in employment in the thirteen years to the end of 2007 we now have rising unemployment. The Central Bank and ESRI forecast a rise in the numbers out of work this year, of 27,000 - 33,000. It is possible that construction will shed between a quarter and half of its peak number of jobs in the next few years. There will be job losses in other sectors too, with the churn in jobs which is around 59,000 per year. There has been strong inward migration, but with the downturn, is it sanguine to hold that many foreign workers will emigrate to London or go back home? Too many of the migrant workers are employed by employment agencies and Congress is very disturbed that the Government, our Social Partner, is blocking the proposed EU Directive on Agency workers.

If we know that unemployment is going to rise, we then must do something about it. There will be a rise in unemployment this year of 1.5 – 2 percentage points. We must not wait 5 or 10 years until the unemployed have lost their skills and become disillusioned. We must put a skills strategy in place and facilitate people getting back to work as fast as possible.

Pressures Pushing Up Inflation

The sharp rise in consumer prices in Spring 2008 came as no surprise to Congress. Earlier, two successive monthly falls seen in December and January had led most commentators to forecast that the downward trajectory in consumer prices would continue. Unfortunately, that optimism has been misplaced.

There are a number of drivers which are inexorably maintaining inflation internationally. Goldman Sachs measured global inflation at 4.8 percent in the year to November, 2007, two percentage points up from the previous year. Even as America flirted dangerously with recession, figures released on January 16th 2008 showed that consumer prices were 4.1percent higher in December than a year earlier. In the Euro area, inflation at 3.5 percent is at its highest in 16 years. China's inflation rate, 8.7 percent, is the highest in 12 years, up from only 1.9 percent a year ago. Russia, some central European countries and many South American countries are enduring very high inflation.

It can be seen from Table 1.6 below that some essential food prices have been soaring in Ireland. Overall *food* prices are rising much faster than overall goods inflation which only rose by 4.1 percent compared to all foods at over 9 percent. Food price rises impact disproportionately on the lower paid and families dependent on social welfare.

The price of basic food products had soared in the past year. For example, it can be seen that flour prices have risen by a staggering 42 percent and bread by 20 percent. Milk has also gone up by almost one third, over the year, while eggs, butter and biscuits have also gone up by multiples of the overall price rise of 5 percent.

Table 1.6 Food Price Rises in Ireland, Year to March 2008

CPI Overall	5.0%
Flour	42.0%
Bread	19.6%
Milk Cheese and Eggs	23.1%
Milk	31.0%
Eggs	16.0%
Butter	14.5%
Marg & Low Fat Spreads	17.2%
Biscuits	12.9%
Tinned Vegies	9.7%
Food Overall	9.3%
Goods Inflation	4.2%

Source: CSO, CPI, Detailed Sub Indices, March 2008.

The box on the following page shows the price pressures which will maintain consumer prices at high levels for some time.

Prices will Continue to Rise

Commodities - energy, agricultural and materials rose successively to all time highs in Spring 2008, driven by rising and sticking inflation, the falling dollar and low inventories.

Chinese inflation hit a 12 year high in February 2008. It is expected to continue to be high and may increase further. In February, the European Commission **sharply raised its EU15 inflation forecast** for 2008 as rising prices were becoming entrenched. In the **UK, factory gate prices** hit a 16 year high in December 2007, exacerbated by rising food and fuel costs. The fall in sterling in the months to January 2008, could "turn into an unpleasant inflationary rout" with the UK's "yawning current account deficit".[12]

In the **US, purchasing managers' surveys** for manufacturing and the service-sector demonstrated the spread of contagion from the crisis in credit markets, into the real economy. **US wholesale prices** hit a 30 year high in December 2007. Also, there were big price rise for **UK, gas and electricity**. Five of the six energy companies[13] put in for price rises in February of between 12.9 percent and 19.2 percent for gas and between 7.9 percent and 15 percent for electricity.

Oil hit $111.26 a barrel for Brent in April, but Nymex West Texas hit a record $114.08 on 15 April 2008 and will average over $100 a barrel in 2008 (US Energy Information Administration). The demand for oil continues to grow, but supply is uncertain.

The price of tea will jump to an all time high in 2008. **Coffee** and **Cacao** are also reaching record levels in 2008. **Arabica** coffee, the premium bean, reached a ten year high in February, up 36 percent in a year. **Milk and dairy product** prices have been accelerating in Europe in recent years. **Beef** prices are rising rapidly in the US.

Biofuels are taking more **land** out of food production all over the world, boosted by taxpayer subsides. High oil prices will continue to feed into **high food prices** through the cost of **fertiliser** for some time. The UN was drawing up a plan to **ration food aid** as commodity prices soar in Spring 2008.

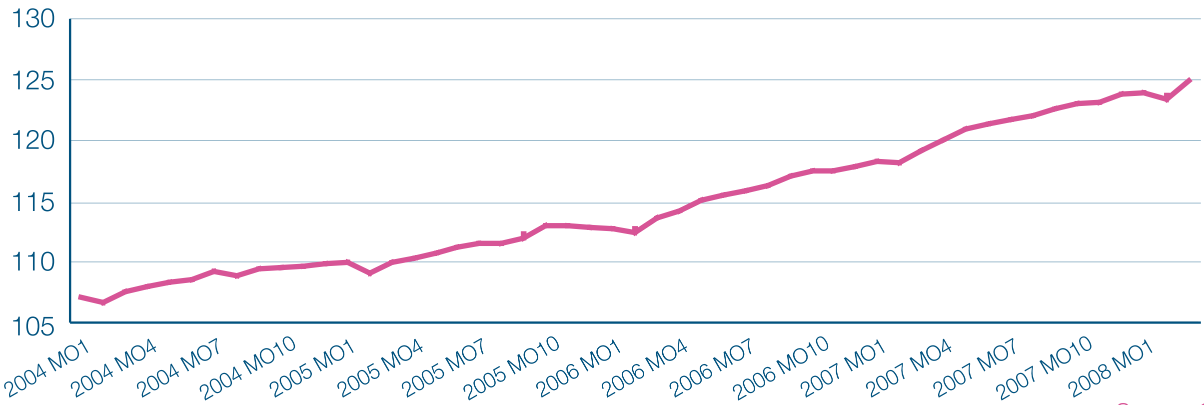
Platinum hit an all time high of $2,105 a troy ounce in February. **Gold** is very high in price. Copper hit $7,062 a tonne in February and **Zinc** was $2,376 a tonne - when over $1,000 a tonne made the product in several mines in Ireland profitable!

Vale, the Brazilian mining company secured price rises of 71percent for **iron ore** and the price of **steel** is expected to soar as the four major producers agreed to this ore price hike in February. Dry bulk **shipping charter rates** have tripled in a year.

12 Financial Times, Editorial 15 January 2008.

13 There has been consolidation after the dash to privatisation where there were many competitors and it will continue, (and now five of the six UK companies are foreign owned) perhaps even squaring the circle with the re-nationalisation of the gas and electricity sectors if private monopolies or duopolies abuse market power in the future.

Figure 1.6
Irish Consumer Prices



Source: CSO.

In spite of the recession in **the US, consumer prices** are still rising. The price of **wheat, corn and soybeans** and platinum reached record levels almost weekly in Spring 2008. **Rice** hit a 20 year high in early March 2008.

A rise in copper prices fed into other base metals. US wheat stocks are at a 60 year low and there are strong fears of global food inflation because the US, a net exporter of wheat, has to import wheat from Canada in 2008, pushing up world prices. **Food and fuel prices** may continue to rise at higher rates for years to come according to some experts[14].

A major driver of core inflation is the strong rise in commodity prices. The prices of many **raw materials** have surged in 2007. The **difference between core and headline inflation**, where the latter was temporarily boosted by volatile energy and food prices, seems to be becoming far less marked as energy and food prices stick.

The Economist's dollar-based **commodity-price index** rose by 32 percent and its **food index** by 54.3 percent in year to April 2008. The price of oil rose by over 80 percent in 2007. These high rises are the main cause of higher inflation across the globe. They are also related, at least in part, to structural changes in the global economy. Finally, the ECB is very worried about **inflation in Europe** and with the upturn in growth, it is a real issue. Trichet said the European Central Bank was willing "to act pre-emptively" to reduce inflationary expectations.

14 Richard Fisher, President to Dallas Fed, a view shared by others in US central banks.

Food makes up 12 percent of the average consumer basket for Irish people (it is 15 percent in the UK) and energy products 8 percent. But both comprise a higher proportion of weekly spending for those on lower incomes – as high as 35 percent for some. In the light of the abundant, available evidence regarding international inflationary pressures, Irish inflation is unlikely to fall much further. In February 2008, the CPI stood at 4.8 percent, up a half percent on the previous month and the HICP rose by almost as much too. As Figure 1.6 (above) shows, Irish inflation has been rising fairly steadily for some time and the small decreases of recent times is no guarantee that it will continue on a significant downward trajectory.

Congress was not swayed by the rather predictable chorus of optimism that emanated from Government, the Central Bank, the ESRI and the multitude of stockbroker economists, following the two monthly falls in the Irish CPI in December and January 2008. Their assertion that Irish inflation would now fall to low levels was naïve. The February and then the March rise demonstrates that world inflationary pressures are strong. Even the EU Commission criticised the Irish government's prediction for 2008 as "over-optimistic." In response, the government said it was sticking to its guns!

Since 2001, China has accounted for about half of the increase in the world's demand for metals and almost two-fifths of the increase in oil demand. Furthermore, in China, the growth in huge amounts of foreign-exchange reserves has fuelled domestic money growth and the rate of inflation tripled in 2007. However, much of that rise is almost entirely due to a jump in food prices, particularly of pork. Chinese wages are accelerating, up by 19 percent in the year to September, the fastest rate for five years. China's productivity is growing faster, by 20 percent per annum, according to America's Conference Board, an eminent research body. This means that overall unit costs are still falling in China.

The staggering pace of Chinese and Indian economic growth in the past few years, outstripping that of all other major countries, has sharply accelerated their demand for energy, a growing share of which has to be imported, according to the International Energy Agency (IEA).[15] The IEA has expressed alarm at the potential consequences of unfettered growth in global energy demand.

If governments around the world stick with current energy policies – the underlying premise of the IEA's Reference Scenario – the world's energy needs would be well over 50 percent higher in 2030 than today. China and India together would account for 45 percent of the increase in demand, in this scenario.

The IEA believed that world oil resources are judged to be sufficient to meet the projected growth in demand to 2030, with output becoming more concentrated in OPEC countries – on the assumption that the necessary investment is forthcoming.

However the IEA report appeared to be already dated as it was based on the assumption that the average IEA crude oil import price falls back from what were recent highs of over $75 per barrel to around $60 (in year-2006 dollars) (when it was already over €110 in Spring 2008 at publication) by 2015 and then recover slowly, reaching $62 (or $108 in nominal terms) by 2030. In April 2008, oil was over $110 a barrel.

While the demand for commodities will slow because of the high prices, the impact will be felt for the next few years, the duration of the next wage agreement. And while the higher commodity prices should eventually lead to greater supply, it will be some time before that happens. For oil and gas, there are supply constraints, due to the political uncertainty in the main producer countries.

On top of the rapid and unprecedented rise in commodity prices, the rise in interest rates by the European Central Bank has pushed up Ireland's consumer prices further. In an Orwellian plot twist, the Irish Government, a very large employer itself, has vainly, attempted to aid the employers in the run up to the pay talks by pretending that this is not occurring, simply by ordering all state agencies not to use the Consumer Price Index (CPI)!

Further, the Irish Government's baffling electricity regulation regime has sacrificed competitiveness and consumer interest on the altar of 'competition' resulting in higher prices all round.

The shift to biofuels, which is taking land out of food production, is also contributing to inflation and it is essential that no more taxpayers' Euros go to subsidise biofuels and so push up the price of bread, meat and other foods. Last year, Mexico experienced serious

15 International Energy Agency World Energy Outlook 2007, November, Geneva.

Core consumer prices, which exclude the volatile categories of food and fuel, are rising in some 70% of all countries.

food riots after the price of maize quadrupled, pushed up by the demand for biofuels. Even the International Monetary Fund – that bastion of compassion - now warns that using food to produce biofuels "might further strain already tight supplies of arable land and water all over the world, thereby pushing food prices up even further."

According to Goldman Sach's index, core consumer prices, which exclude the volatile categories of food and fuel, are rising in some 70 percent of all countries. An important fact is that the economic downturn does not immediately push down underlying price pressures. For example, economists at Goldman's demonstrated that during the 2000-02 downturn in the global economy, core inflation in G7 countries peaked more than a year after growth started to weaken. This means that it is possible that industrialised countries could endure a prolonged period of weak economic growth, combined with inflationary price pressure. The spectre of Stagflation, while not welcome must be taken into account by trade unionists.

Inflation, the ECB and Wages

The veiled warnings delivered by the head of the European Central Bank Mr Trichet in Spring 2008, on the determination of wages and prices in Europe, was aimed unashamedly at trade unions - not at merchants, price setters and the CEOs of firms. Keeping interest rates on hold in spite of the surge in inflation internationally, at 4 percent[16], he warned that the ECB inflation forecast for 2008 and 2009 was based on there being no second round impacts from oil and food prices feeding into wages. He warned that the Bank was willing "to act pre-emptively" to prevent such second round effects and to reduce inflationary expectations. He warned that the ECB was monitoring wage negotiations "with particular attention." On the same day, the large German union, Verdi lodged an 8 percent pay claim which was conceded. "EU finance ministers and central bankers said recent generous wage settlements in Germany were justified because millions of workers had endured a long period of wage restraint" (FT 5/4/00)

In contrast, on the same day, the Chair of the US Federal Reserve, Mr Ben Bernanke, indicated that it was ready to cut interest rates aggressively to ward off the risk of a US recession, which it then did, twice, in rapid succession. The US Fed also intervened in the market, with a $230bn boost to try to avoid recession.

The ECB does not have to take socio-economic factors into account in determining interest rates and their broader impact on the economy and on people, under its governing rules. Sadly, Mr Trichet does not appear to believe that inflation might be generated at least partially by greedy corporations, boosting profits with price hikes and over-paying their top executives.

16 The interest rate has been held at 4 percent since June 2007. Since December 2005, it has raised rates eight times from a low of 2 percent. The ECB set interest rates in the x members Eurozone, and it raise them to curb inflation, but ironically, this pushes up Irish prices, as measured by the Consumer Price Index. The Irish Government, some state bodies, employers and non-independent economists use the HICP as it is currently lower, particularly in the run up to wage negotiations.

The ECB and the governors of other Central Banks, regulators and governments have been remarkably silent as the boards of huge companies pay their top executives too much or even when, as happened, some top executives were illegally paid €57m illegally following the Vodafone AirTouch merger with German company mobile operator Mannesmann. “It never came to mind” that it was illegal, said Josef Ackermann, CEO of Deutsche Bank and head of the board of Mannesmann.[17] Two years earlier, he had asserted that Germany was “the only country where people who successfully create wealth have to go to court”, echoing the justifications of many Irish commentators and executives for excessive remuneration at the top. Mannesmann shareholders lost 70 percent of value of their shares following this little ‘wealth creation’ exercise.

Role of government in inflation

The government has a major role in creating and in curbing inflation in Ireland. We have one of the highest rates of consumer spending taxes with VAT at 21 percent compared to 17.5 percent in the UK. This high tax on consumer spending is not unrelated to our high price levels. Congress drew attention to the government-induced hikes in prices under Mr McCreevy, as he shifted taxes from incomes and profits to consumer spending. While there have been few government-induced consumer tax rises in recent Budgets, the privatisation of many public services like waste collection, now water, roads etc., have led to new charges which boost inflation and impact most heavily on the poorest.

For example, the Luas was allowed a price rise of over twice the rate of inflation on 7th January 2008, when the company is greatly exceeding its own passenger targets and so has much more money than projected. Remarkably, the company has serious problems with lack of capacity, but is still allowed to charge a premium at peak times (to encourage the use of public transport!). There are now high bus and train price rises annually when policy on subsides to public transport is still unclear.

Inflation in Ireland is externally driven - it is not driven by wages. The focus on wages and on cost is short termist and the total cost base can be changed by a sharp movement in the currency. Congress is nonetheless aware that wage costs are important for labour intensive firms, and that innovation and productivity increases are not easy to generate in some sectors. Thus agreements under social partnership can be very useful for such firms, but equally, a level playing pitch is important for them. In short, it is important that such firms are not undercut by domestic competitor firms which are exploiting migrants or evading taxes.

Congress has long argued that boosting the *Social Wage* through seriously improved public services – in health, education and public transport – can assist in creating the climate for wage moderation. However, in the face of corporate greed and excessive remuneration by those at the top, allied with the privatisation of health, of second level schools, poor public transport system and soaring prices

17 Irish Times, 3 November, 2006.

on top of high price levels, it is very difficult for trade unionists to be 'moderate'. With the government's obsession with maintaining a low tax economy (read my lips – that is, a low public services society), it is unclear if there is a commitment to modern world class public services in health, education, etc.

Further, there is a very strong case for terminating the vast array of public subsides to businesses where there is no value or return for the state in what is now a developed, modern Irish economy. Congress alone protested the government's recent decision to greatly expand the BES scheme without a vigorous economic appraisal, as had been advocated by its own consultants on tax breaks.

Congress is disappointed with the great expansion of public subsidies to private health services which are now being taken up all over Ireland by investors in subsidised 'private' hospitals and clinics. These hundreds of millions of taxpayers' euros could be invested directly to improve the public health system, rather than reducing rich people's tax bills and helping to construct a two-tier health system. The government must reappraise such poor value for taxpayers' money, especially as it is reducing the increases in public health spending. Further, tax breaks to wealthy investors in property in the south of the country that are currently being considered should now be abandoned.

The End of Neoliberalism and the Re-emergence of the State.

The state rescue of Bear Stearns in the US and Northern Rock in the UK sounded the death knell for the neoliberal model and the myth of the self-regulating market. For many years, Congress and progressive movements have been calling for increased international regulation of finance. In the irrational exuberance created by cheap money, it appeared to those making lots of money and sadly, to many in the media, that there was no longer any need for regulation of financial markets. We were naysayers in a world where serious money was being made and lots of it in Dublin's IFSC.

Private equity firms, awash with vast funds to invest, were attempting to take over the biggest, long-established firms like Boots, Sainsburys, Hertz, the AA and sometimes they were sacking thousands of workers to repay their loans. They were also paying those at the top obscene amounts of money, paying little tax, while also having tax subsidies on their debt. It was irrelevant, we were told, if private equity firms have no allegiance to nobody, to no locality, no country, nor to workers. This was the free market in full flow – driving efficiency, reducing costs, reducing wage bills (except for those at the top!).

The sub-prime crisis in the US quickly exposed the fundamental flaws in the neoliberal viewpoint. It spread like a poisonous virus, infecting markets throughout the world, largely driven by perverse incentives which rewarded greed and not performance. But the pendulum is swinging back from the far Right and the

Many international banks had been engaged in risky and fraudulent lending so that they could boost the pay packets of their bosses.

tenuous link between the financial markets and the real economy has been demonstrated to be fragile. The unregulated model of financial capitalism stands exposed as seriously flawed and unsustainable.

Governments, which are always around markets, are now returning to the economy. First, major economies have become mercantilist and are using large trade surpluses for their own apparent interests – eg China, Russian and the oil producers. Japan is bolstering its position in high tech and Germany is intervening to restore its dominance in manufacturing. Secondly, states are using Sovereign Wealth Funds (SWFs) to buy up or buy into quoted western firms. This is a form of nationalisation which, while welcome in rescuing banks like UBS, Citi etc., it is also worrying to free market advocates. New financial methodologies for taking over firms have been utilised by private equity firms, by SWFs and other hybrid firms, using strategies and financial devices which undermine companies' long-term viabilities. These changes require that the state intervene and restore greater transparency into markets.

In the light of the failure of regulation of international banking and the widespread ignorance of governments, Central Banks and other figures of authority, regarding what was occurring, those favouring unrestricted free market look rather foolish. Alan Greenspan, head of the US Federal Reserve, boasted in 2005, that "increasingly complex financial instruments have contributed to the development of a more flexible, efficient, and hence resilient financial system than the one that existed just a quarter of a century ago." Greenspan was in charge of bank regulation in the US. The banking industry's share of total corporate profits in the US soared from 10 percent in the early 1980s to 40 percent in 2007, the peak of the bubble. The sector has only 15 percent of value added and just 5 percent of jobs[18].

Josef Ackermann (yes, him again) CEO of Deutsche Bank, confessed recently that "I no longer believe in the markets self-healing power." A timely and self-interested comment in a banking crisis, where private banks profit in boom times and the taxpayer bears the brunt on the downside.

In the free market, bankrupt banks are supposed to fail. But the US Federal Reserve stepped in to rescue Bear Stearns, at a cost of some $30bn, to the taxpayer. Many international banks had been engaged in risky and fraudulent lending so that they could boost the pay packets of their bosses. They were even giving mortgages to people without jobs in the US, and had sophisticated financial packages which spread the risk, by selling it on to other banks who weren't even aware what they were buying. This badly regulated free market frenzy of greed culminated when the US housing bubble burst, exposing the charade for what it was. We did not have prudent well-paid bankers, but greedy executives divorced from the real world who were paid stratospheric sums. And when the edifice came tumbling down, many free market economists and like-minded commentators were the first to demand state 'interference' in the market place, in the form of bank rescues. These rescues were

18 Economist , 22 March 2008.

both direct in the case of bailing out banks and indirect, by cutting interest rates and making money available to banks on favourable terms. Apparently, state ‘interference’ in the market is only a problem when it threatens huge levels of private gain. When there are huge losses to be absorbed, the ideological hostility to the state evaporates.

Such ‘interference’ in the market is not new. The US spent a massive 3 percent of GDP bailing out the Saving & Loans companies, during the Reagan era. Finland had a crisis in the early 1990s which cost its taxpayers a whopping 8 percent of GDP and the bank bail out in Sweden cost around the same. When three banks in Norway were in trouble in the 1990s, they were nationalised and the state gained on privatisation later. In the UK in 1984, Barings was let collapse, unlike Northern Rock which was rescued by nationalisation.

Compounding this political viewpoint of economics has been the buying-up of stakes in firms all over the world by state-owned funds and state-owned companies. These Sovereign Wealth Funds are even buying stakes in private equity firms, which were buying-up big name firms and squeezing greater profits from them. The rise of SWFs, of India, Russia and China, has the neoliberals worried. There is a danger they might suddenly become converts to Protectionism, especially if the SWFs are state-owned funds or Islamic controlled!

An intermediate solution might be best, with the continuing expansion of free trade but more sophisticated and transparent governance of companies, in ways in which strategic shareholdings can be maintained and which reduces the possibility of takeovers by short term, hostile predators. At present, this is not in keeping with the Anglo tradition which endorses hostile takeovers and overnight raids as a way of “keeping management on its toes.” With the growth of CfDs and other opaque funding devices now being used to take over firms surreptitiously, some neoliberals are questioning their own Darwinian belief system.

Too often, takeovers generate value subtraction and even chaos and it is always workers who lose the most. Studies of the value of merger and acquisitions demonstrate that many do not add value. The international banking crisis does cast this model in some doubt and policymakers should be more open to fresh ideas – before major companies are taken over by SFWs.

The growth of these SFWs, huge funds, built up by rich states, has been phenomenal in recent years, thanks to the high price of oil, of commodities and to the success of Chinese exports etc. However, Dmitry Medvedev, Russia’s President, urged Kremlin support for Russian companies in buying-up firms internationally, to “retool Russian enterprise with technology.” Gazprom has become a major, aggressive buyer of companies around the world. Russia has had $160bn in windfall revenue (the size of Ireland’s total GNP in 2007) from high oil prices, with which it planned to buy shares in Western firms.

The investment of billions by SWFs in western banks has saved these firms and banks from real scrutiny as to how they got into trouble and has taken the heat from Regulators. In January 2008, the governments of Kuwait, Singapore and South Korea put up most of the $21bn that bailed out Citibank and Merrill Lynch, two banks that lost billions in the sub prime crisis. In total, $69bn has been spent by these funds recapitalising western banks.[19]

UBS, the Swiss bank, was in deep trouble until Singapore's Government Investment Corp (SGIC) injected a massive $9bn into it, in December 2007 after its losses on the sub-prime mess. Weeks later, SGIC injected $6.9bn in Citibank, the troubled US bank.

Thus the ideological triumph of the 'free market', as it was proclaimed with such gusto in the not too distant past, now seems jaded and perhaps a little naïve in the real world. Just a few years ago, the US government had blocked a Dubai state fund from buying up some ports in the US - on grounds of security! But a little wobble in the unstable business cycle and they are all converts to state capitalism for a time!

In the words of one of the free markets' staunchest defenders, Martin Wolf, of the *Financial Times*, the credit crisis "is a huge blow to the credibility of the Anglo-Saxon model of transaction orientated financial capitalism." He characterised it is a mixture of crony capitalism (see Part II) and gross incompetence in the financial markets of New York and London[20]. He concluded by saying that no one will "listen to US officials lecture on the virtues of free financial markets with a straight face" for some time to come.

19 Economist, 19th January 2008.

20 Martin Wolf, Financial Times 12 December 2007.

New Governance for Commercial State Companies

With intensified globalisation and some countries using the market system to control companies in the pursuit of their own agendas, it is time to revisit the idea that certain strategic companies should remain in Irish control. In 2005, Congress proposed that the remaining commercial state companies should not be privatised and that a new system of governance be established. This would be a start in both ensuring control and in boosting the commercialisation of these firms.

Since our report, which detailed how this should be done, Aer Lingus has now been privatised, with two adverse consequences for Ireland. First, a predator company, Ryanair, tried to take it over, to reduce competition and to sack many of the staff, probably as a prelude to its closure and elimination of its main competition. Fortunately, Ryanair was prevented from taking it over on competition grounds, not by the Irish government, but by the EU.

Secondly, the company closed its Shannon/Heathrow link against the wishes of many and even of some of those of government. The government appeared powerless. If this was in contradiction to government regional policy it could have incentivised the non-commercial decision by the company to remain there under a Regional Programme for the area, just as taxpayers subsidise air travellers to the other regional airports.

Congress warned against privatising Eircom in 1999 because, we argued, it was virtually a monopoly on fixed line provision and was the key broadband provider, investing substantially, with no debt. Shortly after privatisation, the new owners of the privately owned monopoly dramatically cut investment – to one-third of what the state enterprise had been investing. They used Eircom's assets to leverage huge borrowings to pay for their takeover. The rest is history: Ireland's 'knowledge economy' is way behind competitors as broadband is slow and too often unavailable. The state has been forced to reinvest in broadband, haphazardly, whenever and wherever it can. Government policy on telecoms was driven by outdated ideology and has cost us all dear.

With the banking crisis it is time to re-appraise some fundamental beliefs, especially the blind faith in the working of 'free markets'. Congress believes that the government and social partners should consider the proposal for a State Holding company as we originally proposed in 2005, for the remaining state companies. This governance structure is ideal for channeling investment into the companies, guarantees a commercial focus and ensures that major Irish state companies are not taken over by predators like Ryanair or Gazprom.

Further, it is easier for large countries to ensure that they have a number of strategic companies in key sectors, but difficult for a very small globalised one like Ireland, where free market ideology dominates the political lancscape. Caution should inform policy in strategic areas of the economy, especially after Eircom, Aer Lingus. New governance shareholding structures should be considered as a matter of urgency now that free market fundamentalism has been demonstrated to be so vulnerable and flawed.

The Banking Crisis: Firmer Regulation

What has been remarkable in this banking crisis is the concerted insistence on the part of many financial insiders that no new regulation is required. It is correct to say that much financial innovation has spread risk and reduced the cost of money. It is also correct to say that regulation is complex and too often falls behind innovative new ideas. However, if one lesson has been learned from the recent chaos it is that greater regulation and oversight of the financial world is now more necessary than ever.

Early in the new millennium the world witnessed the collapse of Enron, Parmalat and other major companies, along with the bursting of the dot com bubble in 2001. Some lessons were learned and new forms of regulation were introduced, especially in the US. But it was not long before there was a massive campaign of vilification of any form of regulation by free-market fundamentalists. They particularly singled out the Sarbanes Oxley laws in the US, which, they argued were too hard on business. Their often self-serving belief was that markets were self-correcting and were *distorted* when any form of regulation was introduced.

The free market fundamentalists acted as if markets were really *free* and not governed by rules, with cycles, stresses and strains, emerging monopolies, attempts at price-fixing, at dominance, abuse of position, the production of massive externalities and social costs and other imperfections. The role of the state is to remedy these by market intervention and rule making.

When many new financial products appeared to be reducing the cost of credit and so oiling international commerce over the past few years, Central Banks and Governments became quiescent and somewhat blind to what was going on in banking. Within the apparently new financial order were the seeds of its own destruction. The state, the British taxpayer, has had to pick up the bill for the collapse of a small bank, Northern Rock. So much noise over one small bank indicates the magnitude of the crisis if one of the big banks was to go to the wall and this may yet happen. It was no wonder that the Sovereign Wealth Funds have been so welcomed by the once free-market bankers.

But the 2007/08 credit crisis and the instability in banking, worldwide, has again shown that the views of the anti-regulation, 'free-marketeers' are as not just inadequate, but at times can be highly dangerous. The operation of the market system in the increasingly globalised world now requires *greater* oversight in the public interest. The existing rules under Basel II are clearly inadequate. Regulation requires the agile evolution of new rules and regulations in tandem with the evolution of the market. The issue is no longer one of less regulation, but of the design of rules internationally which reflect and facilitate the rapid development of the market in the way which simultaneously facilitates its operation and protects the wider public interest.

Congress has long accepted and adapted to the globalised world. Ireland is one of the most open economies in the world and Irish workers have sought to adapt to this through retraining, boosting productivity and accepting a 'pro-business environment', provided this is also conducive to workers' and citizens' rights and conditions.

Congress has taken some positions which are not popular with some in authority. For example, we argued that corporate tax competition cannot be sustained in the long run in the European Union, even though Ireland, as an early mover, has benefited from it. We argued that all tax breaks, (such as the Business Expansion Scheme which we opposed in Europe), should be fully reviewed periodically and properly to assess their value to society, if any. Many business subsidies benefit the wealthy investor, may have no economic value and the cost of such schemes (in lost tax), can be high.

Congress has long argued that the international governance of financial markets was inadequate and needed urgent reform. We made the arguments at national level and within the European Trade Union Congress or in our advisory role to the OECD, (through the Trade Union Advisory Committee). We have been proven correct - with the international credit crisis and the turmoil in the world's banking markets.

John Sweeney, the President of the international Trade Unions Advisory Committee (TUAC) to the OECD recently wrote to the Secretary General of OECD, Mr Angel Guirra and said that while Central banks were intervening aggressively to maintain liquidity

There is a strong case for unions and other employees to take greater control of their own money in pension funds.

and calm capital markets, we also needed to address "the central role of leverage by OECD and governments in our financial markets and the closely related issues of the transparency, governance, regulation, and taxation of hedge funds and private equity."

In reply, Mr Guirra said he agreed with much of our analysis, and that OECD has a role to play in structural issues and regulation but he said that financial innovation was so rapid it was difficult for regulators to keep up. However, he said that the OECD was examining these issues and working with others to see what can be done[21].

The rules for international banking under Basel II do not prevent perverse incentives to bank executives and allow them to manipulate rewards by avoiding risk because individual banks are allowed to determine the rules themselves. Basel II and WTO must set rules around risk determination which bank executives cannot twist to ensure excessive personal gain and public losses. Further the capital/asset ratios are set to low and the creation of formal institutions has not been adequate. The barriers are simply set too low even for the big banks which some regulators appear to believe will be protected by their size.

Even conservative commentators like Martin Wolf are highly critical of the manner in which governments are handling the banking crisis, saying there has been too much private gain and public loss. He says of banking that: "What seems increasingly clear is that the combination of generous government guarantees with rampant profit-making in inadequately capitalised institutions is an accident waiting to happen - again and again and again."[22]

The result, we would argue, has to be greater regulation of banking at international level and higher capital/asset ratios.

A lesson of the banking crisis is that there should be a new role for more activist pension and other employee funds. There is a strong case for unions and other employees to take greater control of their own money in pension funds. This reform should be assisted by government, as part of greater financial oversight of banking, pensions, financial instruments life assurance funds etc., by unions and employee representatives.

The Outlook for the Irish Economy

In conclusion, the Irish economy is slowing down having developed at high speed for 14 years. It is slowing from growth rates averaging 5 and 6 percent over the past few years to 2 or 3 percent, in 2008. Like a car slowing from 60 mph to 25 on entering a village, it may seem as if we have almost stopped but our growth will likely be higher than most developed countries. This slowdown has been expected. It is not a recession.

However inflation is still high in Ireland. *Price levels* in Ireland are also high and are much higher than in all EU states, except Denmark. Prices average 23 percent higher for consumer

21 21st August and response from Gurria on 26th Sept 2007

22 FT 27 November 2007.

services and 14 percent for consumer goods, above the EU15 average. Inflation will remain relatively high in 2008 and 2009.

There are many inflationary drivers in the world economy and we are price takers, on oil, on interest rates and also on many food products. While food makes up one eight of the average household spend, for poorer people, it is as high as one-quarter of every euro. The rising prices of milk of bread and meat and other basis foods is a burden for many Irish people. Wages have not at all kept pace with the rise in basic foods. Food prices rose by more than twice the rise for all goods in 15 months to March 2008.

This report has demonstrated that the price of hiring a worker in Ireland is still low compared to most other developed countries, especially in Europe. It was seen that it cost $34,300 to employ a worker here compared to over $56,600 in the UK or over $48,700 in Sweden, $38,600 in Canada or $50,300 in France. Computing it another way, the cost per hour is low here compared to many other countries and while wages have been rising here, the cost of living here averaged 17 percent above the average of the original Europe countries in 2006 and prices have risen faster since.

There is little room for government to further reduce income taxes on average workers (or even those at twice or three times the average industrial earnings of €33,000) simply because income taxes are already among the lowest in the world. It is preferable to raise income taxes on high incomes and capital etc., than to continue to load taxes and charges onto spending. These have helped push up Ireland's price levels to the second highest in the richest 15 EU member states. The trade off is to greatly improve public services for workers as consumers, with a decent health service, good public transport and educational opportunities. It would not be unfair to state that the provision of services in all three of these areas has regressed, in recent years. The challenge is for real, measurable improvements in public services.

Yet, the public finances are in very good shape, especially compared to other countries (eg UK or US where deficit of GDP is over 3 percent and 5.4 percent respectively). There will be no less tax revenue than before – it will continue to rise, but not as fast as in the past. Innovative and equitable ways of funding increased public services should include the reduction of subsidies to business and farmers and increases in taxes on earnings from gains, from unearned income such as income from interest, inheritances etc. which would help move Ireland towards a meritocracy. The loophole on stamp duty to property developers, costing €250-450m a year, should be closed immediately.

The banking crisis demonstrated to all that the neoliberal policy hegemony has weakened and it is time for a rebalancing. The state, which was always present in all economies, must be reasserted as the regulator of the market, both at international and national levels.

Congress is not seeking heavy-handed regulation, but flexible and innovative intervention in financial markets, in corporate governance of business and the professions, as well as a re-alignment of the hundreds of millions in state aid to business in tax expenditures, public services, state support bodies, etc. The end of neoliberal hegemoney, and on the other hand, the looming threat of Protectionism, indicates the need for new forms of governance of firms and of regulation, which both enables and supports strategic firms in economies and regions.

The new era of slower economic growth gives Ireland a chance to focus more on economic and social development and this should be the priority of the social partners - better public services, a more caring society, a focus on participative economic productivity improvement and fairer taxes for all. A start must be made on narrowing the huge gap in both earnings and in wealth which has arisen in recent years.

The much bigger national cake in Ireland is most welcome, but some have got huge slices of cake and are becoming positively obese. The accumulation of wealth and incomes by an largely untaxed minority will stifle initiative and the work ethic and it is already producing a generation of takers. Phase Two of *Towards 2016* should begin with an economic 'obesity' programme designed to tax fairly those fat cats at the top of the wealth pyramid.

Part Two

Narrowing the Pay Gap

It is not possible for trade unionists to enter pay negotiations in Spring 2008 without being strongly influenced by the widening pay gap between top executives in Ireland and waged and salaried employees. This section will suggest ways to reduce this growing gap by curbing the rise of the pay of those at the top and boosting regular pay and the social wage for those at the bottom, with many in the middle gaining too.

The decision of top politicians to award very high *increases* to themselves and to senior public servants drew our attention to the soaring remuneration at the top of the private sector. The benchmarked *increase* was substantially more than the total annual average industrial earnings of €33,000 for a number of senior public servants. This was because the pay of the most senior public servants was based on the lower quartile of the top earners in the Irish private sector, (and that excluded a minority who are above the four quartiles).

The pay gap has been widening internationally and there is no economic reason why this should happen. There is not a new cadre of superhuman CEOs running the biggest firms. Indeed, judging by the performance of some of these firms, and particularly the banks in the last quarter of 2007 and early 2008, they seem to be a lesser breed of executives. Many are obsessed with their own private welfare and have not been focused on running the firms they are overpaid to manage.

The average increase for the general public service recommended by the Benchmarking Group was just 0.3 percent compared to 7.3 percent for those at the top of the public service. However, a small number of those at the top netted increases of 36 percent, benchmarked against the lower quartile of the top executives in the private sector in Ireland (less 15 percent for 'superior' public pensions). A departmental secretary is earning 84 percent more than they were in 2000, while entry level clerical officers pay has seen a rise of only 44 percent in that period. The Review Group justified the growing gap, saying that while it did not take account of the "excesses in certain cases in the private sector," nevertheless "as a general principle, salaries should be set at 100 percent of the lower quartile (of the Irish private sector) subject to a discount of 15 percent to reflect the superior value of public service pensions".[23]

From the private sector data examined below, it is clear that the gap between those at the top and the average worker has grown hugely.

But to begin at the beginning, we examine how the pay of the top executives in the private sector is determined.

Determination of Top Remuneration

The remuneration package of the top executives of private or publicly quoted companies is set by the board of the company. The membership of the board of the company is set by the board. While the board is representative of shareholders, those with most shares control the board. If shareholders

23 Review Group on Higher Remuneration in the Public Sector, No 42, 14 Sept 2007. Dept Finance.

are many and diffused, the board is remote from shareholders' control and becomes self-perpetuating.

Most boards are composed of a number of senior executives, who work full-time for the company, and non-executive or outside directors. The Chairman is usually an outsider, though many boards often appoint the former CEO as Chairman (against recommendations on good governance). The non-executive directors, who are independent of the company and should not be dependent on their board fees, bring expertise, business experience, contacts and importantly, a broad overview and independence to the board[24]. When it comes to executive pay, it is increasingly understood that if you look after me, I will look after someone else who, in turn, will look after you. It is a small, elite club, in all countries. Thus the small pool of non-executive directors who do fulfil many useful functions, are not truly independent when it comes to determining the pay of CEOs and senior executives. They all belong to this small, exclusive club, in which they alone make the rules.

In some large public companies, where shareholders are diffused, those with a small percentage of shares, say 5 or 8 percent, can set the board's agenda: from hiring the Chairman's son (it is usually a male heir) to remuneration packages. Most pension funds (the property of workers) and other funds invested in large companies are extremely passive shareholders and only in recent years, has there been shareholder activism.

24 In Ireland, the pool of capable or experienced non-executive directors is very small and they are usually on the board of other companies.

The board is often advised on executive remuneration by an expert 'consultant' in the area of executive pay. The small number of remuneration experts (in each country) know that it they do not recommend high remuneration, they will be out of business, and so their independence is also questionable. Thus the whole process is quite incestuous.

An October 2007 report from The Corporate Library - a US research group which highlights bad practice in American boardrooms – demonstrated that executive pay consultants help fuel the stellar rise in top bosses pay in the US. The report agreed that such experts have helped frame pay packages that are better-aligned with shareholder interests, but it found that US companies which hired compensation consultants, tended to pay chief executives above the median of their peers. It also found that there was "no significant relationship" between company performance and the use of such advisers.

Executive pay consultants like Hay assert, lamely in our view, that it is not only the financial performance of the company which is taken into account when determining top executives' pay. They say measures such as customer satisfaction, employee job satisfaction and environmental impact are considered. The famously *unbalanced scorecard* that has been used to decide top-level pay might get a small tweak, especially after the 2007/08 Financial Crisis, which was generated by executives in the financial sector. However only one-third of the boards of FTSE 100 companies have undergone an evaluation by an outside party. The figure is not known for Ireland, but it would

Most commentators are now of the view that corporate financial performance is too often manipulated to boost top executives' remuneration.

probably be far less. Most commentators are now of the view that corporate financial performance is too often manipulated to boost top executives' remuneration.

The Lex column (below) is aimed at shareholders and is very, very conservative. This article demonstrates how executives rig their remuneration upwards and importantly, it also shows how oversight of executive pay is also rigged. The biggest shareholders, your pension fund and life funds are the people one would expect to extract value from bosses' performance for the pay they get. However, as it says below, fund managers are part of the problem.

Nothing would upset the cadre of non-executive directors more than having real outsiders appointed, either by a government appointments body or an investor grouping, or by a pension fund, or worse, by worker representatives, to the boards. This has now to be considered here and abroad in light of the excessive remuneration and poor performances of those at the top.

"Executives at large companies are not poor. That is largely due to the false assumption that there is an efficient market for labour and that managers are simply paid the going rate. But smart executives can boost their pay even further through incentive plans. These can be based on operational targets or longer term objectives. The easier the targets are to hit, the more cash bosses take home.

"Executives must balance their desire to maximise pay with the need to convince shareholders that their interests are aligned. A common method is to link payouts with share price performance, for example by benchmarking against a basket of peers. Assessing a management team's relative success versus rivals makes some sense, although a shareholder might wonder why jumbo payouts are possible even if, on an absolute basis, stock prices fall.

"There are other ways to tinker with incentive plans. Earlier this month HBOS, the UK bank, announced it was halving the level of share price outperformance required to trigger bonuses. There is no justification for such a move beyond greed (HBOS's management bought shares directly in the market last week, so it obviously believes they are oversold). Another trick is to actively manage the peer group. HSBC does not include fast-growing Asian banks in its comparison basket despite being big in the region. If China's banks continue to tank, HSBC's rumoured plan to start including Asian banks will be well timed indeed.

"Dodgy practices persist because companies are not held to task by institutional shareholders. One explanation is that fund management fee structures are analogous to share price-based incentive plans. A management fee is earned even if a fund falls in value, and a performance fee is common if the benchmark falls by more. Pointing the finger would only draw attention to fund managers' own lack of accountability."

The Lex Column, Financial Times, 26th March 2008.

Golden Parachutes

Too many of the top executives in the US, UK, and possibly here, who led their companies into trouble in the credit crisis were still awarded staggering remuneration and those few who were forced out, enjoyed huge 'golden parachutes.'

For example, Chuck Prince resigned as Chief Executive of Merrill Lynch and received a payout of $27m. The company made a loss of US $7.9bn. The annual fees of the non-executive board members in Merrill were a minimum of $225,000 each!

Stan O'Neal resigned as head of Citigroup and received a payout of US $48. The company lost $9.8bn. The fees of the non-executive board members were set at a minimum of $260,000 each!

Hank McKinnell of Pfizer was given a golden parachute of almost $200m after shares in the company fell by 40 percent during his tenure! So much for performance-related pay.

US CEO Pay – From 33 to 350 times worker's pay in 25 years

In 1980, the pay of the top three executives of the highest earning 10 percent of US executives was 33 times that of the average worker's. It rose to over 100 times average worker's pay in the early 1990s and peaked at almost 800 times in 2000 (at 785 times) at the peak of the dot.com bubble, just before it burst. The remuneration of the top three executives in the top US firms then fell from this obscene peak to a still staggering 350 times the average worker's pay in 2004 and 2005[25].

This kind of greed is undermining social cohesion in the US, which has been evident for some time. It is certainly not the kind of economy or society anyone in Ireland should contemplate. In the past, the land-based aristocracy was challenged by the more productive merchants, but today it is the top executives of the world's largest firms who are the new nobility, handing down vast fortunes (made in a very short period) to their children. It is the antithesis of a meritocracy.

In the US, Charlie Munger, a partner of Warren Buffet in Berkshire Hathaway, the most successful investment company in the world, is scathing of most executive rewards: "About half of American industry has grossly unfair compensation systems where the top executives are paid too much". Jeb Bush, governor of Florida and a brother of President George W. Bush warns that the pay of CEOs is "a threat to capitalism." He is right. Workers will not stand for such greed and avarice, especially in the face of poor performance by many of these same people. In contrast, for most US workers, there has been very slow growth in wages, just 14 percent between 1997 and 2000. Wages failed to rise between 2001 and 2006 even with rising productivity[26]. Thus US wages rose only by 14 percent in the past decade and the real rise since 1979 has been less, at only 8.9 percent!

Some bosses in the US worry that if they do not rein in the excesses, they will face "a government, one-size fits all solution". Look at

25 Fortune 17 July 2006.

26 Sweeney, *Ireland's Economic Success*, 2008, p 162

the salary of William Maguire, the former head of United Health. He was paid a staggering €1,000m, yes one billion dollars! Maguire's pay demonstrates clearly where some of the staggering spending on health care in the US is directed! This remuneration includes share options which were manipulated by backdating. The real Klondike for an executive is the share option. It is these options which so often distort corporate performance, being manipulated by the executives for their own short term gain.

Table 2.1
Top US CEO Pay - Remuneration, 2005

$1,000m	William McGuire	United Health
$405m	Lee Raymond,	Exxon
$250m	Bob Nardelli	Home Dept
$99m	Hank McKinnell	Pfizer
$90m	Franklin Raines	Fannie Mae
$66m	Phil Purcell	Morgan Stanley

Includes pensions and most importantly share options at their value in 2005.

Source: Fortune Magazine, 17 July 2006

Executive pay is a big issue in the US and in a Bloomberg poll in 2006, 80 percent of Americans held that CEOs were paid too much. The SEC, the regulator of companies in the US, is now establishing the tightest set of rules on pay disclosure in reaction to the scandals over executive pay which contributed to the current banking crisis. *Fortune* magazine concluded an article on top bosses pay by asking this question: Can you recall a single instance where a CEO walked because the board refused to pay him enough? The answer was a resounding no!

The same applies to Ireland including, and perhaps, especially, in the public sector! Strongly concluding that the CEO pay system is broken, *Fortune* set out its Five Commandments for Paying the Boss, which focused on linking share options and bonuses to performance over a longer term[27]. It is less critical of the pay levels than the broken system or perverse incentives, which have since led to the banking crisis.

In the US, the financial market regulator, the SEC said in October 2007, that in spite of new executive compensation rules, which came into force at the end of 2006, many companies were still not properly explaining to shareholders how they decide how much to reward their top executives.

John White, director of the SEC's Corporation Finance Division, pointed out: "There's a lot of strict factual information but there is little analysis about the how and the why, and of why particular philosophies, processes and performance targets were used." The SEC now demands a single figure to represent an executive's total compensation package, as well as a narrative explaining how the committee arrived at the figure. The new rules were designed to make it easier for investors to compare pay packages across publicly listed companies. Christopher Cox, SEC chairman, has said that shareholders "should not need a machete and a pith helmet to go hunting for what the CEO makes."

The Business Roundtable which represents the interests of chief executives, is opposed to such transparency.

27 Fortune, 17 July 2006.

In the US, incomes for top bosses have been rising extraordinarily fast, when low and middle incomes are not keeping pace with the cost of living. Further, taxes on top incomes have been cut much more sharply than taxes for other earners.

Barney Frank, chairman of the House Financial Services Committee, introduced a bill that would require public companies to allow non-binding shareholder votes on pay packets in 2007. It was passed, with even 50 Republicans supporting it. The Bill requires companies to include an advisory - or non-binding - vote in their annual proxies. The move borrows from the UK, where advisory votes have been routine for some years. Advisory votes are backed by public pension funds and trade unions. Barrack Obama introduced a similar Bill in the Senate.

Calls for executive pay restraint have been coming from senior regulators such as William McDonough, chairman of the Public Company Accounting Oversight Board, from banking gurus such as Peter Peterson, chairman of the Blackstone Group, and from leading lights of business such as Warren Buffett etc, but have been ignored by Corporate America.

However, at the same time, the other chairman of Blackstone, Stephen Scwarzman, got $4.77bn in shares from the company on its IPO in 2007, making him one of the richest company bosses in the world. He co-founded the company in 1985 and made $677m in share sales before the IPO. Scwarzman is the poster boy for corporate excesses, hiring Rod Stewart for his showy 60th birthday. The company had an 89 percent drop in profits in Q4 2007.

Mr McDonough is particularly concerned with what he terms the "breakthrough of greed in the 1990s." In testimony before the US Congress in June 2004, he pointed out: "In 1980, the average Fortune 500 CEO made 40 times (33) more than the average person who worked for him or her . . . By 2000, it was between 400 and 500 times, and last year I believe. . . it was about 530 times. There is no economic theory on God's planet that can justify that."

What Are They Smoking?

In an article wittily entitled *What were they Smoking? Fortune* asked how some of the best minds on Wall Street lost billions in the credit crisis: "A pack of the highest paid executives on the planet, lauded as the best minds in business and backed by cadres of maths whizzes and computer geeks, managed to lose billions of dollars on exotic instruments built on shaking foundations."[28] It said that "everyone rationalised that it's safe because they are making so much money" in fees.

It has a long list of staggering sums of money lost by the top US banks back in November 2007 and this toll has since mounted. The losses were on bad loans made on CDOs, structure financial products and asset-back securities and off-balance sheet "wizardry". And the regulators stood by even though many were whispering that this was not going to last, because they did not want to 'interfere' in the market.

Irish workers might also wonder what our top private sector executives are smoking. While

28 Fortune, 26th November 2007

most Irish companies are still profitable, many on the Dublin stock exchange had lost half their value in the year to April 2008, yet the pay at the top keeps on rising.

Executive Pay in Europe

In the UK, the ratio of chief executives' pay to that of the average staff member at the top 100 listed companies is 98:1. Although this multiple is far below that currently in the US, it is still three times that of the average of the 1980s. So the gap is closing between top executives in the UK and US. Simultaneously, the gap between those at the top of Corporate Britain and the average employee is widening.

Most European countries, with the exception of the UK, did not pay most senior executives excessive remuneration, until recently. But the disease of corporate greed is spreading. Germany has been another country where some large firms have followed the US in excessive executive pay. However, it has been harshly criticised and the ruling (jointly) Social Democrats, said in December 2007 that they will draw up legislation to cap boardroom compensation, following sharp criticism of it by Chancellor Merkel, their partner in government, who warned it may be regulated by the state. Although well below US standards, executive pay in Germany has risen recently, prompting critical coverage in the media at a time when officials statistics show a drop in average disposable incomes. Ms Merkel's attack came just days after the head of Porsche was reported to have earned €60m in 2007.[29]

29 Financial Times, 11 December 2007.

In February 2008, the head of the privatised German giant logistics Deutsche Post, which owns DHL and the Chair of Deutsche Telecom, Klaus Zumwinkel, was forced to resign over tax evasion. He is only one of 750 rich evaders the German tax authorities are pursuing for robbing the exchequer of hundreds of millions of euro through undeclared trusts in Liechtenstein. German politicians "fear the scandal will raise public dissatisfaction with the business establishment in the midst of a banking crisis, job transfers abroad and long debates over executive pay."[30]

Chancellor Merkel said the scale of his tax evasion was "beyond my imagination and beyond that of many people." She is seeking an easing of bank secrecy in Liechtenstein, which is urgently needed if there is to be a new era of transparency in corporate affairs in Europe. Merkel linked Zumwinkel with the loss of 2,000 jobs when Nokia closed a German plant saying "the plant was making a profit…… but still they took the decision to kill many jobs." Jurgen Schrempp, the former CEO of Daimler Chrysler, oversaw a share price collapse as he pocketed ten of millions from stock options.

An interesting point is that in Germany, the severance packages of top executives are not deductible from taxable profits, (which is a form of state subsidy for highly paid managers, where it is deductible).

Germany's leading investors' association, the DSW, complained in 2007 that despite legal changes in 2005 that forced listed companies to publish executives' earnings on an individual

30 Financial Times, 16 February 2008.

The pay of Chairmen of top 250 UK firms climbed by more than twice the level of inflation in 2007,

basis, many companies still use loopholes to hide the true remuneration. It said details of what companies actually pay their top executives "were still missing from many annual reports."

The study showed that Josef Ackermann, Deutsche Bank chief executive, was the best paid among DAX companies, earning €13.2m ($17.8m) last year - €9.4m in salary payments and €3.8m in stock options. He earned €11.9m in 2005. Average earnings for executive board members in the 30 DAX companies were €1.9m, compared with €1.7m in 2005, a rise of 11.7 percent. In France, a comparable figure for the largest 40 companies in 2006 was €2.3m, while average executive earnings for the FTSE100 in the UK were €1.7m, according to the DSW.

Table 2.2

Top earners in Germany

Josef Ackermann, Deutsche Bank	€13.2m
Wolfgang Reitzle, Linde	€7.4m
Dieter Zetsche, DaimlerChrysler	€7.2m
Harry Roels, RWE	€6.9m
Hans-Joachim Körber, Metro	€4.7m

Includes salary and value of stock options

Source: DSW German Investors' Association

Siemens, Europe's largest engineering group, took the very unusual step of halting a 30 percent executive pay rise in late 2006 in an effort to stop an angry tide of criticism over the troubled mobile handset division it had paid a Taiwanese company to take over, where 3000 workers faced unemployment. Politicians and union leaders accused Siemens of being "irresponsible" and creating "a total mess."

Even in Switzerland, known for its business secrecy, there has been unease at the level of corporate greed. While the pay for the top bosses is low compared to the US, in the intensely democratic and egalitarian country, shareholders gave Mr. Vasella of Novartis's, the pharmaceutical giant's chairman and chief executive, a rough ride over his remuneration calling it "inappropriate" and his board "arrogant." His total remuneration - SFr21m (€13.3m) according to the company, but SFr44m, according to Ethos the Geneva based investment foundation. The company bowed to public pressure in the face of the widening pay gap and shareholders by scrapping his golden parachute severance payments when he leaves the company - three times his annual salary, but five times in the case of a change of control.

In the UK, the average compensation of FTSE companies averaged £3.17m according to IDS and the average pay had doubled in the past five years. The pay of UK executives is behind that of the US, but the gap is narrowing according to research from University of Pennsylvania, as we have seen. It showed the US CEOs average pay was 1.6 times that of the UK in 2003, down from 2.2 times six years earlier.

The pay of Chairmen' of top 250 UK firms climbed by more than twice the level of inflation in 2007, while non-executive directors' pay rose on average more than three times the level of inflation. MM&K, a remuneration consultancy, Hanson Green, a recruitment firm and Deloitte, financial services firms, said non-executive pay had risen steadily since the introduction of the UK's Combined Code on good corporate governance in 2003 and was rising faster than salaries of executive directors. The typical non-executive director spends about two days a month on each board of which he or she is a member. On average, directors in the UK have three directorships. The typical chairman of a top UK company spends about one day a week in the office, rising to two days a week in some circumstances.

Executive Pay in Ireland

Some 67 percent of Irish chief executives were in line for a bonus of up to 30 percent of their salary in 2006. This compared to some 60 percent of executives in 2005, according to the Irish Management Institute (IMI). The average salary rose 6.3 percent in the 12 months to June, 2006, after climbing 5.5 percent a year earlier. Managers at the head of function level, reporting directly to chief executive, received the highest pay rise, at 9.3 percent. They also got the biggest bonuses, with 59 percent earning bonuses of up to 20 percent of their salary and 12 percent getting over than 35 percent of their annual pay. Two-fifths of middle-management received a bonus of up to 15 percent of their salary, the IMI survey found.

An examination of the pay of senior management of Irish companies over the decade to 2007 found that for small companies, the rate of increase of most managers was a rise of around 110 percent in the decade. This is considerably above the comparable rise of 74 percent for industrial workers. Thus the remuneration of most Irish managers of smaller companies (20-50 employees) has been rising far faster than that of average earnings of industrial workers. For CEOs, the rise was 117 percent and for front-line managers it was 125 percent; with heads of functions, it was lower at 95 percent. For companies of between 51-100 workers the gap also widened for different types of managers.

However, for larger companies (101-250 and the category 251-500 employees), the pay gap did not widen too much and it narrowed in some instances. So the conclusion is that many mangers did very well, within the IMI survey which has the benefit of consistency.

Of course, any firm can decide not to participate in a survey and many Irish firms are becoming less transparent and hiding their finances, especially on remuneration. We can see the remuneration of just some of the very largest companies in Ireland - those employing over 500 – which are listed below. However, a growing number are private or unlimited companies and disclose no financial information.

Inflationary and Inflammatory Remuneration

The decision by the government and the Department of Finance to ratchet up the pay of one commercial public sector CEO, to €500,000 a year, is a bitter pill for all trade unionists and other employees to swallow[31]. There is no evidence, beyond the self-reinforcing cries of the elite corps of executives, that the CEOs of state-owned companies require such high remuneration for their retention and motivation. Furthermore, there is no evidence that the top executives of publicly owned bodies have to be paid the soaring remuneration of the private sector.

There is no case of the CEO of a State body walking when he did not get a big pay rise. There are many very capable executives willing and ready to replace each CEO. There is still a public sector ethos and the pay levels today are adequate. Secondly, the pay at the very top of the public sector has a strong influence on the pay of second in line and that, in turn, influences down the line. Thus, increased remuneration at the top impacts down the line. The recommended pay increase from the High Level Review Group in the Public Service will influence pay demands.

In the US, a tax law change made in 1992 means executive salaries over $1m are not tax deductible against the company as a cost.

In Ireland, we should espouse a society based on merit and rewarding work, enterprise and effort. Every year in the Budget statement, the Irish government states that it espouses these ideals (while taxing income from interest, from inheritances and from speculation at lower rates than the tax it levies on work, enterprise and effort!).

In order to move to a fairer society, ordinary workers should no longer subsidise companies which pay their bosses obscene amounts of money. Therefore, tax subsidies to companies which pay their executives over 15 times the average industrial earning should not longer be deductible against tax as a cost. This would mean that today any payment over €500,000 would not be subsidised by the ordinary taxpayer. This would apply to all companies and to all remuneration - from salary, bonuses, share options, etc. (but would exclude pensions, which would also be reformed to be more equitable and less costly to the taxpayer).

31 The Irish Times asserted that this company "has had difficulties before with State pay rates." But the newspaper did not justify this claim. It said that a report drawn up by the Hay Group consultancy firm, that the position of the particular chief executive had a "median" market value of €452,100. It found that overall pay levels of chief executives in some of the larger commercial State bodies were lagging nearly 20 percent behind the average in the private sector. It also stated that, in practice, the pay of chief executives in the commercial State sector was 14 percent behind the market average. The Hay report concluded that only two chief executives in the commercial State sector out of 14 were being paid close to the average salary enjoyed by their private-sector peers. It said that both of those executives - in An Post and the Dublin Airport Authority - had been recruited from private business." Note the comments on pay consultants in the text of our report. The lack of expertise in the Dept. of Finance has contributed to the ideological shift due to the privatisation of advice and the reduction of a public service ethos and corporate memory, in spite of its own talent bank.

The Irish owners of many of Ireland's leading companies and of Irish based MNCs have been fleeing from disclosure and transparency.

The Flight from Transparency - Unlimited Companies

Congress is perturbed by the flight from financial disclosure in Ireland. With the emphasis on greater transparency and accountability around the world, the opposite has been happening in corporate Ireland. The Irish owners of many of Ireland's leading companies and of Irish based MNCs have been fleeing from disclosure and transparency.

Table 2.3 shows the steady increase in the flight from limited company status to unlimited status, to avoid financial disclosure, by Irish companies. Virtually all of these companies are large and so the impact on the wider economy is much greater than might be first apparent.

Table 2.3
Irish Companies Becoming Unlimited

Year	Number of companies
2002	38
2003	110
2004	143
2005	188
2006	186
2007	240

Source: CRO

The short list on the next 2 pages, of the flight of major named companies to unlimited status, is just an indication of what has been going on in corporate Ireland.

BOX 2.1

The Flight from Disclosure

Property developer **Liam Carroll's** main holding company is Zelderbridge which now has unlimited liability. Mr Carroll is the principle of Danninger, another unlimited company.

Owen O'Callaghan has re-registered one of his businesses as an unlimited company. Moyglen Holdings, a property business in which Mr O'Callaghan has a 40 percent shareholding, went unlimited on December 11th, 2007.

Developer **Seán Dunne** controls the Jurys hotel complex in Ballsbridge, which he bought in 2005 for €379 million. He used a vehicle called Padholme to provide the new guarantees to the bank last month in respect of two wholly-owned subsidiaries, known as JDPHC and BCPHC, which are part of the corporate structure that owns the properties. An unlimited company, JDPHC was formerly known as Jurys Doyle Property Holdings Company. BCPHC is also an unlimited company. Padholme is ultimately owned by a firm called DCD Builders, which itself is owned by Mr Dunne.

The **Bernard McNamara group** is owned by way of a holding company called Adenway, which, as an unlimited company. His main building firm, Michael McNamara & Company, is an unlimited company and does not reveal figures.

Cosgrave Property Developments is a subsidiary of Borg Developments, an Irish registered unlimited company owned by an Isle of Man company, Waterpool Ltd, which is in turn owned by another Irish registered unlimited company, Genstar.

G hotel is run by Monogram Hotels, and its parent company is listed as Radical Properties, which includes other property and hotel investments owned by **Gerry Barrett**. Radical Properties filed a notice to become an unlimited company, in September 2007.

Sean Mulryan controls the group Ballymore. Ballymore Developments is a subsidiary of Ballymore Ireland Ltd, which is incorporated in the Isle of Man. Ballymore Properties, an unlimited company based in the Republic of Ireland, is the ultimate parent.

Many of the property developers rent their properties to the state, ie to you and me, and so we should know the basic financial facts of their operations.

International Investment and Underwriting (IIU), the investment vehicle owned by **Mr Dermot Desmond**, changed to an unlimited company to avoid disseminating financial information in 2004.

Meat processor **Larry Goodman** has re-registered his firm Reverie, which manages the Setanta Centre on Nassau Street, Dublin, as an unlimited company in September 2007 and thus Mr Goodman will no longer reveal financial information on the firm because, as an unlimited company, it will not be required to file accounts. Irish Food Processors, another Goodman firm, changed its status from a limited company to an unlimited company in 2004.

Dublin family-owned fruit firm **Keelings** has transferred the entire issued share capital of Borling Investments, the unlimited holding company that controls the various business units within Keelings, to a new holding company called Gundagai Limited with a value of €169.2 million for the shares. The entire issued share capital of Kakadu, the ultimate owner of Borling, was also transferred to Gundagai.

Cork's **Punches**, the shoe polish and cleaning products company, which was sold in 2006, was unlimited.

Louis Fitzgerald pub group runs some of the best-known drinking pubs in Dublin and Mr Fitzgerald is one of the Republic's wealthiest publicans also has a number of restaurant, hotel and property interests. His vehicle is the Cregagh Investment Company, an unlimited company, and it employed 662 people in 2006.

Atlantic Dawn Ltd, the company owned by Donegal fisherman Kevin McHugh with two supertrawlers, went unlimited in 2005.

Superquinn is an unlimited company, now owned by property developers. Its former owner, Senator Fergal Quinn told an Oireachtas committee some years ago that the company's competitors, namely **Dunnes** and **Tesco**, also keep this information to themselves, so he did not think that he should allow financial information into the public domain. Yet Musgraves, perhaps the largest retailer in Ireland, publishes full annual accounts.

Sam Dennigan, a Dublin-based logistics firm won the contract from Dunnes to distribute the rest of its chilled and fresh produce. It already distributes potatoes for the multiple and is the biggest potato distributor in Ireland. Sam Dennigan is now an unlimited company.

Barry's Tea is an unlimited company controlled by Barry's (Cork) Ltd a large old Cork company. It bought Batchelors in a €95 million deal in 2003.

Glen Dimplex, one of Ireland's largest multinational companies, is an unlimited company, and does not publish financial information, aside from reporting a group turnover.

And the Foreign owned companies are hiding their books too….

The headquarters of the global **Pepsico** concentrate operation moved to Cork in 2006. Most of the Irish Pepsico subsidiaries, both manufacturing and treasury, are unlimited and so do not produce publicly available annual accounts. As a significant concentrates production operation in Little Island, Cork, which exports products around the world, the company will not say what percentage of its worldwide concentrates production occurs in Cork. As well as its manufacturing and other operations, Pepsico has had very significant treasury operations in Ireland for many years, based in the offices of a solicitor, in Dublin.

Dublin is the second-largest **Google** operation globally, with the largest in Mountain View, California. Google Ireland was established in 2003 and is unlimited. Google's main subsidiary in Ireland is Google Ireland Ltd, is the largest outside the US and looks after the group's European business. In 2006, it had a turnover of €3.3 billion and made a profit of €17.3 million. It paid €3.3 million in tax. It is a subsidiary of an unlimited company called Google Ireland Holdings, which is owned by Google Inc via an intermediary in the Bahamas.

In 2006 **Microsoft** changed status of its Round Island One and Flat Island companies from limited to unlimited. Round Island One, which carries out research and development and controls more than $16 billion (€13 billion) of Microsoft assets, made a profit of €3.52 billion in the year to June 2004, the last year for which it had to publish information. It paid $308 million (€242 million) in Irish corporation tax. Flat Island Company made a profit of $802.4 million in 2004 on sales of $2 billion (€1.5 billion), but paid no tax. It issues licences for software in Europe, the Middle East and Africa.

One of the few critics of Ireland's regulation and incentives to attract MNCs has been Trinity College Professor Antóin Murphy who said that the State needs to be careful not to go too far in its efforts to attract business here with tax-based incentives. He says it would be better to reject new tax devices that could attract new business here but which could also cause damage to Ireland's image. He points to "the number of companies that have in recent times produced huge profits but have few employees. Some of these Irish-registered subsidiaries of foreign multinationals are producing hundreds of millions of euros in profits but can have fewer than 50 or even 20 employees." They appear to be tax driven.[32]

Professor Murphy also believes there is inadequate regulation of the growing number of multinational operations locating here for tax reasons. "The enormous danger is that we would lose our reputation. Say some financial institutions here got into difficulties and this reflected badly on our regulatory regime. We need plenty of good, well-educated people involved in regulation. We need more accountants, lawyers, tax experts." He was also critical of the use of unlimited status to avoid financial disclosure by MNCs.

Unlimited companies are not required to file accounts with the Companies Registration Office.

32 Irish Times 10 Nov 2006.

Why the Flight from Transparency?

- To hide soaring pay and benefits of top executives from the majority of employees;
- To stop/mitigate pay demands in companies which are making huge profits by hiding them from the workers and unions.
- To aid Tax Avoidance, with the complex use of many companies and little information and disclosure;
- To help reduce the demands for increased taxes on a) huge incomes, b) on soaring wealth accumulation and c) on inheritances;
- Highly-paid executives feel insecure and do not want people to know of their soaring incomes and wealth;

What is to be Done on the flight from transparency?

The benefit of limited liability gives privileges and in return, society expects the beneficiaries to assume some responsibilities. The move to have a group of limited company owned by one unlimited company avoids the responsibility of disclosure, while giving the benefits of limited liability to the subsidiaries. While banks can demand to see the accounts, other interested parties, such as suppliers, employees and others, cannot.

Three levels of financial disclosure

There are three levels of financial disclosure under Company Law in Europe, with responsibilities on financial disclosure being negligible for small companies, then with more disclosure for mid-sized companies and full disclosure for large companies.

Congress believes that all large companies should have to disclose all financial information in full, as a group, and should not be allowed to use the unlimited company to avoid disclosure. Nor should companies be allowed to operate in Ireland by profiting from activities in Ireland, if they are registered in tax havens like Liechtenstein or the Bahamas, another favourite 'home' of many 'Irish' companies. The decision by the German government in February 2008 to clamp down hard on tax evaders who hid money in Liechtenstein and to censure that country as a tax haven should be followed here.

Public Interest Companies

In addition, all 'public interest companies' should have to disclose the full accounts of those individual subsidiaries which are deemed to be of interest to the public. 'Public interest companies"' are those where the public are consumers, or as taxpayers where the state is a major client of the company eg renting many offices from the company, or where the company has a large market share in its sector, or where the company is a significant employer in Ireland.

European Companies

European companies can avoid disclosure by lumping all subsidiaries together, Congress holds that the Irish subsidiaries of European companies which are "public interest companies" should no longer be able to lump all their assets and sales into one big company and should disclose accounts for each member state in which it has large operations.

With globalisation, the shift in the balance of power from the sovereign state to the corporation has to be redressed. Transparency and disclosure of information on how well companies are doing in each country is a minimum demand of unions and citizens.

Top Pay in Ireland

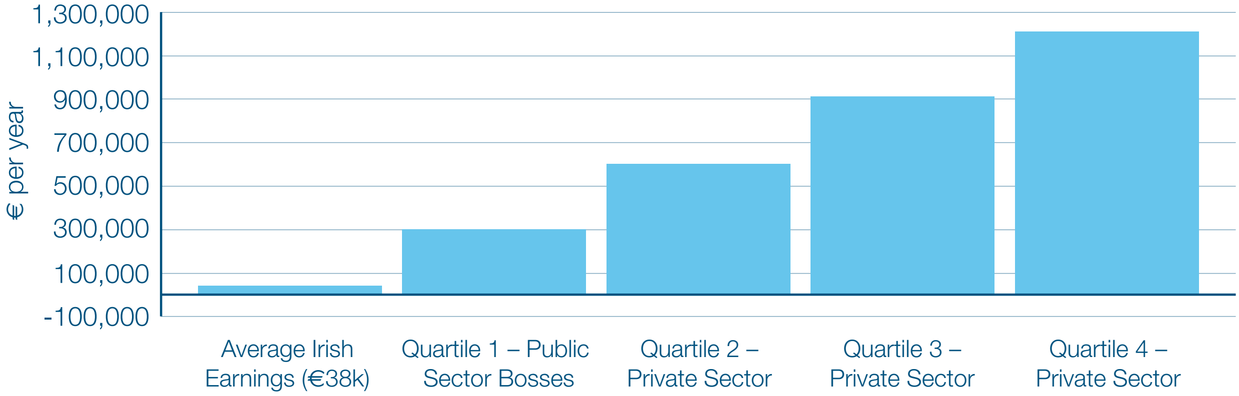
The publication of the report of the Review Body on Higher Remuneration in the Public Sector, late in 2007 drew huge media and public attention. There was heavy criticism on the size of the pay recommendations which included increases for top public servants as high as 36 percent for one grade to over 11 percent for senior civil servants.

Government ministers were awarded very large increases, while they lectured trade unions on the need for pay restraint! However, the media, as happens, missed the big story. It was that the core of the report was a) reflecting the now extraordinarily high remuneration levels at the top the Irish private sector, b) recommending a widening of the pay gap between those at the top and those below and c) its report was based on the unproven and unquestioned view of top private sector executives that they deserved these levels of remuneration.

The pay of the top civil servants now runs from €151,000 to €303,000 at the very top, plus a 10 percent bonus for many, excluding Secretary Generals. Thus, the remuneration of the top private sector executives can be estimated,

Figure 2.1

Average Earnings & that of Top Irish Executives – Salary plus Bonuses 2008



Source: CSO and estimates based on report of Higher Level Remuneration Group, Nov 2007.

as the pay of the top civil servants in Ireland including bonuses, is based on the bottom quartile of the private sector. Figure 2.1 shows the average earnings of most employees on the left hand side, with the other four columns disclosing the top of each of the four private sector quartiles. There is, of course, the fifth quartile in the private sector of what the High level group called "excessive" private sector remuneration. Some would be in Table 2.3 below.

And this does not include the annual income arising from the wealth of the billionaires in Ireland which will be briefly examined below.

Thus it can be estimated that those executives at the top of the top quartiles are paid around €1,212,000. One could fault this calculation asserting that it is not comprehensive as the numbers in each quartile are not taken into account. However, as neither the Review Group nor government provided this information by publishing the report on which the pay levels are based and deemed it outside the scope of the Freedom of Information Act, is up to them to refute it. (The average Irish earnings given in the graph for contrast, is the average for all workers in most of the economy and, at €38,000 in 2007, it is higher than average industrial earnings which was €33,000, which has been the standard for decades).

It can be demonstrated, from the remuneration of publicly named Irish executives below, that these figures are in the correct range. On top of the salary and bonuses, many of the top bosses have share options and people like Michael O'Leary had already cashed in shares given to him by Ryanair to the tune of hundreds of millions of euro.

Of the 2.1 million people at work in Ireland, 1.5 million or 71 percent earn less than €38,000, which is the newly calculated average earnings figure in Ireland for 2007. Half of all employees earned less than €27,844 in 2006, based on the average week of 35 hours.[33] In contrast this is what some of those at the top get:-

Table 2.3

The Remuneration of Some Top Irish Executives, 2006

Brian Goggin	Bank of Ireland	€4,000,000
Paul Walsh	Diageo	€3,750,000
Liam O Mahoney	CRH	€2,656,000
Eugene Sheehy,	AIB	€2.400,000
Aidan Heavey	Tullow Oil	€1,600,000
Hugh Friel (CEO)	Kerry Foods	€1,200,000
Denis Cregan (CF0)	Kerry Foods	€1,000,000
Michael O Leary	Ryanair	€992,000
John Maloney	Glanbia	€927,000
Dermot Mannion	Aer Lingus	€890,000

The nine non-executive directors of Anglo Irish Bank enjoyed average remuneration of €115,777 each, in the year. The bank's share price fell in the year, like those of most Irish banks, from over €16 to €8.9 in year to March 2008, a fall of 44 percent.

33 CSO National Employment Survey 2006.

Table 2.4
Anglo Irish Bank Bosses Remuneration in 2007

	Salary	Bonus	Other	Total
David Drumm	956	2,000		3,274
Tom Browne	455	600		1,226
William McAteer	485	800		1,427
Declan Quilligan	484	735		1,366
Pat Whelan	413	640		1,212

Depfa Bank, the Irish-headquartered German bank, located in the IFSC to avail of low taxes, is the best payer for its top executives. In 2006, it paid the eight members of its executive committee a total of €21 million. Led by chief executive and chairman Gerhard Bruckerman, the committee received €23 million in 2005, a year in which it had six members. That's just short of an average of €4m each! Expect to see its accounts disappear into unlimited land or lost in those of its new parent company.

Irish executive pay rose by an average of 7.1 percent in the year to June 2006 according to the IMI survey of over 6200 executives in over 900 companies sampled. For unionised workers, the rise was 4.6 percent under Towards 2016. Some CEOs got almost 10 percent, with other getting less. Most executives also had company cars, and medical insurance. No information was revealed on share options, the real bonanza for those at the top of quoted companies. But on top of these basic salaries 9 out of ten executives also received bonuses. The size of these bonuses was not given[34].

In AIB, the chief executive, Eugene Sheehy, was paid €860,000 in salary and a bonus of over €1,500,000 on top of this. His total remuneration was €2.4m as in Table 2.3 and a fellow director Colm Doherty received almost €2,000,000, with the bonus element making up €1,200,000. A third director was paid over €1,000,000, half of which was the bonus. All have generous share options on top of this remuneration, the value of which is unclear.

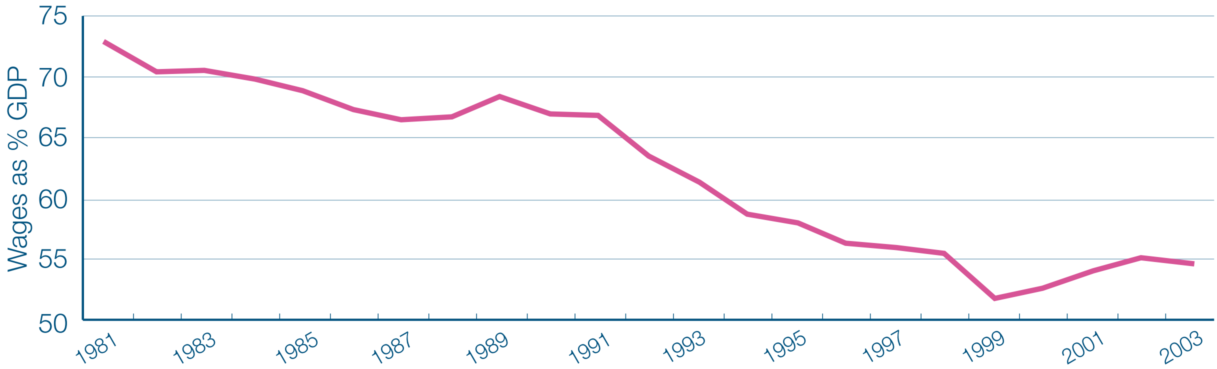
AIB's remuneration was set by four non-executive directors, Dermot Gleeson, Chairman, John McGuckian, Don Godson and economist Jim O'Leary. These directors are or were also directors of several other major companies. Mr Gleeson, chairman of the company, received fees of €408,000 for the year for that non-executive position. Liam O'Mahoney of CRH received a salary of €1,240,000 in 2006 with the balance, as in Table 2.3, being bonus and deferred shares. The total remuneration of Mr Sheehy was reduced to €2.1m in 2007, ie by 13 percent, but the shares fell by 46 percent in year to end March 2008.

Irish companies quoted in the US give better financial information than those governed by Irish company law. The SEC's rules on pay disclosure are far tougher than in Ireland, where individual bosses remuneration was only

34 Irish Times, 39 November, 2007.

Figure 2.2

Wage Share in Irish Economy 1981-2006



Source: European Economy.

recently disclosed and too often is obscurely written, to assure 'discretion'.

It can be seen from Figure 2.2 on the next page that the wage share in the Irish economy has fallen dramatically since the early 1980s. This shift in the division of the national cake has been happening in most of the developed world, with a major shift from the share of workers' wages and salaries of national income to profits, from labour to capital. Even the conservative OECD is worried about the shift which has major economic consequences, such as reduced economic demand. In Ireland there has been a slight move back to a more equitable share in recent years as the table indicates[35].

Reducing the Growing Earnings Gap

It was seen that the gap between the earnings of top executives and average workers in the US has been widening and, regrettably, is being emulated in Europe and in Ireland. As government continues to privatise more of the economy, the pay levels of top public servants are growing to the same levels as the bottom quartile of the private sector and these now exceed those in other countries, even though the top Irish executives run much smaller organisations.

Yet it must be remembered that the high increases in earnings for senior public servants and executives in state bodies, which were recommended by two independent boards in late 2007 and early 2008, were based on the very high earnings of top executives in the *Irish private sector*. The pay of the top executives in the Irish private sector has been following that of the Anglo-American model, i.e. UK and the US, rather than that of the Scandinavian or some European countries.

Yet it also has been seen that many, including the conservative magazine *Fortune*, are now highly critical of the remuneration of top US executives and of the boards of the top firms for paying such stratospheric 'rewards' to senior executives. It said "the rewards defy all economic logic." It argued that "Corporate America's compensation system is broken".[36] Ireland's top level pay is heading that way, assisted by growing secrecy around the whole area of remuneration for top executives.

The EU must act on those very rich who are avoiding their responsibilities in paying tax. The legitimacy of the political system is at risk with the growing numbers of so many extraordinarily wealthy people now not paying income or inheritance taxes in any country, with increased mobility and the use of tax havens. It has been seen that of the top 20 richest people in Ireland as many as 40 percent deign not to pay any income, capital gains or inheritance taxes here, yet most of them derive most of their wealth from the Ireland; most play here; and some even may live here, illegally. Government ministers and more Irish politicians must become aware how morally wrong this is and how it is undermining democracy. These people have the most powerful representation without paying taxation.

35 The graph is more illustrative of trends that actual shares in the case of Ireland because of the impact of transfer pricing by MNCs – in short the profit share in Ireland is exaggerated

36 Fortune 10th July 2006.

What should be done:

1. Terminate the tax subsidies for huge salaries for executives, like the US has since 1992. In the US, senior all executives of publicly held corporations have to declare if their total remuneration exceeds $1,000,000 a year (c. €640,000) and profits. This practice should be immediately introduced in Ireland for all companies, public and private. The limit should be set where executives are paid more than 15 times the average industrial earnings. The excess over that sum currently over €500,000 would not longer be deductible against tax as a cost. This would mean that any excess executive remuneration payment would not be subsidised by the ordinary taxpayer. It should include a) *all* remuneration including share options (whether exercised or not), deferred compensation, all forms of bonuses and benefits of all kinds, with the exception of pension contributions and tax subsidies. In short, if the non-executives of a company want to pay executives huge salaries, bonuses and share options, then there should be no tax subsidy on the excess over €500,000. The company pays the excess excessive remuneration from profits.
2. Reduce the ceiling on the amount of tax subsidies top executives can claim by limiting the ceiling on annual pension investment to three times industrial wage as per Congress' Budget Submission of November 2007. There is a strong case to limit this more with the subsequent revelations on the gap between top executive remuneration and ordinary workers. Why should the rest of us subsidise all of their pensions though over-generous tax breaks?
3. Place a cap on executive pay by not allowing bonuses to exceed one-third to one half of salary.
4. Reform company law on transparency of executive remuneration with tighter legislation for all large companies in Ireland. It should be similar to the SEC in the US, where there is a clear statement of annual remuneration for top executives with *a single total figure* for the year, with simple disclosure rules covering all top executive remuneration, including pensions, share options, chauffeured company cars, use of helicopters, aeroplanes and other benefits. This should apply to all senior positions in the public sector too.
5. A law should be introduced to set broad parameters under which top executive pay is set by company boards in Ireland which will establish objective criteria, including financial performance, employee welfare, consumer satisfaction, environmental protection, etc.
6. Consideration must now be given to the appointment of real outsiders as non-executive directors appointed to the boards of major companies, either by a government appointments body or an investor grouping, or by a pension fund, or even by worker representatives. This should now to be considered here and abroad in the light of the excessive remuneration and poor performances of many of those at the top of the corporate world.
7. There should be an oversight group (of truly independent persons including

What is remarkable is that the very richest in Irish society do not pay income taxes.

employee/union representatives, pension funds, consumers, government nominees, citizens, etc.) which ensures that top executive pay packages of all large Irish companies annually comply with the criteria set out in this section.

8. Reform Irish Company law to make it more transparent, by removing the option for all large companies to avoid disclosure by a) going unlimited or b) by merging Irish businesses into European consortia or c) any other means. All public interest companies should have to disclose the full accounts of those individual subsidiaries which are deemed to be of interest to the public. Congress holds that the Irish subsidiaries of European companies which are public interest companies should no longer be able to lump all their assets and sales into one big company.
9. Companies should no longer be allowed to operate in Ireland by profiting from activities here if they are registered in tax havens like Liechtenstein or the Bahamas, without also having an Irish registered base and disclosing all information in accordance with Irish law.
10. There is a strong case to impose a higher tax rate on very high incomes, when we recognise that there are many who “earn” over a million a year and some much more.
11. A systematic and vigorous pursuit of Irish tax exiles must begin now, to ensure that they are tax compliant on residence and domicile grounds.

The net impact of these reforms will be to:

a) To help reverse and reduce the widening pay gap in Ireland;
b) Reduce tax subsidies to excessively paid top executives in the private sector;
c) Help rebalance the relationship between executive performance and corporate performance;
d) Greatly improve transparency;
e) Boost productivity by improving workers’ attitudes in a fairer workplace / society.

The Growing Gap in Wealth.

In addition to the growing incomes gap, the wealth gap has grown immensely in Ireland, as a small minority have made extraordinary amounts of money with the economic boom of the past 20 years. What is remarkable is that the very richest in Irish society do not pay income taxes, using the many tax shelters provided by government under various guises to stimulate “enterprise” such as the BES or investment in property and new tax loopholes for investment in private hospitals and, most recently, in hospices.

Thanks to the persistent efforts of Congress, many, though not all of the property-based schemes are being terminated, albeit slowly. The government was finally embarrassed by the annual disclosures that the highest income people used the many loopholes provided by the government to avoid tax (legally) and so, only under pressure, have finally introduced a minimum tax on these tax avoiders. It is no substitute for the abolition of the many tax

Table 2.5

Top 20 Wealthiest Irish & their estimated Annual Incomes/Gains

	Taxpayer	Wealth	Income/Gains
Sean Quinn	Yes	€4621	€277m
Tony O Reilly	No	€2533	€152m
Denis O' Brien	No	€2262	€136m
Dermot Desmond	No	€2121	€127m
Ryan estate	No	€1503	€90m
John Magnier	No	€1095	€66m
Murtagh Bros	Yes	€968	€58m
Frank Dunne	Yes	€918	€55m
Sean Mulryan family	Yes	€883	€53m
Tom Roche family	Yes	€868	€52m
Martin Naughton	Yes	€862	€52m
JP McManus,	No	€850	€51m
Liam Carroll	Yes	€818	€49m
Margaret Heffernan	Yes	€745	€45m
U2	No	€738	€44m
McMahon family	N/K	€720	€43m
Michael O'Leary	Yes	€636	€38m
Michael Smurfit	No	€630	€38m
Micheal Flatley	n/k	€571	€34m
O Flaherty family	n/k	€498	€30m

Note: Annual Income/Gains based on 6 percent return on estimated wealth.

Source: Times Rich List, 2007

shelters which are of dubious merit and cost the ordinary taxpayers millions and millions every year in lost taxes. The property based tax “incentives” alone cost Irish taxpayers staggering €2,000m to mid 2007 in lost taxes.

Table 2.5 on the previous page shows the annual income of the top 20 richest people in Ireland, estimated by the return on their holdings of wealth. This estimate of annual income/capital gains is based on a 6 percent return on wealth, which is lower than the S&P return of 10 percent on investments over many years. This annual income is largely capital gains and it is taxed on realisation of the gain and then only at 20 percent whereas the rest of us pay at a marginal rate of 41 percent. The wonderful financial ace for the seriously wealthy is *compound interest*. With compound interest, the basic sum is added to each and every year. This additional yearly sum, far beyond what even the most profligate could spend, can build great wealth, with no effort.

On top of high pay, the rich differ from the rest of us by their wealth. For example, it was seen that Michael O’Leary is paid almost €1m a year, but he had already cashed in shares in Ryanair worth hundreds of millions and presumably this generates huge extra annual income.

Unlike many of Ireland wealthy elite, O’Leary pays tax in Ireland, but his publicity stunt to “share the pain” of cost reduction in Ryanair in March 2008 by promising no pay rise for top executives looks weak when he himself would not miss a million or two, with an annual gain in wealth of close to €40m a year. Of the top 20 Irish millionaires, at least eight do not pay taxes here. The economic downturn will reduce the wealth gains in 2008 for some.

Ireland is the second wealthiest country in the world after Japan and the number of millionaires rose by 10 percent in 2006[37], according to Bank of Ireland Private Banking, though clearly our *public* wealth, in roads, hospitals, schools, museums, courts etc., is way behind.

The average household wealth in Ireland is €674,000 according to a report by a National Irish Bank in February 2008. However, this average is ratcheted up by the staggering wealth of a small number of super rich people. The median figure is not given, but is much lower. The report says more private jets have been bought in Ireland than any other European country and motorists own more Mercedes than Germans, per capita. Average household debt is at €127,000.

There is a Porsche club in Ireland now, according to Vincent Browne[38] . Membership has doubled in the last two years. There are 20 to 30 model 911 Porsches around, ranging in price from €175,000 to €250,000. New 911 turbo Porsches retail for about €250,000.

Since 2000, Jaguar has increased its market share by one-third. Mercedes has increased its market share by a half.

Browne continues: “There are between 40 to 50 private jets based in Ireland - presumably these do not include the private jets owned by tax exiles. There are 140 registered helicopters.

37 Bank of Ireland Private Banking, July 2007, *Wealth of the Nation Report*.

38 Vincent Browne, Irish Times, 13 February 2008

“Only the little people pay taxes”

- Leona Hemsley, New York’s Queen of Mean, convicted of tax evasion in 1989

Holidays in the Middle East and Far East are also booming. Middle East holidays nowadays have little to do with the Holy Land; they have to do with one of the most dreary, lifeless, uninteresting, bleakest locations on the globe, Dubai. Great weather, wall-to-wall sunshine and shopping. Non-stop shopping. Designer malls. Duty free. The latest designer fashions. A gigantic Dundrum shopping centre on the Persian Gulf.”

Browne concludes saying that “many Irish people are also engaging in the arts world, not, apparently, because aesthetic appreciation has blossomed here but because this is an arena of fabulously rich capital gains. The global market is now estimated to be worth about €45 billion.”

Walk Tall

If all the people in Ireland were to change size to match the size of their incomes and to walk past you, the first group to pass would be a very long march of very small people. Then they would begin to grow slowly and eventually most of the people walking past would be around the same size as yourself. This would be a long march past - with lots in this category. Then people would slowly begin to get taller and taller. Then they would get much taller, very rapidly. Eventually there would be very few walking past – but you would not see their faces. They would be so tall that their heads would be in the clouds!

It would be a much fairer society if most people were in a range of similar height, or at the very least, if the giants paid their taxes!

Tax the Rich

Some tax exiles are believed to overstay their time limits in Ireland because they are not monitored by the compliant state. Thus they should legally pay tax here. In other words, they are stealing from the state’s coffers. If any of the so called tax exiles spend one more day here than they should, they then should pay income tax and capital gains taxes and perhaps their inheritance taxes here. As they are so rich their incomes are presumably high and therefore their taxes should be large. The state employs 600 people to go after welfare cheats but how many pursue the exile tax cheats?

Peter Mandelson, former British Labour Party Minister, infamously told US computer executives that New Labour was “intensely relaxed about people getting filthy rich” and that party has overseen a growing incomes disparity and tax reductions for the seriously wealthy. In contrast, Congress believes that growing income disparities lead to widespread employee dissatisfaction; to loss of motivation and reduced productivity; to a squeezing of opportunities; to a reduced meritocracy; a squeezed middle class and ultimately to questions around political legitimacy.

Taxation is a key policy instrument for income disparity reduction. Taxation of unearned income, such as inheritance and taxing capital gains as income is fairer than the present system of lower taxes on unearned incomes and inheritances. The huge wealth now being built up in Ireland means that meritocrats must take a greater interest in effective inheritance taxes. Curbing the pay and other benefits of those at the top, while boosting the incomes of those at the bottom with high welfare rises, a good minimum wage and rises above inflation for most employees, would help narrow the pay gap. In addition, increased public services, a good health and education system and a 21st century public transport system will also help. Irish public spending on healthcare per head, is one third less than that of the Unites States (OECD, Health at a Glance, 2007 Paris).

In March 2008, leading investment bankers were forced by public outrage to propose new guidelines on pay and bonuses in the financial sector. So embarrassed were they, that they felt they had to act before governments clamped down on their pay due to widespread abuse of position. One group, the Institute of International Finance, a world association of banks, proposed a code that would discourage banks from giving incentives to traders to take "excessive risks" and …even censure them if risks were incurred! Josef Ackermann, who was mentioned above as a well remunerated German gentleman, said "executives must take a hard look at compensation structures." These may include deferring bonuses until the full impact of strategy is clear to prevent the bank bosses from continuing to take short term risks for personal gain or the "controversial" idea that executives who lost money for the banks and finance houses would have to earn it back before they got new bonuses!

Conclusion – Greater Equity means Greater Productivity

The growing income and wealth gap cannot continue if Ireland is to become a more meritocratic society, based on reasonably equal opportunities for all. What has been happening is dangerous for society and for the economy. The modern knowledge based economy cannot be based on a few rich barons directing the little people around. People are much more educated and demanding of good management and fair rewards.

Political legitimacy in Ireland and internationally is surely being undermined by the new breed of super rich who do not pay tax anywhere as tax exiles. The toleration of this by sovereign governments, along the huge tax avoidance industry in Ireland where the very richest pay little or no tax and are facilitated by a vast array of dubious *government*-sponsored tax breaks must end. This in addition to a system of grossly excessive executive remuneration, particularly in the private sector, assisted by a lack of oversight of executive boards by outsiders and the manipulation of share options and bonuses, with the compliance of so-called *independent* directors and major institutional investors. There is also a move away from corporate transparency to hide excessive remuneration by the use of unlimited, EU and offshore companies and the greater use of tax havens by the rich and their toleration by sovereign governments. It behoves serious politicians to address these issues nationally and at EU level.

What is to be done?

In recent decades, there has emerged a new breed of corporate executive who are paid vast sums of money that make them far richer than medieval kings and princes. They are making this money in very short time periods and little of it is through innovation or employment creation. It is not that they are far smarter than the rest of us and are creative and great value adders. Rather they are superb value subtractors from the economy as a whole. The new world economic order has stacked the odds strongly in favour of the corporate world, particularly finance and especially for those at the apex.

Since the fall of the Berlin Wall, politicians have been over-awed by the market, not realising that it is a man-made, rule-based construct. Those at the top have managed to change the rules in favour of finance, of speculations and of excessive remuneration. One result is the shift in national incomes in many countries from wages to profits and the other is the current world financial crisis.

Now is the time to shift that balance and in Ireland we can do a lot.

- Tax the very rich fairly. Most rich people in Ireland do not pay tax in Ireland and avoid it legally, exploiting the many loopholes, provided by successive governments in so called tax-incentives. A list of reforms is set out above including not subsidising the pay of excessively paid executives etc.
- Tax the very rich who are non-domiciles.
- Regulate the financial sector more tightly.
- Eliminate the flight from corporate transparency with offshore and unlimited companies.
- Ireland has to change its myopic, go-it-alone taxation policy and join with the other EU states in devising an equitable taxation system for companies and individuals.
- Sovereign states must cooperate to tax rich individuals by cracking down on tax havens and cooperate on non domiciles.
- Ireland must work with the EU and international organisations to set new rules for the markets where there is transparency, responsibility and there is a rebalancing of risk and reward in favour of real economic performance.