Shifting the Burden

Why the Government wants to load the cost of the collapse onto the less well off and why their plan will just make things worse

THAT'S NOT A PLAN

In the latter half of 2009, the Government formulated a plan to deal with the economic crisis. Key elements of that plan were unveiled on Budget Day in December.

But there are parts of the plan they won't reveal in public because, at its core, **lies a determination to load the full cost of the collapse onto working people and the poor.**

Be they wage earners, pensioners or social welfare recipients, their pockets will be picked to finance the 'recovery'.

But there will be no recovery as a result of this strategy - it will simply make matters worse. This is confirmed by the latest CSO figures (March 2010), which show the economy mired in the worst slump in 60 years with no signs of improvement.

The Government plan is failing because it is based on false assumptions, a complete misreading of the global crisis and it ignores all the warnings from history.

As the shocking figures for the bank bailout show, it poses a real threat to our future economic health and will erode whatever elements of social cohesion have survived the downturn. **It could turn Ireland into a social and economic wasteland for a decade or more.**

And while working people and the poor suffer for the mistakes and greed of others, the wealthy are to be spared and key components of the economic system that brought about the crash will be preserved.

At some point in the future, when the financial floodwaters have subsided, it will be back to 'business as usual': back to the high risk, low standard, crony capitalism that has destroyed the economy and Ireland's reputation overseas. That's their plan.

Like disciples of a dead faith, they cling grimly to the wreckage instead of starting over with a new vision.

1. SQUEEZING LIFE FROM THE ECONOMY

Cutting people's incomes is central to Government strategy and Step One was the cuts to public sector pay and welfare, imposed in the December budget.

Slashing benefits for the unemployed and the blind, while imposing prescription charges on the sick is what Ministers mean when they talk of taking 'tough decisions.'

But there are no new taxes on high earners or wealthy corporations. Income levies are imposed on wages, but corporate profits are exempted.

A 'rich list' compiled by a Sunday newspaper has estimated the worth of Ireland's 300 wealthiest individuals at approximately €50 billion.

Prior to the Budget the country's largest accountancy firm – PricewaterhouseCoopers (PWC) – lobbied Government to ensure it did not impose a new tax on very wealthy 'tax exiles', people who make money here but pay no income tax as they are 'non-resident'.

They warned that some wealthy clients would sell their assets here, in the event of a tax change. The pleas of PWC fell on receptive ears and Government opted instead for a flat charge - which will be lower than what they might have paid in tax.

PWC acts as a paid advisor to the Department of Finance on tax issues and to Government in relation to NAMA.

Overall, the Budget took just €73 million from millionaires but over €760 million from social welfare recipients. And now Government is considering proposals to let employers cut the pay of those earning a few cents above minimum wage.

And despite having 440,000 people out of work and the one of the highest jobless rates in the EU, they have refused to invest in either job protection or real job creation.

Meanwhile €11 billion has already been poured into the banks and a further €30-35 billion could be required in the coming months. Some of this will come from the National Pension Reserve Fund, set up with taxpayers' money to provide some security for people in old age. It is uncertain if any of that money will ever be repaid.

These are truly horrendous and shocking figures and will shackle us with debt for generations to come.

In most major economies governments responded to the slump in private sector activity through INCREASED spending to stimulate growth.

Here, Government policies mirror those pursued in Japan in the 1990s, which caused a 10 year slump and gave rise to that country's infamous 'lost decade'.

Two of the world's most respected economists - Paul Krugman and Joseph Stiglitz - have stated repeatedly that income cuts will turn a recession into a depression. Both have won the Nobel Prize for Economics.

And more recently, 28 economic experts in Ireland published an open letter to Government in which they stated that its policies are not working and will make the situation worse (http://www.irishtimes.com/newspaper/opinion/2010/0308/1224265794036.html).

2. TARGET THE LOW PAID

The attack on incomes is driven by a simplistic business argument that says pay cuts will restore 'competitiveness'. The argument is bogus as competitiveness is determined by a wide range of complex factors, of which pay is just one.

Low paid workers have been targeted from the outset. There is a certain, ruthless logic to this campaign: if wage rates across the entire economy are to be forced downwards - as Government and business intend - then wages on the lowest rung must fall first.

So they have attacked the National Minimum Wage and agreements that set basic wage rates in sectors like Catering, Hotels, Hairdressing, Contract Cleaning and Construction.

These agreements are known as Employment Regulation Orders (EROs) and Registered Employment Agreements (REAs). Some 550,000 workers are covered by these agreements and the majority earn just a few cents above the Minimum Wage.

But they act as a legal 'floor' below which employers cannot go. Lower that floor and all wages will drop.

The current Minister of State for Labour Affairs, Dara Calleary – previously employed by business lobby group Chambers Ireland – is considering a change to the law that would allow employers to plead 'inability to pay' wages set by EROs or REAs.

The fact that these rates are set by agreement between employers and unions raises questions about the need for this initiative, to begin with. Equally, the Minimum Wage legislation already contains an 'inability to pay' clause, but employers have never used it.

It beggars belief that wages set a few cents above the Minimum Wage could impair competitiveness, particularly as most of these sectors - hotels, catering, hairdressing - do not compete or trade internationally.

Meanwhile, wages at the high end of the scale continue to edge quietly upwards: although some may have foregone bonuses, average pay for top executives has now risen from €610,000 to €612,000 per annum.

That's €12,750 per week, or just under €320 per hour.

3. THE MINIMUM WAGE IS NEXT

The Minimum Wage is set at €8.65 per hour and it has not been increased since July 2007. It has already been cut once because of the income levies introduced in 2009. The actual 'take home' rate is now €8.48 per hour.

Business lobbyists have demanded a cut of at least €1 per hour. They claim our rate is the second highest in the EU and therefore damages 'competitiveness'. This is untrue as it only includes countries where the minimum wage is set by law.

In Sweden, Denmark, Norway and Finland it is set by agreement between unions and employers in each sector of the economy – Retail, Catering, Construction etc. When these are taken into account Ireland's Minimum Wage falls to sixth (Norway is not an EU member, but is a member of the European Economic Area).

Equally, the true value of wages can only be determined by what they can purchase and must correspond to the cost of living in each state. Despite deflation, our cost of living is typically higher than our neighbours.

When rates are adjusted to take account of purchasing power, Ireland's Minimum Wage falls to ninth position.

4. MAKING AN EXAMPLE OF THE PUBLIC SECTOR

The Government used the Budget to launch the official assault on wages, through public sector pay cuts. These workers have now seen two pay cuts in 12 months and incomes reduced by up to 15 percent. This was on top of an agreed 3.5 percent pay rise already foregone by staff.

Ministers and official representatives traveling the world for St. Patrick's Day carried a Department of Finance briefing that, according to newspaper reports, literally boasted of the pay cuts.

Government has repeatedly insisted that 'budgetary policy' cannot be reversed, in this regard. Yet, that is just what happened days before Christmas when the pay cuts for 700 senior civil servants were reversed. An official memo noted they were "not part of the ICTU."

More significantly, just before Budget 2010 the Government walked away from a deal that would have delivered the permanent savings they needed.

It would have seen 'short-time' working introduced into the public sector, in tandem with a major programme of public sector transformation and reform.

The short time working initiative was heavily criticised by business lobbyists and some backbench TDs. But in September 2009 a survey by employers' body Ibec found 22 percent of private sector firms had already introduced short-time working, with a further 45 considering it for 2010.

The decision to abandon the deal - even as the final text was being agreed - confirmed that cutting wages was the official goal, not saving money.

In March, new proposals on reform and transformation emerged from intensive talks between public sector unions and management, following a campaign of industrial action. While these mark a shift in the official position, the Government still remains wedded to its income cutting philosophy and policy.

On Budget day it was announced that "... *membership of monetary union also means (currency) devaluation is not an option. Therefore the adjustment process must be made by way of reductions in wages, prices, profits and rents."* (Budget 2010 speech, p7)

To date, there has been no action on prices, profits or rents. In fact, the share of national wealth going to wages fell from €73 billion to €68 billion, in 2009. But profits from trade, farming and rents are expected to rise by as much as €3 billion.

5. BOGUS ARGUMENTS ON COMPETITIVENESS

Business interests and ministers say wage levels must fall to ensure the goods we produce can be sold abroad, or to encourage investment. But they are trying to cut wages in some areas - hotels, catering, etc - that do not compete or trade internationally.

More significant is the fact that their views are at odds with the National Competitiveness Council (NCC), the official body that advises Government on this key issue.

In successive reports (2009, 2010) **the NCC concluded that Ireland's loss of competitiveness over recent years** was not directly caused by wage levels, but could be traced to a whole range of other factors and costs.

The NCC listed the primary factors that impair competitiveness: industrial and office rents, electricity charges, mobile phone charges, waste disposal, accountancy costs, IT costs and legal fees, health insurance and childcare costs.

The NCC characterised wage costs as a secondary concern.

6. WAR ON THE POOR

The US Congressional Budget Office says that unemployment benefit is a very efficient means of stimulating growth and creating jobs – in terms of jobs created for every dollar paid out.

The study was cited during a recent US debate on whether unemployment benefit should be cut. Republicans said existing benefits were a 'disincentive to work'. Democrats said the payments helped create jobs.

Fianna Fail and the Greens have sided with the Republicans.

This is the first Government in over 80 years to cut welfare rates: one euro in every five that was cut in the Budget came from social welfare spending. And this was the second cut, as the Christmas bonus had already been abolished.

Those who called for cuts claimed that a sharp drop in the cost of living meant a reduction in welfare rates would have no impact on the living standards of recipients. Their arguments are misleading and untrue.

The fall in the cost of living has been greatly exaggerated. For example, it is known that the cost of basic commodities and foodstuffs has fallen far less than prices for expensive, luxury items.

The Consumer Price Index (CPI) is traditionally used to calculate the 'cost of living'. It includes mortgage interest costs in its assessment. This distorts the level of actual price falls and means it is irrelevant for those without mortgages.

A more accurate figure comes from the Harmonised Index of Consumer Prices (HICP), which excludes mortgage costs – a point

accepted by both economist Colm McCarthy and the ESRI.

The difference between the two can be substantial. Using the CPI you get a deflation rate of 5 percent for 2009. But that figure is literally halved to 2.6 percent, when you use the HICP.

Yet social welfare rates were cut by 4.1 percent in the recent Budget. For a single person this meant a reduction of €8 per week. - a significant cut for someone on a reasonable wage. For someone on social welfare it could mean the difference between eating and going hungry one day a week.

These cuts are an essential element in the campaign to drive down incomes. Reducing welfare rates lowers the 'floor' below the Minimum Wage and makes it easier to cut the latter.

Youth employment has now reached crisis levels, with the rate at 32.3 percent. It has risen by over 10 percent in the last 12 months and is over three times the Eurozone average.

And the Government response is to impose a savage 50 percent cut in youth unemployment benefit. Others will see their benefit cut if they refuse a job offer. Again, this allows employers to lower the rates of pay they offer

This is how Labour Affairs' Minister Dara Calleary justified the cuts at a recent EU gathering: *"There is a danger that young people will become dependent on social benefit and never exposed to the work ethic or a work experience."* (Employment & Social Affairs Council, Jan. 28-29, Barcelona).

7. THE ATTACK ON PENSIONS

A pension is best understood as that part of a person's wages which they defer taking for a number of years, in order to provide for their old age. But today, hundreds of thousands of people currently face into an old age scarred by poverty.

New Government proposals on pension reform – the National Pensions' Framework – amount to little more than an attack on the living standards of workers and older people.

The proposals do nothing to address the crisis in existing pension schemes or to help schemes that are in trouble. On this issue, the Government is out of step even with the business lobbies and pension experts who, along with trade unions, have called for such measures.

Otherwise many schemes face closure and thousands of people will be in poverty.

Automatic enrolment of workers in pension schemes – with contributions from Government, employer and worker – was perhaps the only positive element in the proposals. However, the idea that this money would then be handed over to the private pensions' industry is quite extraordinary.

Their record is poor and people will have to be convinced that such investments are tightly controlled, well regulated and not subject to excessive charges. Consideration should also be given to investing the funds publicly through the NTMA.

The proposals also contained a shock for those who have paid social insurance all their lives: the state has just stolen three years of their pension. What happens to people who are obliged to retire at 65? Are they expected to find part-time work to tide them over until they reach 68?

Again, it is the incomes of those who can least afford it that are being cut.

8. SENIOR BANKERS OR JOBS?

While bank staff who bear no responsibility for the crisis are threatened with job losses and pay cuts, many of the senior executives who bear full responsibility continue to behave like characters from the last days of the *Ancien Regime*.

While their institution was kept alive by some €3.5 billion in public money, senior executives and directors in AIB received €3.6 million in pay and perks in 2009. Some got almost €900,000.

This contrasts sharply with the official attitude to the unemployed and the jobs crisis:

The unemployed saw their benefits cut, to 'incentivise' them to search for (non-existent) work. Meanwhile, Government has refused point blank to invest in job protection schemes of the sort that exist all across the EU.

Germany alone keeps 1.5 million people in jobs through state support for a programme of short-time working coupled with upskilling. The Irish Government has also refused investment in meaningful job creation.

So far, €11 billion has gone into the Irish banks. At least €4 billion of that has been provided for Anglo-Irish Bank. Now it is believed Anglo may require a further €18 billion plus to stay alive. How many jobs could that create?

But the banking 'black hole' does not end there. It is estimated that banking chiefs encouraged 'reckless lending' to the tune of €100 billion during the property boom.

To survive, banks could require anything up to €35-40 billion more from the taxpayer. And that is not to the taxpayer's huge exposure for the toxic developer loans being transferred from the banks to NAMA. If that does not live up to its exaggerated promise, we will be burdened with debt for generations.

The cuts imposed in the December Budget amounted to just €4 billion, while Government has already signaled a further €3 billion cut in the next Budget.

The Government claims that its policies have won plaudits and are held up as a model abroad. A former chief economist at the International Monetary Fund (IMF) has rubbished their claims

In a New York Times blog, Simon Johnson states that Ireland should "definitely not" be held up as a model for others, saying policies pursued here are "hardly a good lesson for Greece, the Eurozone or anywhere else."

Mr Johnson was particularly scathing about the NAMA experiment. Here's how he sees it:

"…a strong lobby of real estate developers, the investors who bought the bank bonds and politicians with links to the failed developments (and their bankers) have managed to ensure that taxpayers rather than creditors will pay."

9. THREATENING PEOPLE'S HOMES

Perversely, while Government is rescuing banks with taxpayers' money and cutting people's incomes, they have given the banks a green light to raise mortgage repayments.

Permanent TSB has twice increased rates, while AIB has followed suit. Others will certainly follow. When rising EU interest rates were pushing up prices in 2007/2008, Government said it was powerless to act as the rates were set by the European Central Bank.

With at least 60,000 households estimated to be struggling with arrears, **the net effect of this official policy is likely to be a rise in the numbers losing their homes to repossession**.

While home repossessions rose 20 percent in the last three months of 2009, the Government insists it is not a serious problem. In January, Taoiseach Brian Cowen said that the number of repossessions was "very, very minor" compared to the UK.

Congress is working on proposals for the creation of an independent, non-judicial **Office for Debt Resolution, with the power to ensure borrowers are assisted and not penalised.**

The OECD (Feb. 2010) has argued that consideration should be given to writing off a portion of borrowers' home loans, in order to tackle our huge debt levels.

10. THE ECONOMY KEEPS SHRINKING

Alone among the world's developed nations, Ireland has adopted deflationary policies to tackle the crisis. Alone in the developed world our Government believes that cutting peoples' income will somehow create jobs and end the recession.

Globally, the only people who share this view are more extreme elements of the US Republican Party and the British Conservatives.

Some in the UK point to our Fianna Fail-led Government as an example of what economic policy would be like under the Conservatives.

And the Government's own figures prove that the policy is not working: tax revenue is down by €1 billion already in 2010, the unemployment rate has risen to 13.4 percent, and consumer spending is down 5.2 percent.

Far from stimulating growth, cuts are having exactly the opposite effect: they are squeezing life out of an already depressed economy. Since 2007 Irish retail sales have dropped by 20 percent. They fell by 14 percent in the last 12 months alone.

Those dry statistics conceal real human hardship – almost 50,000 retail workers have lost their jobs over the last 36 months.

Ireland has experienced one of the largest falls in national income (GNP) in the developed world, down by as much as 11-15 percent. This is the sort of figure normally associated with an economy in a state of collapse.

Leading economist Joseph Stiglitz says income cuts are the wrong approach:

"In a recession, you want to raise (or not decrease) the level of total spending – by households, businesses and government – in the economy. That keeps people employed and buying things and makes it more likely that businesses will want to invest to serve that consumer demand…"

WHY POLICY MUST BE REVERSED

In April 2009, Government said it would adjust public spending by €4 billion, through spending cuts and increased taxes. The implication was that those on higher incomes would see their taxes raised.

In September, the policy was reversed and it was decided to take the full €4 billion from spending.

This shifted the full burden onto people working in the public sector and people who depend exclusively on public services. The wealthy can avail of private medical care and education if they choose, but the less well-off do not have that option.

This unexplained and dramatic change in policy shocked former Taoiseach Garrett Fitzgerald, who wrote on October 3:

"The Government focus on spending cuts is extraordinary… so far as I am aware, none of our newspapers, radio and TV have averted to, let alone highlighted, this proposal for a dramatic shift in fiscal policy… it would spare the better-off further tax increases – at the cost of transferring the pain to those who are most dependent upon our public and social services."

Until this policy is reversed and Government decides to share the burden of this crisis equally, there will be no fair or sustainable recovery.

They cannot continue to load the full cost of the collapse onto the shoulders of working people and the poor.

PART II: CONGRESS INITIATIVES

During 2009, Congress put forward a series of proposals on ensuring that the burden of the crisis was shared fairly and equally across society. But we were shouted down by many of the same voices that spent the last decade acting as cheerleaders for speculators and reckless senior bankers.

In January of that year we called for a Social Solidarity Pact that would secure agreement across all sectors of society as to how we tackled the crisis. The initiative focused on: Getting Credit Flowing; Stimulating Economic Growth and Maximising the Numbers at work; Stabilising the Public Finances and addressing Competitiveness.

In May, we called for a €1 Billion Job Creation & Protection Plan which would have focused all Government departments and agencies on the Jobs Crisis. Specifically, it would have adapted Job Protection schemes that already operate very successfully across the EU, to Ireland.

In October 2009, Congress published a 10 Point Plan for National Recovery, which showed that there were other options for Government, other than cutting incomes and welfare. The key elements of the 10 Point Plan are still very relevant:

1. **Tackle the jobs crisis**
   Invest in significant Job Creation and Job Protection initiatives. There can be no recovery until unemployment is tackled

2. **Protect Incomes**
   Cutting incomes is unfair and means people will spend less, thereby creating further job losses

3. **Stop Social Welfare Cuts**
   It is wrong that the poorest in society should carry the cost of the reckless behaviour of senior bankers and speculators

4. **Protect Peoples' Homes**
   People should get the special support and protection to enable them to hold onto their homes during the recession

5. **Safeguard Public Services**
   Cutting public services at a time when more people depend on them makes no sense, especially when there is the potential to reshape and transform the public services, as proposed by unions

6. **Reform the Tax System**
   Our blind devotion to the low tax model - which Congress never supported - has contributed hugely to the current crisis

7. **Protecting Pensions**
   We need a new national pension system that supports troubled pension schemes and provides a guaranteed income for all

8. **Workplace Rights**
   The recession must not become an excuse to drive down employment standards

9. **Reform the Banks:**
   Banks cannot scapegoat their employees for the crisis and their structures must reformed to prevent a similar crisis ever recurring

10. **Extend the Recovery Period**
    By doing so, we can minimise the burden of spending cuts and prevent the complete collapse of the economy

THE JOBS CRISIS

(i) Protecting Jobs

The Jobs Crisis must become the overriding priority of all Government policy and strategy. For example, current policy allows employers to claim a 60 percent rebate from the taxpayer, on statutory redundancy payments. This makes redundancy the option of first resort. The sensible policy is that all alternatives should be exhausted first. These include short-time working, job sharing, career breaks and job rotation.

Government must intervene to keep people in work. There is no need to reinvent the wheel and we can simply adapt any of the State support schemes operating in Germany, the Netherlands, France, Hungary, Portugal, Slovenia, Switzerland, Finland and many other countries.

In effect, Government support allows companies faced with a dip in demand to introduce shorter working hours combined with skills retraining. Germany alone has 1.5 million people on State-supported short-term working. The advantages are obvious: people stay in work, upgrade their skills and maintain a reasonable standard of living.

The Financial Times recently compared the jobs model operating in the US and UK (and Ireland) with the continental European model. It concluded the latter was the most effective in keeping jobless numbers down, in the current recession.

(ii) Creating Jobs

Investment in the Green Economy provides one opportunity for creating major job opportunities and saving money.

A 2009 Congress publication (http://www.ictu.ie/publications/fulllist/congress-green-shoots-document-nov-09) outlined how Ireland had the potential to create well over 110,000 new green jobs, in the coming years. An investment programme in Germany is expected to yield 2.5 million new jobs by 2030.

Green energy jobs are labour intensive, high-skilled and less prone to being moved abroad. But a successful green jobs programme would require political vision and a coherent national plan. It would also require investment in skills retention and skills upgrading.

Congress has also agreed a joint initiative with construction employers on requesting Pension Fund Trustees to invest in new Construction Bonds. Irish Pension funds hold over €70 billion in assets, with much of it invested overseas. Investment in major infrastructural projects here would provide a more stable return than volatile equities. Such an initiative has the capacity to act as a mini-stimulus for major infrastructural projects.

Congress has also proposed the creation of a National Recovery Bond which members of the public could purchase to help address deficits in terms of schools, clinics and public transport. The idea of the Bond is that it can be tailored to meet needs in specific areas and people could choose where their investment was directed, i.e. a local school.

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