Submission to the EU, ECB and IMF on Ireland's Economy

2012

We set out our arguments for less austerity, for investment in jobs, funding this programme and the case for negotiating with bondholders

Irish Congress of Trade Unions

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Introduction

There is a widespread view among trade unionists and the Irish public that the European Commission and the ECB's role in Ireland's so-called 'rescue' may be more self-serving - to protect European banks and the euro from contagion – than an act of solidarity. The Irish public also see it as an experiment in austerity that is simply not working, not assisting the economy nor our people, contrary to the impression that a few weak "green shoots" e.g. GDP and strong exports, might give.

While there was some growth last year, GDP has fallen by 10.7 per cent from peak. GNP is a better guide to per capita income but even it barely rose and indeed has fallen, overall, by 15.3 per cent from peak. A better way of evaluating real economic welfare is to examine domestic demand - it fell by an unprecedented one-quarter in just four years ie 24.9 per cent.

Congress alone forecast four years ago that too much austerity – the emphasis on cuts in services and less on tax and a focus on regressive tax rises - would fail. We warned of a *lost decade*. This does not seem so pessimistic today after four appalling years of austerity which has largely failed the Irish people and the Irish economy.

This collapse in demand in this economy must be a cause of serious concern to Irish policymakers and to the ECB, EU and IMF. The shutters are coming down in all the high streets in every part of Ireland.

Other indicators of failure include: falling retail sales, falling tax revenue (when rate increases are excluded), falling employment (down by 306,000), falling employment participation, rising emigration, rising long-term unemployment, rising under-employment (currently 25 per cent), rising business closures, and falling confidence, as orders fall per the purchasing managers' index.

The economic collapse is the main cause for this fall in domestic demand, followed by the failure of the private banks and the costly and naïve bank guarantee given by the last government and regrettably supported by the current one (for the present time). But the last five Budgets, rather than helping, have made the collapse worse.

Confidence cannot be restored when there is little hope. The five failing budgets to date are to be followed by a further three. The western world is sinking into recession and the actions of EU leaders and the ECB are exacerbating the crisis in Europe.

Congress holds that real opportunity for policies for growth can only come from renegotiation of the 'bailout' deal and of the impossible burden of bank debt. The failure of the EU and ECB to bring financial stability to Europe and the Euro gives Ireland grounds to renegotiate, in Congress' opinion.

Congress insists that Ireland must get a longer repayment period and debt forgiveness. Our 1.8 million people at work - of whom a quarter work part-time - cannot repay the debts of the failed banks. We should, of course, repay all sovereign (ie debt run up by the public sector) debt in full, over time.

That each member of the Troika is happy with our 'progress' does not mean that the situation for people or the economy is improving. It just means you are happy that we *may* be able to repay the bank debt. We believe that you are being naïve and in time you will recognise that that this is impossible under current terms. It may be slightly provocative to quote Keynes to representatives of the IMF, ECB and EU, but he said "*When the Facts Change, I Change My Mind. What Do You Do, Sir*?

It is important that each representative of the IMF, ECB and EU Commission realises that the democratic legitimacy of the Irish state, and of the EU project itself, are being undermined by this deal and inactions of the EU and ECB.

Investment Needed For Jobs

The key to recovery is growth and a real jobs programme, not fiddling with supply-side issues like labour market activation, employers' social charges (so low already that there is little room for give in this recession), and in hammering the working poor when the real issue is lack of demand.

Congress welcomes the Government proposal for a major 'jobs strategy' which will create 100,000 jobs by 2015. However, given the scale of the crisis - with 306,000 net jobs lost since 2008 and 315,000 unemployed - it is our view that this jobs target is far too low.

The Troika should change its mind and allow the government to lead a bold, major investment programme over five years. Only the government can lead the recovery, boosting confidence and encouraging the private sector to invest.

Government must not be paralysed by the fear that some investment may leak outside the country: with planning, the impact can be maximised.

Cutting investment is just postponing it. In addition, it also reduces future growth and eliminates skills and jobs today. The National Competiveness Council has argued that while there was a good catch-up with Europe on infrastructure in recent years, we still lag behind. Even a stockbroker firm - Davy Research - concluded that Ireland's capital stock show us lagging behind. Infrastructure – roads, rail, schools, hospitals and telecommunications – is far superior in European nations than in Ireland, even though we are not far behind in the income per capita table. It concluded that *"Ireland misallocated investment in 2000-2008. infrastructure should be far better than it is today. Capital stock soared by 157% in real terms in 2000-2008, but housing accounted for almost two-thirds of increase* (Years of high income largely wasted', White, 2010). It is very pertinent that it was the private sector which largely wasted the investment, largely in property. But it did much more – it led to Ireland's collapse and the huge, socialised debts.

Every €1 million euro invested in infrastructure can create between 8 and 12 direct jobs. Congress suggests that a range of high value and labour-intensive projects like water conservation, at least one major public transport investment, more investment in large indigenous state companies and energy retrofitting programmes should now be rolled out.

Capital investment should be the priority and Government needs to take a lead in stimulating such investment with top priority in areas of acute infrastructural need.

Financing a State-Led Investment Programme

Congress argues that funding investment can be paid for from investment by private pension funds; from the Pension Reserve; from auto enrolment in a state pension scheme; from the sale of better marketed Solidarity Bonds which should be hypothecated for specific investment projects; from a broader tax base; from private investment in the state holding company, New Era, which should be expanding (not selling-off) our indigenous firms, etc.

Congress has made a proposal to facilitate investment by private Irish pension funds in key infrastructure projects here at home. Currently much of the €75 billion they hold is invested overseas, stimulating job creation everywhere but here.

Such investment would be hugely beneficial in terms of job creation and the enhanced competitiveness that derives from improving infrastructure. And it can be delivered at no cost to the taxpayer.

Further, the National Pension Reserve Fund still holds some €5.3bn that could also be put to work creating jobs and boosting business credit. Congress opposed the raiding of our pension fund to 'invest' it in the failed banks. We cannot understand why the government, apparently with the Troikas agreement, is against investing the remaining funds in real jobs and material projects, rather than the failed banks.

Congress has proposed that a once-off injection of €2bn be invested in each of the following three years - 2012-2014 - giving a total of €6bn additional public sector investment aimed at addressing some of the country's inadequate social and economic infrastructure.

The government has made a major mistake by failing to increase income taxes on very high incomes and wealth. In the last Budget it raised VAT by almost 10 per cent, which is regressive and adds to the deflationary trend. Will it compound its fiscal errors next year as the strategy fails? Will the Troika support it the way it does in its quarterly reports? Overall, Irish income taxes are lower than the European average. An escalating Solidarity Levy should be imposed for a time on very high incomes. There must be a 'root and branch' evaluation of tax reliefs for the self-employed to ensure that they pay their fair share. It also requires specific measures such as an increase in the minimum tax to be paid by the rich to 35% and a reduction to €100,000 of the threshold at which this rate would apply.

It is clear that in the crisis, the government have focused largely on banking and budget deficit reduction and not on jobs. It is very clear that neither government nor the Troika even considered its actions in the context of its overall industrial policy. Ireland's success in attracting FDI may have led to a great level of complacency in the industrial policymaking area, to the neglect of thoughtful long-term, sustainable policy.

Ireland does have a major state interventionist industrial policy, employing thousands of public servants and which costs substantial tax euros, annually. Ireland spends billions of its citizens' euros supporting the "enterprise sector" annually from farmers, agribusiness to US, UK, etc and Irish firms in direct cash grants, in subsidies, in state supports, in marketing, in expert advice, and in a multitude of tax breaks, R&D etc.

Some would agree that there is some truth in the argument that Irish industrial policy has an over-reliance on FDI. There is very limited evidence of a coherent policy to retain successful Irish firms both in Irish ownership or in Ireland. They are sold out to multinationals by their owners, which seek their intellectual property and ship it abroad over time, with little or no comment from the government, or the sponsoring state agencies, while the financial media uncritically applauds the owner's gains.

A key part of Irish industrial (jobs policy) is to retain its best indigenous companies. The top four indigenous companies, AIB, BOI Anglo and the Quinn Group have collapsed. Because they collapsed and helped generate the Crash of 2008, and the resulting fiscal crisis, the Troika is forcing Ireland to sell off more indigenous Irish companies. This is pure ideology.

We need more fine indigenous companies, not less. To raise up to €2bn as agreed under the MOU will do so little to resolving the financial crisis. It is hardly worth the effort, especially when asset values are historically low. But from an industrial policy perspective in a small economy, this section of the MOU does not make sense.

Congress calls on the Troika to thinks of the consequences of its right-wing, ideological, pro-privatisation perspective for a small economy with limited indigenous enterprise. Whey sell-off what is left, especially when the impact on the scale of debt is negligible? The timing is off too.

An alternative to privatising the ESB and other state companies is that, with vision and innovative thinking, the government could see these firms as vehicles to be developed, together with the private sector, to become engines in the recovery. We really do not have a choice but to take the *high road* – the developmental road - with our state companies. Ireland has an enterprise deficit – our four top indigenous companies of 4 years ago have collapsed. Privatisation only makes this deficit worse.

Privatisation had led to a transfer of ownership and control outside Ireland, as Eircom demonstrates. It's private owners also asset-stripped Ireland's dominant telecoms player, just as telecoms especially broadband, became vital. The Irish people fully understand what a debacle Eircom's privatisation was, and the ideological nature of the Troika demands in this area is clear to all and is unpopular.

The establishment of the State Holding Company, New Era, enabling a new governance structure for commercial state companies, should envisage having access to private capital for expansion; freeing up capital for re-investment in these companies; ensuring rapid decisions on major investments; give them clearer objectives; a developmental role here; and expansion internationally. In the crisis, the private capital would be used to meet the terms of the MOU to raise €2bn.

The state companies in this small economy must be seen as part of an active industrial policy to create jobs in Ireland. To sell off the commercial state companies in a fire sale for some short term cash, no matter how much pressure is put on Government by you, would be a major mistake. Government's commitment, in many statements, and also given less forcefully by some of the Troika, that any state assets will not be sold until the market conditions are right is of some comfort.

To sell even part of a monopoly is to replay the Eircom debacle.

Congress supports investment in the following areas as a matter of urgency:

- A State-of-the-Art Water & Waste Network within the New Era State Holding Company:
- Retrofit energy-inefficient buildings

- Public Transport
- Capital investment in Education

Sources of funding for capital investment/ Jobs

Congress supports measures to encourage pension funds to increase the proportion of their assets invested in the domestic economy by 5% (i.e. more than double the rate of the recent levy on the value of pension funds). This could generate an additional €4bn in capital investment to address infrastructural deficits. A number of domestic sources of funding should be tapped:

€2bn a year should be taken for investment from the National Pension Reserve Fund until the €5.3bn remaining is invested in jobs in Ireland. It is imperative that the rest of our Pension Fund is used wisely and it is disappointing that it is not being invested in the real economy of Ireland, but has been used to support the failed banks.

- In November 2011 the Irish taxpayer paid out $1bn (€700) million to unsecured unguaranteed senior bondholders of Anglo-Irish.
- From April/March 2012 onwards €3.1 billion is due from the exchequer to Anglo Irish bank to pay off bondholders and banks that lent recklessly to it in the past (see section below on Anglo-Irish). Alternatively, if the EU/ECB insists on these payments then they must recognise their role and make up the loss to the Irish taxpayer by other means.
- Along with funds from the National Pension Reserve Fund (of which there €5.3bn currently) private pension funds should be mobilised to increase the overall level of investment.
- Government should provide amending legislation to provide for investment in the Solidarity Bonds by Pension schemes as called for by Congress, IBEC and the IAPF.
- WE need a sustained campaign to increase public interest in the Solidarity Bond and direct the investment into designated projects.

- There should also be well marketed Solidarity Bonds sold to the Diaspora and citizens, which are hypothecated to major capital projects and perhaps also to training and credit for SMEs.
- Government should establish the New Era State Holding Company in a way which would attract pension funds and other long term investors.
- European Investment Bank loans could be used to match borrowings domestically to leverage growth in key areas of infrastructure.
- Multinational companies could help Ireland and themselves by deferring the repatriation of some of their profits for a period and to set up an investment fund, on a commercial basis, to invest in new or existing Irish based enterprises and infrastructure. Several such companies would set up this fund, amounting to billions and it would make a significant contribution towards economic renewal and development..
- We should start auto-enrolment in the state pension fund immediately. This will give substantial flows of funds to the Exchequer.
- We need to encourage PRSAs to invest in the state pension scheme. If 20% is invested in it over the next year, it would provide around €1 billion.
- Sovereign Annuity Bonds can generate substantial investment capital.

Renegotiate with the Bondholders

The scale and significance of Promissory Notes issued at Anglo-Irish Bank and INBS is huge. The full amount of these Promissory Notes was placed on General Government debt in 2010. Under the current promissory note of €31 billion, of which Anglo Irish comprises €25 billion, the Department of Finance estimates the total cost to the state to be in the order of €65 billion, including interest on the promissory note, interest on borrowing and the capital payment made to Anglo Irish in 2009 (though this total could vary depending on future interest rates). This averages out to an annual bill of €4.2 billion over the next 14 years. Other estimates are even higher.

Congress holds that it is morally wrong to repay these private debts of now failed banks. We believe that the Government should fight the repayment in every forum it can. We

think that the ECB is imposing an impossible burden on a tiny state with 1.8 million at work, with huge unemployment and other burdens.

The Government has the option within the Memorandum of Understanding and without risk of contagion to review and amend this arrangement with effective cost savings to the exchequer. It must do this. The IMF, EU and especially the ECB should ease back on its hostility to such action, for in the long run, our members will not be able to repay such a burden of debt. That it was privately run up makes it less of a moral hazard to the puritans.