Irish government prepares public spending cuts, lay-offs

Jordan Shilton
18 August 2008

An article in the *Sunday Business Post* on July 27 revealed that the Irish government is to initiate severe cuts to public spending over the coming months. The article, written by political editor Pat Leahy, was based on a leaked memo that instructed each government department to identify projects greater than the value of 10 million euros that could be deferred.

The revelation comes as little surprise. Ireland has been hit in recent months by the global economic downturn, with a recession looming after a long period of economic expansion. Government finances have suffered, with an estimated 4 billion euro reduction in tax revenue resulting from stagnation across the economy, but particularly in the construction and property sectors. Overall, it is thought that the government will face a shortfall of 7 billion euros. Across-the-board cuts are anticipated from finance minister Brian Lenihan when the budget is announced later in the year, as well as an increase in borrowing.

This could force the government to exceed the limit placed on borrowing by the EU of 3 percent of GDP.

However, with the sum of the shortfall being so large, further measures would have to be taken. While most have ruled out income tax and VAT increases, there are a number of alternatives that would prove equally harmful to working people.

Cliff Taylor, writing in the *Sunday Business Post,* explained: "One such way is by not fully indexing tax bands and credits for inflation, which effectively raises more cash as people's incomes rise. This happened the last time the exchequer finances were squeezed after the last election and may well happen again. The full year cost of indexing bands and credits is around €500 million, a not insignificant sum."

He went on to explain that other "stealth taxes" such as bin charges and charges for outpatients in hospitals could go up.

Making clear the urgency of the situation, the memo sent to all government departments announcing the need for cutbacks read: "A comprehensive programme of agency rationalisation has now been prepared for implementation.... There is no scope for deferring this rationalisation programme."

While the announcement focused on capital spending programmes and government projects to upgrade Ireland's infrastructure and services, it is clear that no area of public spending is immune from cutbacks. Barely a week after the report appeared, negotiations on public sector pay between the government, employers' organisations and trade unions collapsed without resolution on August 2. Employers are insisting on a wage freeze, in spite of the fact that inflation in Ireland is running at approximately 5 percent.

Before the talks broke down, employers had made the paltry offer of a 5 percent wage rise over a 21-month period—effectively a pay freeze, given the large increases in commodity prices. And it was demanded that this period begin with a 6-month pay freeze in the private sector and 11 months in the public sector.

At the same time, the government is pressing ahead with plans for a redundancy programme to cut public sector jobs, which had risen by 13 percent in the past five years. Business commentators are seeking to blame public sector pay increases, rather than the world economic and property crash, on the financial difficulties faced by government. They view the 460 million euro cost of a previously agreed below-inflation 2.5 percent pay deal as intolerable.

This has prompted growing calls within ruling circles for mass layoffs. The *Sunday Business Post* editorialised: "This harsh reality now demands that resolute action be taken to correct the public finances and control public spending. This means controlling public sector pay and numbers.

"It means imposing an immediate temporary pay freeze in the public sector, while also freezing recruitment. It means stopping increments, and automatic promotions. It means, in short, that the public sector must behave like the rest of the economy as it tries to adapt to the tougher times faced by all."

This is merely one aspect of the attempt by the ruling elite as a whole to shift the burden for paying for the economic crisis onto working people.

In the banking sector, while general interest rates have increased by 0.25 percent, banks have increased interest payments on mortgages by 1 percent and more, raising the pressure on homeowners to repay their loans alongside spiralling prices for basic foodstuffs and energy.

Added to this, unemployment reached its highest level in a decade last month. Figures from the Central Statistics Office suggest that 700 jobs are being lost every week, with the private sector being particularly affected.

The Live Register, which measures how many people claim unemployment and some other benefits, was up 10,000 from its June level, standing at 226,000 in July. Most of the increase comes from the construction sector, one of the main driving forces of Ireland’s economic boom.

Business leaders are calling for private sector wage cuts. Said Brendan McGinty of the Irish employers’ organisation Ibec, “The rate of increases seen for the last number of years can’t continue. There will have to be significant pay moderation, and a recognition on a greater scale that employers, and certain sectors, need pay pauses and significant relief on any pay deal. This means private companies have a right to plead inability to pay, or use off-setting measures for their costs, like work flexibilities.”

The president of CIF, which represents employers in the construction industry, indicated that he was aiming for wage cuts of between 7 and 10 percent across the industry. In particular, he singled out new starts for severe reductions commenting, “We are concerned that the minimum entry rate—of €34,000 a year—for unskilled labourers is just too much and we want it reduced by 40 percent to €10.60 an hour for new entrants.”

Facing increased financial pressure, large numbers of people have begun to scale back spending. Sales declined by 7 percent in the second quarter of this year when compared with the same period in 2007, with footwear and fashion coming in with larger declines. In April alone, footwear sales dropped by 25 percent when compared with the previous year.

Sales of new cars are down 19 percent in the first six months of this year, compared with the same period in 2007. This rapid drop is having a severe effect on car dealers, with more dealerships going out of business in the first six months of 2008 than the whole of last year.

Demonstrating that those on lower incomes are being particularly hit, statistics show one of the biggest drops has come in the second-hand car trade. “There is a flood of second-hand cars on the market,” said Paul McCann, a corporate finance and insolvency partner with accountancy firm Grant Thornton. “Dealers simply can’t shift second hand cars. This has a big impact on dealerships. It means that they have a massive portion of the entire working capital tied up in second hand cars, and they are struggling to sell them.”

One major factor driving the decline in consumer spending has been the drop in house prices since the start of the year. They have already fallen by 10 percent since the beginning of 2008, with some commentators predicting a potential drop of more than 40 percent from their peak price before the economic slump.

On top of this, banks are now less willing to lend money, fearing substantial losses. The largest Irish bank, AIB, last week admitted its heavy reliance on the property sector when it revealed that it had extended more than 10 billion euros in loans to the industry as a whole. Of these, it is closely monitoring about one fifth, and accepts that further increases in bad debt are inevitable. Since AIB remains heavily involved in mortgage provision, the bank’s increasing debt problems will have a drastic impact upon the population.

Increased energy prices have also had their impact, with utility bills on the rise. Bus companies across the country have announced plans to increase fares by upwards of 20 percent. Partly driven by the scrapping of the government’s fuel rebate scheme following a ruling by the EU stating that it broke competition laws, the price hikes will severely hit ordinary people who depend on bus travel in their daily lives.

This is likely only the beginning of much greater reductions in resources for public services. With the government facing financial difficulties and with the economy stagnating, the bill will be passed onto the working class through cuts in public spending and wage reductions.