Irish government imposes harsh budget cuts

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Barely two weeks after an unlimited guarantee was offered on all bank deposits, the Irish government has announced severe funding cuts for public services. Private and corporate wealth is to be protected, while the cost of the bailout and the rapidly deteriorating economic situation is to be imposed on the working class and the poorest sections of society.

Finance Minister Brian Lenihan presented his first budget last week with Ireland in the midst of a full-scale recession. As the economic downturn has gathered pace over recent months, the financial position of the state has continued to worsen. Figures published by the government show a projected shortfall in tax receipts of €6.5 billion for this year as businesses and corporations are hit by the contraction of the economy. The government faces having to borrow €13.4 billion.

Even these pessimistic figures may be underestimations, with many commentators believing that the real shortfall in tax receipts this year could be at least €1.5 billion more after annual tax returns are collected in early November. IBEC, the organisation representing Irish Employers, predicted that the budget shortfall could reach 10 percent of GDP next year.

Lenihan has been insisting for months that everyone would have to agree to spending cuts and face up to the harshest budget in over 20 years. His budget contained plans to scale back spending in all departments, including health and education, with the only exception being social welfare. The government has been compelled to allow the budget for social welfare to grow in the coming year due to steadily increasing levels of unemployment. However, by announcing that the increase would be "in line" with inflation of 2.5 percent, there will be an actual cut, given that inflation in Ireland has been running over 4 percent this year.

The budget reduced the duration and altered eligibility requirements for the Jobseekers' benefit, which will force many to apply for the means-tested Jobseekers' Allowance. This could leave many workers without support as job losses mount. Child benefits are to be reduced and in some cases removed entirely by 2010.

Also proposed was a "levy" on all taxpayers of 1 percent in order to boost government revenue. Presented as an equitable measure since those earning over €100,000 will face a 2 percent charge, the measure will be felt worst by those already struggling to get by. The government rejected any proposal to raise the top level of income taxation, which stands at 41 percent. The levy will be deducted from gross earnings, ensuring that the largest sum possible will be removed from peoples' incomes.

Lenihan unveiled an increase in indirect taxation, which impacts working people hardest. VAT is to be increased by 0.5 percent, a travel tax from all Irish airports of €10 imposed, and taxes on petrol and wines and other alcoholic drinks increased.

One of the most controversial moves was to remove the right of the over-70s to access low-cost healthcare through the health card scheme. Charities denounced the move, which will impose means-testing on an already vulnerable section of society. Charges for healthcare services, including hospital treatment, will rise by up to 10 percent, and the fees to enrol in colleges will grow by 50 percent. Five percent would be slashed from the budget of the Health Service Executive. Also facing cutbacks is the arts budget, which was reduced by nearly 10 percent from €204 million to €185 million. The head of the Arts Council indicated that a reduction in festivals and other cultural events and the loss of jobs were inevitable.

Cuts in the government's capital spending projects designed to improve Ireland's ailing infrastructure were also announced, with as much as €1.4 billion being removed from a budget of €6 billion. This reduction is likely to mean the end of many infrastructure projects, including the west coast rail link and the metro system in North Dublin.

Taoiseach (Prime Minister) Brian Cowen went out of his way to assure ruling circles that business would not be hit by such cuts. Writing in the *Irish Times*, he insisted, "One of the important messages of this budget is that Ireland is very much open for business. We are keeping our commitment to capital spending of more than 5 percent of GDP."

Lenihan refused to increase corporation tax from its current level of 12.5 percent. Claiming that Ireland's low tax rate had been the "cornerstone" of the country's economic

policy, he told parliament, "I want to emphasise that this rate of tax is not for changing upwards and it will continue to be a central part of Ireland's economic brand."

In a token bid to mollify public anger, the budget declared that government ministers would take a 10 percent wage cut, along with some senior civil servants.

Despite criticising the Fianna Fáil-led government budget for making an already bad situation worse, the opposition parties offered no alternative. Fine Gael, the main opposition party, outlined its own priorities in its budget recommendations published on October 7. Amongst other things, it called for 5,000 redundancies and a recruitment ban in the public sector, wage freezes for 12 months and the amalgamation of government-funded organisations. Fine Gael, along with the Labour Party, also gave its full backing to the government's massive funding package to guarantee bank deposits.

There are growing calls in business circles for further pay cuts and job layoffs. In a submission on behalf of IBEC prior to the budget, Director General Turlough O'Sullivan demanded a reduction in public sector wages by at least 5 percent. Urging the government to take action or face the prospect of "extremely damaging" Ireland's international competitiveness, he called for 10,000 job cuts.

Ex-finance Minister Charlie McCreevy has weighed in with calls for public sector "reform," insisting that public services should be run as businesses. In the *Sunday Business Post* of September 28, he stated, "In the private sector, businesses that deliver thrive, and their employees thrive with it. Businesses that deliver inefficiently, by contrast, are driven under and their employees are driven out."

Adding that this did not take place in the public sector, he declared, "Is that fair? No. Is it sustainable? No. Can it be changed? Yes. In the next phase of economic development, public sector pay rises must be matched by real, meaningful rises in public sector productivity."

Despite making cutbacks across the board, the state of the government's finances remains perilous. Lenihan estimated that Ireland would breach the borrowing limit of 3 percent of GDP imposed by the European Union next year, predicting a rate of 6.5 percent of GDP in borrowing. Economists have suggested that this is overly optimistic, believing that the deficit could be more like 8 percent of GDP. Lenihan, however, declared that he would be taking measures over the coming years to ensure that the budget deficit would be brought back down to the 3 percent level required. For this to be achieved, the working class will have to pay in the form of further public spending cuts and job losses.

With government borrowing set to rocket, the ratio of debt to GDP is expected to jump from a comparatively low 25 percent this year to 44 percent in 2009. This process will be accelerated by the announcement on October 9 that the government would extend its deposit guarantee scheme beyond Irish banks to include banks owned by British companies with operations in Ireland. Such measures will increase the figure beyond the €400 billion in government backing already pledged, increasing the liability of the taxpayer to bail out financial institutions.

With the financial crisis continuing to worsen, the government may inject billions of euros into the banking system in order to boost share prices. Noting that share prices of Irish banks had not benefited in a similar manner to those who had received government backing in Britain and across Europe, Pat Neary, the Irish regulator, told the Dáil (Parliament) on October 14 that "the rules of the game are changing internationally. Market expectations could push other banks to seek equity injections, irrespective of whether or not they continue to meet their regulatory requirements."

Such a step would only heighten the rivalries between Ireland and the other nations of Europe, as each scrambles to provide ever-larger sums of financial aid to give their banks the edge in attracting investments. Given the state of the Irish government's finances, such a move could only mean a vast intensification of the assault on public spending, mass layoffs throughout the public sector and increased calls for workers to fund the bailout of the financial system. Following the example of other countries, the government will demand nothing of the banks that will receive vast sums of public funds in order to continue their speculative activities.