Ireland: Government unveils major budget cuts

Steve James
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The Irish government outlined its emergency budget in response to the country's deepening economic and financial crisis on April 7. It involves a major assault on the living standards of wide layers of working people, including the poorest.

Finance Minister Brian Lenihan also signalled that more could follow, warning that he anticipated the Irish economy would contract by 8 percent in 2009—one of the sharpest predicted contractions in the euro-zone.

The budget, the fourth emergency financial package since July 2008, also created a state-run "bad bank" into which all the toxic assets of the financial system can be dumped and thereby offloaded into the public purse. The Fianna Fail/Green coalition government's intention is to transfer the huge cost of the financial debacle onto the working class, all the while claiming the entire exercise is a "fair" response to a national crisis.

From May 1, a 2 percent "income levy"—effectively a pay cut—is to be imposed on all those earning between €15,028 and €75, 036. This doubles a levy first introduced last October and reduces the tax threshold to incorporate large numbers of low paid workers. Those on higher incomes will be levied at 4 percent and 9 percent of their income.

A health levy is also to be increased to 5 percent. This, as with other levies, is to be taken directly from the pay packets of workers whose tax payments are collected by their employers. This will be added to the pension "levy" also extracted from public sector workers in February.

The government also announced there will be no Christmas welfare payment for social security claimants in 2009. More damningly, childcare allowances for pre-school children are to be halved immediately and abolished by the end of 2009. Child benefit, currently paid to all parents, is to be means tested.

Payments to unemployed workers under 20 are also to be halved and rent support payments reduced, while new punitive measures will be introduced against welfare claimants. Mortgage interest relief will now only apply to the first seven years of its commencement.

The government says these measures will save some €4.8 billion by 2010. Capital spending is also to be reduced by €1.3 billion next year and €2.4 billion in 2011, impacting much needed infrastructure schemes.

Future moves to tax the child benefit, remove tax exemptions, introduce new property taxes and to further extend tax gathering into the poorest sections of workers were all being considered for the near future.

Lenihan stated he was "giving notice that, in 2010 and 2011, I will turn to other areas of taxation to achieve the necessary adjustment in later years." Further savings would come from "targeted welfare provision, further reductions in public services costs and numbers and the wider application of charges."

He also announced the government intends to set up a state-run National Asset Management Agency, under control of the treasury. Banking debts euphemistically described as "impaired" will be transferred to the new agency whose sole purpose is to manage the winding up of toxic land and development assets built up by the major financial institutions.

Lenihan warned that these assets "pose the main systemic risk to the banking sector." He estimated that the total potential exposure to bad debt is around €90 billion. This amounts to around one sixth of all loans across the six major Irish financial groups. The assets would be bought by the new agency and would "result in a very significant increase in gross national debt."

While the state takes responsibility for the bad loans and debts, the banks will, so it is hoped, be free to return to normal lending patterns. They will then avoid becoming "zombie banks" whose primary function is to service vast debts.

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Shares of the Bank of Ireland and AIB immediately rose on the news, only to fall sharply a day later as the markets assessed the Irish government's moves as inadequate to avoid risks of an Iceland-style financial collapse.

Economists, market analysts and the financial elite all immediately demanded sharper spending cuts instead of tax increases.

Fitch Ratings followed Standard & Poors recent decision to downgrade Ireland's credit rating from AAA.

"The problem is that so much effort is yielding relatively little short-term progress" complained Austin Hughes, chief economist with KBC Ireland. Hughes complained that the government was showing a "lack of political flexibility."

Shares of government bonds were also sold heavily, increasing the cost of future government borrowing. It will also undermine the government's aspiration to return the public sector debt to around 3 percent of GDP—the European Union's domestic borrowing limit—by 2013. Current debt stands at 10.75 percent.

For weeks, Ireland's political establishment has been calling for national "sacrifice" in the country's hour of need.

According to Lenihan, "...we all have a responsibility to accept a proportionate share of the burden of adjustment needed in this economy." *Taoiseach* Brian Cowen claimed that "All contribute, but contribute according to their means." Both Cowen and Lenihan pointed to the higher income levies to be extracted from those with wages above €75,000 and €300,000 and token measures to restrict ministerial and parliamentary pay.

In reality, the vast bulk of the cost of the measures will fall directly on the working class, whose number in terms of low and middle earners far outstrip the small minority of people earning over €300,000. In any case, a worker earning €20,000 can far less afford a 2 percent pay cut than a CEO on €500,000 can afford a 9 percent reduction. New indirect taxes on cigarettes and auto diesel fall directly onto workers, as do the welfare cuts and health levies, while the multi-millionaires will mobilise their lawyers and accountants to evade the payments. No measures were announced to restrict the operations of the financial elite.

Rather, the token restrictions on some of the better off were intended to assist the trade union bureaucracy in imposing the latest budget measures on the working class.

The trade unions, organised in the Irish Congress of Trades Unions (ICTU) called off a one-day national strike just one week before the budget on the basis that talks to revive "social partnership" would be forthcoming.

By abandoning the strike just weeks after 120,000 workers marched through Dublin in protest against the previous round of pay cuts and income levies, the unions signalled that they would not mount any challenge to the attack on workers' living standards.

In return, the unions anticipated a revival of "social partnership" talks, between the unions, the government and Irish business. The basis for discussion between them was outlined in a National Economic and Social Council (NESC) report issued in March. The NESC is a government-nominated forum of business, government and farming interests, along with leading representatives of the trade union bureaucracy.

Entitled "An Integrated National Response," the NESC document makes clear that it views the current situation as extremely problematic. "The current national crisis has five closely-related parts: banking, fiscal, economic, social and reputational." The NESC explain that the particular severity of the crisis in Ireland arose from a combination of national and global circumstances.

A loss of industrial competitiveness since 2001 and the collapse of a property bubble have combined with the devastating onset of world recession to accelerate economic contraction and increase unemployment at unprecedented rates.

The report notes that GDP swung from 6 percent growth in 2007 to a predicted 4.5 percent contraction in 2009—the latter figure already outdated by the time the report was published.

Unemployment is predicted to rise much more sharply with inevitable leaps in poverty and social tension.

The NESC demands "wide societal ownership of the need to respond to all five dimensions of the crisis."

Put more comprehensibly, this means that the "social partners"—or more specifically the trade unions—are being called upon to stabilise the manufacturing and finance systems at the expense of the mass of working people.

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