Irish Fianna Fail/Green coalition prepares major budget cuts

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Ireland's ruling coalition of Fianna Fail and the Green Party are preparing a confrontation with the working class.

In the October 10 "Proposed Renewed Programme for Government" the coalition promises to "stabilise public finances" and that the "banking system on which we rely will be reconfigured and restored to health."

In exchange for a few crumbs, the Green Party have given Fianna Fail carte blanche to cut social spending, increase taxes and initiate such "recovery" measures as continue to be necessary to bail out the Irish banks.

The agreement is aimed at shoring up the government until elections in 2012, allowing devastating cuts to be imposed. Had the Greens not backed the programme, a general election would be imminent as Fianna Fail no longer has a parliamentary majority. While none of the major parties disagree with the cuts programme, a crisis election would have disrupted its implementation.

Speculation on the property and derivatives markets by the Irish corporate and financial aristocracy has made the impact of the world financial crisis particularly severe in Ireland. The country's financial institutions have been brought to the verge of bankruptcy and share values have collapsed, while a proposed state-owned "bad bank," the National Asset Management Agency (NAMA), is due to take over some €77 billion of toxic property and derivative gambles.

The collapse of financial and property bubbles, along with the onset of recession and long-term loss of competitiveness, has had severe ramifications. The latest report from credit ratings agency Fitch noted unemployment was expected to reach 12.5 percent this year and 15 percent by 2011, while the economy was expected to contract 7-8 percent this year. House prices are expected to end up 45 percent lower than 2006. According to the Economic and Social Research Institute (ESRI), investment in 2009 will have fallen some 30 percent.

A number of industrial sectors are showing dramatic falls in activity. Total manufacturing production fell 13.8 percent in August alone, while the sale price of this production fell by as much as 23.6 percent due to desperate cost-cutting. Electronics fell 37.1 percent, largely due to US computer giant Dell ceasing Irish production. Other areas, such as pharmaceuticals, saw increases.

The government led by Brian Cowen is committed to ensuring the cost of the economic mayhem wrought by the ruling elite is unloaded entirely onto the working class. Over the last year it has announced repeated emergency budget measures aimed at increasing taxes and slashing health and social spending. Public service workers have already borne a 7.5 percent pay cut in the form of a tax increase.

Speaking to the *Sunday Independent*, October 18, Cowen announced more cuts were on the way in the budget due December 12, with the wages and pensions of public sector workers again the principal targets. Claiming that "no economic or social interest can claim exemption from this national effort," Cowen outlined measures that will result in some workers' wages being cut by a further 10 percent in order to reduce the country's rocketing public sector budget deficit.

This is in line with the Fianna Fail/Green programme, which proposes a €4 billion reduction in spending over each of the next three years. This is a 20 percent cut—the entire annual public sector wage bill is only €20 billion. The report commits both parties to supporting additional cuts should targets be missed in any of those years.

Tax increases are also proposed, with ceilings to be removed on employee national insurance contributions along with water charges, a carbon tax and a new property tax. Tax relief to sections of better-off workers is likely to be removed.

Completely missing is an increase in corporation tax, or any encroachment on the private wealth of the super-rich. Rather the programme promises to increase exploitation, insisting that "we must work harder to gain market share" and "drive down costs," while retaining "favourable tax treatment of so-called 'smart capital'."

Other proposals in circulation include a universal 5 percent cut in welfare payments, proposed by one government consultant, while the ESRI itself has suggested a 20 percent cut in child benefit.

The Greens have given their support to Fianna Fail in return for a number of token measures that can be presented as having some regard for education, the environment and animal welfare. As well as the carbon tax, a fuel tax with a "green" sounding name, a few hundred additional teachers are to be employed while fur farming and stag hunting are to be banned.

The Greens have also signed up to the government's NAMA programme, more details of which have become available. According to the Draft NAMA Business Plan, the "bad bank" will take over €77 billion of loans, estimated to be currently worth only €47 billion. Some €54 billion will be made available to participating institutions—AIB, Anglo Irish, Bank of Ireland, EBS and INBS—on transfer of their loans to NAMA. This will then be repaid at the going rate until 2020.

Of the loans, some €49 billion are related to property, while €28 billion are "associated loans." Of these €14 billion are derivatives—currency trades—a fact carefully ignored in Irish press commentary on the affair.

The government claims that in the end NAMA will return a profit to the taxpayer. Even the Department of Finance warns that this claim rests on a number of questionable assumptions. It notes that asset prices could be "significantly different" from expectations. The plan requires moderate economic growth, but a "prolonged" depression would undermine profitability, while interest rate and currency fluctuations could undermine derivative gambles.

The other underlying assumption seems to be that, of the €77 billion of debt taken on, only €62 billion will be repaid, which amounts to at least a €15 billion loss taken on by the taxpayer.

The entire plan is a decade-long gamble. Working people are putting up the stake, taking potential losses on an unknown scale, while the "participating institutions" and the tight network of speculators indebted to them are bailed out at public expense.

Falls in tax revenue due to the recession mean that only €31 billion will be collected instead of a projected €34.4 billion. In 2008, €40 billion was raised in tax, which itself was down from a peak of €47 billion in 2007.

State borrowing is anticipated to rise to €25 billion this year, even if no more money is poured into the banks. This year €4 billion was handed over to Anglo Irish Bank, while welfare costs have soared due to rising unemployment. If the government is able to push through its intended €4 billion annual cuts, this will only serve to stabilise the fiscal deficit at nearly 13 percent of GDP, against a eurozone target of 3 percent.

In preparation for swinging cuts, the government and media have launched a media barrage targeting public service workers.

Writing October 4, Louis McBride in the *Irish Independent* noted, "Bankers must be delighted. For the first time in about a year, they don't have politicians breathing down their necks about hefty bonuses or a public enraged by multi-million euro pay packages. Now it's the public servants in the firing line."

McBride went on to assemble opinions from bankers, financiers and CEOs. These universally called for public sector pay cuts. Pat McDonagh, head of Supermacs burger chain, opined, "The health service has to be pruned—it is totally overstaffed." Ben Dunne, a former supermarket tycoon claimed, "There are a lot of people being grossly overpaid in the public and private sector." Conor Foley, head of a global spread betting company, considered pay cuts "long overdue."

In an attempt to reinforce the need for public sector cuts, Mary Harney, minister of health and former leader of the now defunct Progressive Democrats, warned that the International Monetary Fund could be called in. Harney threatened, "If the government hasn't the capacity to do what's needed, then others will come, like the IMF, and overnight they will make decisions. Then they will start cutting expenditure by maybe 30 or 40 percent."

For their part, the trade unions agree that the rescue of state finances necessitates sacrifices by workers. But they want the cuts staggered over a longer timeframe and would prefer some cosmetic palliatives, such as limitations on top earners pay. Above all, the unions want to revive formal social partnership with government and employers, talks for which are currently stalled. They intend to channel protests against the cuts, set for November 6, behind calls for a new partnership agreement.