European markets fall as Ireland reveals further austerity plan

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Ireland's government unveiled its four-year "recovery plan" yesterday, which will aim to reduce its budget deficit to 3 percent of GDP by 2014. The plan, the imposition of which was demanded by the European Union and the International Monetary Fund in order to secure a bailout, will see the budget cut by €15 billion—€10 billion in spending cuts and €5 billion in tax hikes.

The measures did not have their desired impact, as markets fell sharply across Europe. Government bonds for the most indebted countries rose once again, and bank shares fell steeply. Ireland's 10-year bond yield rose to near 8.8 percent yesterday afternoon, with Greece also suffering badly.

The fears were driven by news that Ireland would likely be forced to nationalise two more banks, Allied Irish Bank and Bank of Ireland. At the same time, it expressed the conclusion of the markets that even the savage measures contained in the plan would not be able to save the state from default. The financial parasites that have speculated away billions upon billions want far more.

The National Recovery Plan 2011-2014 outlines one of the most severe austerity programmes ever in post-war Europe. The €10 billion in spending cuts over the coming four years will see government expenditure fall from 49 percent of GNP in 2010 to just 36 percent in 2014, which is the equivalent of a decline in budgets by more than a quarter, on top of a €14.5 billion package already implemented.

The plan calls for a €2.8 billion cut in the social welfare bill, even as official unemployment is above 13 percent. €780 million of this will be cut next year, the details of which will be contained in the budget on December 7.

Cuts across the health, education, justice and agriculture departments will amount to €3 billion. The health budget, which presently stands at €6 billion, will be reduced by €1.5 billion, including a cut of 6,000 jobs.

Education spending cuts will include a 5 percent reduction in funding for schools, and fees charged for students attending college and university will rise from €1,600 to €2,000.

The government will launch an assault on workers' pay, with the minimum wage being slashed by 12 percent or €1 per hour. The public sector pay bill will drop by €1.2 billion, and there will be 13,200 job losses across the public sector between now and 2014. Twelve thousand jobs have already gone in this area since 2008, meaning that the final total will be 25,000 job losses. For new entrants to the public sector, a 10 percent pay cut across the board will be imposed.

In terms of the tax bill, the poor and low paid will suffer most. Income tax will be increased to raise a total of €1.9 billion, which translates into a 1 percent increase from 2012. The wage threshold at which income tax is payable will also drop from around €18,000 to €15,000. VAT will rise from its current high level of 21 percent to 22 percent in 2013, and 23 percent in 2014. A new charge for water will be introduced, while a number of tax reliefs targeting low-paid workers will be removed.

Pensioners will also come under attack, with a reduction of public pensions of over €800 million proposed. The retirement age will see a phased increase between now and 2028, reaching 68 years by that time. Worse still, Finance Minister Brian Lenihan has said that the state's pension fund is on stand-by to support the banks if needed.

In estimating these figures, one must always keep in mind the fact that Ireland's population is just 4.5 million. The cuts double a previous €14.5 billion cuts package that saw Ireland's government slash public sector spending by 7.5 percent of GDP, public sector pay by 15 percent, child benefit by 10 percent, and unemployment benefit by 4.1 percent. If this had been done in Britain, for example, it would be equivalent to £150 billion. Now that figure is being doubled.

Meanwhile, the business elite will continue to enjoy a 12.5 percent corporation tax rate. The document stated, "A low rate of corporation tax on export-oriented activity has been a cornerstone of our industrial policy since the 1950s, and the 12.5 percent rate is now part of our international 'brand'." The document affirmed that corporation tax would "not be increased under any circumstances."

Despite the wide range of targeted areas and the depth of the cuts, the measures are a fraction of what will be required to prevent state bankruptcy. The estimation of the total cost of the bank bailout continues to rise, with one commentator noting on Wednesday that as much as €120 billion would be needed from the EU/IMF.

Standard & Poor’s downgraded its credit rating for Ireland overnight on Tuesday, and illustrated its lack of confidence in any government plan by maintaining a negative outlook for the future.

Market concerns also saw shares in Irish banks fall. AIB and Bank of Ireland shares both fell by around 20 percent, as reports confirmed that the state would be compelled to take a majority share in both institutions and assume responsibility for yet more gambling debts. The plan only refers in passing to the cost of the bank bailout. This figure will certainly rise in the coming period and will demand a corresponding increase in savings from the government.

As well as the pressure of the markets for even deeper cuts, the projections contained within the plan were based on government assumptions that are seen as extremely optimistic. According to the *Financial Times*, a number of economists felt that growth figures of 1.75 percent in 2011, 3.25 percent in 2012, 3.00 percent in 2013 and 2.75 percent in 2014 were unlikely to be reached.

The response of the political opposition was muted, with few complaints raised with the main thrust of the plan. Kieran O’Donnell, the deputy enterprise spokesman for Fine Gael, told RTE radio that his party would not rewrite the plan but rather amend certain “specifics”, which he did not outline. Finance spokesman Michael Noonan confirmed that Fine Gael would still be committed to the 2014 target of 3 percent of GDP, while party leader Enda Kenny claimed that specific measures could be “renegotiated” with the EU commission. This will do nothing to alter the savage measures being imposed.

The trade unions are tasked with policing the opposition this will inevitably provoke within the working class. David Begg, head of the Irish Congress of Trade Unions, gave his pledge to do so in the form of a rebuttal of the earlier comment by the general secretary of the Technical Engineering and Electrical Union (TEEU), Eamon Devoy, who warned that “we are on the brink of significant civil unrest in this country, the like of which has not been witnessed in this jurisdiction for decades”.

Begg disputed this, stating that while “There is no suggestion” that workers “don’t want to go out onto the street, what they don’t necessarily want to do is wreck buildings and burn cars.”

“It’s not the case that people think the whole thing is inevitable, it’s simply that they’re much more law abiding people who don’t want a revolution,” he told Reuters Insider television.

It is Begg’s particular responsibility to prevent the emergence of a revolutionary challenge to the government and the capitalist class. But he faces an uphill struggle. The trade unions too have been massively discredited by years of collaboration with the employers and various governments that culminated in their responding to the onset of the crisis by signing the Croke Park Agreement with the Fianna-Fail/Green Party coalition. The agreement promised a no-strike deal and collaboration with the previous round of cuts, in return for a supposed guarantee not to cut pay further or to introduce compulsory redundancies.

Lenihan insisted the Croke Park deal would stand, but would be subject to a review in 12 months. In reality, it is honoured only in the breach, given that pay is being cut and mass redundancies are inevitable. All it now signifies is the continued desire of the government and the unions to collude against the working class. There will be a “whole new ball game” for the Croke Park Agreement in the New Year due to the economic crisis, according to one of the architects of the agreement.

Labour Relations Commission Chief Executive Kieran Mulvey, speaking at the Oireachtas Committee on Enterprise, Trade and Innovation, said that without the agreement, the 5,000 job reductions demanded in the Health Service Executive could not have been secured without “open warfare”. But the agreement would face a “whole new ballgame” in six months time, given that the agencies it covers in health, education, the civil service and local authorities will face a significant level of potential expenditure reductions.

The Irish Small and Medium Enterprises Association said the decision to maintain the Croke Park Agreement “is a nonsense”. It was, they complained, “a missed opportunity” to address “once and for all” the costs of running the public sector.