Irish budget imposes savage austerity

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Ireland's 2011 budget was passed by the Dáil (parliament) yesterday, as the Fianna Fáil-Green party government began the implementation of a four-year plan to cut spending by €15 billion.

The government won the first vote on the budget by 82 to 78.

The measures contained in the fourth austerity budget since 2008 fall most heavily on the poor and low-paid workers, who are to be made to pay for the reckless activities of the banks.

The content of the budget was dictated by international finance capital through the European Union and the International Monetary Fund. In discussions that led to an €85 billion bailout being finalised at the end of November, they demanded swingeing cuts from the government, including a binding commitment to slash the minimum wage, and the reduction of Ireland's budget deficit to 3 percent of GDP by 2015.

Another €35 billion package for the country's bankrupt financial institutions was also agreed, part of which will be funded by handing over the bulk of the national pension fund.

Despite attempting to downplay the severity of the cuts in his budget speech with talk of signs of emerging "recovery", Finance Minister Brian Lenihan accepted that the figures for economic growth outlined were well above those predicted by the EU and IMF, which downgraded their growth projections for Ireland. Should the growth levels estimated by Lenihan fail to be realised, cuts will need to be intensified once again.

Among the most sweeping cuts are those on the welfare system, which will see a total of €780 million of cuts next year. Social welfare payments will be reduced by roughly 5 percent, making it even harder for the more than 400,000 unemployed to make ends meet.

The government will also seek to force unemployed workers off benefits and into low-paying, temporary jobs. Lenihan announced a number of schemes to subsidise internships and training schemes in partnership with the private sector, following on from the commitment to adopt workfare-style measures in the bailout agreement signed with the EU and IMF.

Other cuts to benefits will see child benefit reduced, by €10 per month for the first two children, €20 for the third child, and back to €10 for the fourth. Children's charities warned that the measures would increase child poverty rates across the country.

A new universal services charge is to be implemented, which will affect all those who are working. The current health levy and income levy is to be done away with to be replaced by a new charge, which will be determined according to income levels. Tax credits, which provided assistance to low-paid workers, will be slashed by 10 percent.

The low-paid will suffer further, thanks to the lowering of the income tax threshold and the narrowing of tax bands. This latter measure will ensure that more workers pay higher rates of income tax. The combined tax measures are projected to raise over €1 billion for the government next year, and, according to Lenihan, will see the percentage of the workforce paying tax increase from 45 percent to 60 percent.

In estimates after the budget, it was suggested that those earning between €15,000 and €25,000 per year could lose roughly 4 percent of their income based on the various tax measures. Indirect taxes will also rise, with excise duty on petrol increasing.

Workers in the public sector will see their pensions cut by 5 percent, while the tax exemption for pension contributions will be removed. Pensioners will also see some of their tax exemptions abolished.

A new pension system for the public service will begin in 2011, which will include a pension calculated on career salary rather than final salary. There will be an increase in the retirement age, and an increase in

pensions to be calculated on the retail price index, a move that will see pension values drop.

For young people, the cost of education will rise sharply, with fees for university and college level education rising to €2,000 from the current level of €1,500. Families with more than one child in education at any one time will not have to pay the full fees but will instead pay a reduced rate.

A number of token measures were imposed on the better off, including a public sector pay cap. For politicians, pay cuts for the Taoiseach and government ministers were also revealed.

The passage of the budget had remained in doubt in the days leading up to the vote, but in the event the two independents required to provide the government with its majority backed the bill. Michael Lowry, one of the independents, said in a statement on Monday, “Despite some adverse reaction in my constituency to this decision, I feel duty-bound to put the country’s interests first.”

Reports that a number of “rebel” Fianna Fáil TDs would emerge to oppose the budget did not materialise. According to commentators, it is now considered unlikely that any challenge to the leadership of Brian Cowen will take place within the party before the new year.

The opposition’s vote against the budget did not represent any rejection of the cuts being imposed. Fine Gael, Labour and Sinn Fein have all accepted the need to reduce the budget deficit through varying combinations of tax hikes and spending cuts. Fine Gael was in favour of the €6 billion budget cut in 2011, while Labour argued it should be somewhat less. But Labour has fully committed itself to the target of reducing the budget deficit to 3 percent of GDP within four years.

Speaking after the budget’s release, Fine Gael spokesman Michael Noonan criticised the government for a failure to put forward any plans for job creation. But on the key question of the level of cuts, Noonan described Lenihan’s plan for fiscal consolidation as “sound”. His opposition was only to government “incompetence” for its failure to deal with the banking crisis, focussing particularly on the National Asset Management Agency (NAMA), which has shifted vast amounts of banking debt onto the state.