STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions

BUILDING IRELAND'S SMART ECONOMY

A FRAMEWORK FOR SUSTAINABLE ECONOMIC RENEWAL

Preliminary Observations by the Irish Congress of Trade Unions

January 2009

Introduction

Nothing highlights the extent of the economic crisis more than the fact that we are already heading for record numbers of unemployed. The priority for economic policy must be to prevent the economic recession becoming a self-propelling spiral downwards towards a more deep-seated depression. Existing levels of unemployment are both a product of the recession to date and will contribute towards aggravating it further in the absence of a countervailing strategy. The greater the numbers moving from employment to unemployment, the greater will be the additional demands on public expenditure.

The reductions in income associated with loss of employment in turn feed into a growing inability-to-pay in terms of consumer demand. And yet personal consumption itself constitutes as much as 48 percent of GDP, and so must be not alone sustained but revived in any strategy for economic recovery.

At a meeting on January 9 the Taoiseach asked Congress to submit proposals for dealing with the impact of recession. The purpose of this paper is to respond to that invitation and to comment on the Government's own policy paper *Building Ireland's Smart Economy*. The paper is structured in the following way:

Part I: General overview of the challenge and response;

Part II: Critique of Building Ireland's Smart Economy and more detailed treatment of proposals;

Part III: A note on measures needed to deal with the pensions' crisis.

The principal proposal developed in this paper is the need to ensure that the necessary adjustment in living standards resulting from the recession is carried by those members of society best equipped to do so. To this end a

Social Solidarity Pact is suggested. By definition this must address key economic and social issues. If it is the intention of Government to engage Congress only in an exercise to cut public services, pay and numbers then we cannot engage on this basis. Social Partnership is not an end in itself. It is not enough just to involve the unions in discussion on a list of objectives Government wishes to achieve.

In fact, it is difficult to foresee any social policy dividend for the next few years. Therefore, there is no intrinsic value, and very obvious disadvantages, for Congress in being involved in such a process in such unfavourable circumstance. The only case for it is that it is the right thing to do for the country.

But this raises the question: what is everybody else going to contribute?

PART I: General Overview of the Challenge & Response

The Scale of the Problem

We are experiencing the most profound global economic crisis in seventy years. As Martin Wolf observed in the *Financial Times* on January 7, this is the year in which the fate of the world economy will be determined, maybe for generations. Hopes that the globally unbalanced growth of the middle years of the decade can be restored are mistaken. The only question is about what will replace it.

A recently published paper by Reinhart and Rogoff of Harvard University notes that empirical evidence of severe financial crises suggests that banking crises are protracted with output declining, on average, for two years. Asset market collapses are deep, with real house prices falling, again on average, by 35 percent over six years and equity prices declining by 55 percent over 3.5 years. The rate of unemployment rises, on average, by 7 percentage points over four years, while output falls by 9 percent. The real value of Government debt jumps, on average, by 86 percent. This is only in part due to the cost of recapitalising banks. It is far more because of collapses in tax revenues.

In normal circumstances we could get some guidance about these matters, and make judgements about the likely length of the downturn, from the ESRI Medium Term Review. Although it was published in May, 2008 this forecast, normally very accurate, is of no value because circumstances have changed so quickly.

In the absence of any data upon which to rely it is natural to look back at other periods of recession for comparison. For those of a certain age, the 1980s spring to mind. But there are differences, both positive and negative, which make that an unreliable guide, viz:

- Our Gross National Product (GNP) is several multiples of what it was in the 1980s;

- The number of people at work has doubled;

- Our debt to GDP ratio is much better.

On the other hand:

- The development of an economy heavily dependent on services brings with it the previously un-experienced phenomenon of middle class redundancy with solicitors, architects and engineers being laid off. In all previous recessions redundancy was usually confined to manufacturing, construction and so forth;

- In all previous recessions there was somewhere else to go for work. That is a much less viable option today.

The question of balance both in the global and domestic economy has assumed more importance. The received wisdom that Ireland could prosper with an economy dominated by services needs serious reassessment even though it still forms the core of the Government's proposition. Our view is that manufacturing, which now accounts for only 13 percent of employment, must enjoy a renaissance. Implementation of the report of the High Level Group on Manufacturing should be a priority. We also need to consider what scale of economy is sustainable in our particular circumstances.

How Did We Arrive At This Point?

What is euphemistically referred to as 'The Credit Crunch' started in the US sub-prime mortgage market but the globalised and deregulated nature of capital markets made it a worldwide problem. This contagion exposed 30 years of economic orthodoxy as being bankrupt. As it collapses, we see starkly what this era of capitalism created: a plutocracy that has accumulated unprecedented wealth. By contrast those on median incomes were cajoled, persuaded and seduced into piling up punishing levels of debt and putting an unprecedented amount of household labour (double earners became the norm) into insecure jobs.

We are facing not just an economic crisis but a moral one also. What was the legitimacy of a system that pursued economic growth for its own sake with a wilful disregard for whether it produced a good life? It has resulted in the highest levels of inequality in a century and squandered our environment, communities and well being.

Ireland bought into this scheme of things with enthusiasm. The Irish banks epitomised this embrace of Casino Capitalism. They engaged in too much mortgage lending (financed by heavy foreign borrowing) into an unsustainable housing price and construction boom. The boom seemed credible to enough borrowers given sharply lower interest rates with adoption of the Euro on top of the protracted expansion in output, employment and population especially from the mid-1990s. The failure of the light touch regulation model, so beloved of

Irish policymakers, was ultimately exposed with the bank failure. 'Principles based' regulation was unequal to the task of preventing misbehaviour.

Three of the major banks have had to be recapitalised to the tune of €5.5bn by the Government. And if they need additional capital it will be forthcoming. But at the same time health services are being slashed, taxes and levies raised and job losses and pay cuts are being demanded from workers.

Moreover, we have a crisis in our public finances because we relied on windfall taxes from the housing boom to finance our current expenditure. We squandered 10 years of surpluses, giving tax rebates to wealthy individuals in a pro-cyclical madness which has left us with no buffer against the cold winds of recession. Now, 20 percent of our tax base has disappeared and we don't even have the wherewithal to finance a significant fiscal stimulus to spending. It is a major failure of public policy. Yet the people who were cheerleaders for that policy are now to the fore in demanding public sector pay cuts.

The Government Framework Document

Overall, the document is more of a recasting of the objectives and aspirations of a National Development Plan but without the costings, and much less of a blueprint for the economic stabilisation and recovery of the country over the short term.

However, it must be acknowledged that it does set out a number of key actions necessary to promote future enterprise. Future industrial policy and economic growth in Ireland will have to be founded on the promotion of technological innovation and supports for the commercialisation of blue sky ideas if the State is to remain economically competitive over the medium to long term, relative to its international competitors.

But in attempting to create the '*Smart Economy*' and becoming the "*innovation and commercialisation capital of Europe*", there is a concern that scarce state funds will be allocated to projects that will have little impact on labour demand and will be concentrated on the few over the short to medium term.

Furthermore, the funding may well sow the seeds of future economic growth but arguably does little to address the present employment crisis. In targeting the "smart economy", the two tier labour force could be further exacerbated, where those who form part of the technologically creative economy will thrive while those who do not have these skills will fall behind. The document reasserts the Government's commitment to providing a flexible learning environment for those still working however, to date, implementation has been patchy and slow.

Our different perspective rests in a political economy approach rather than one based on pure economics. We believe markets should be embedded in society and not the other way round.

Our conclusion is that *Building Ireland's Smart Economy*, notwithstanding its positive aspects, is somewhat devalued by its fidelity to what has gone before. This is strategy for seizing the opportunities in a recovery rather than one for recovery itself which requires addressing the more immediate threats to living standards and employment. A detailed critique of the document is included in Part II.

What Needs To Be Done?

This analysis implies that an agreement geared towards a relatively short period of recession followed by a bounce back to the high growth rates of recent years **is not** what is required. Our view is that some kind of Social Solidarity Pact is required in which the burden of adjustment is carried by the people most able to carry it. It should be capable of being a bridge to a future that is more sustainable than the model upon which we relied for the last thirty years.

Our view of what it is necessary to do immediately includes the following:

– Get credit flowing again in the economy;
– Finding a way to reflate the economy and maximise employment;
– Manage the adjustment in living standards via a Social Solidarity Pact;
– Stabilise the public finances;
– Apply a holistic approach to achieving improvements in competitiveness.

The Banking System & Credit

We are not persuaded that Government intervention, necessary though it was to preserve the integrity of the banking system and to try to keep credit flowing, was done in a way that got the best deal for taxpayers. It seems to have been very lenient to shareholder interests by comparison with other countries.

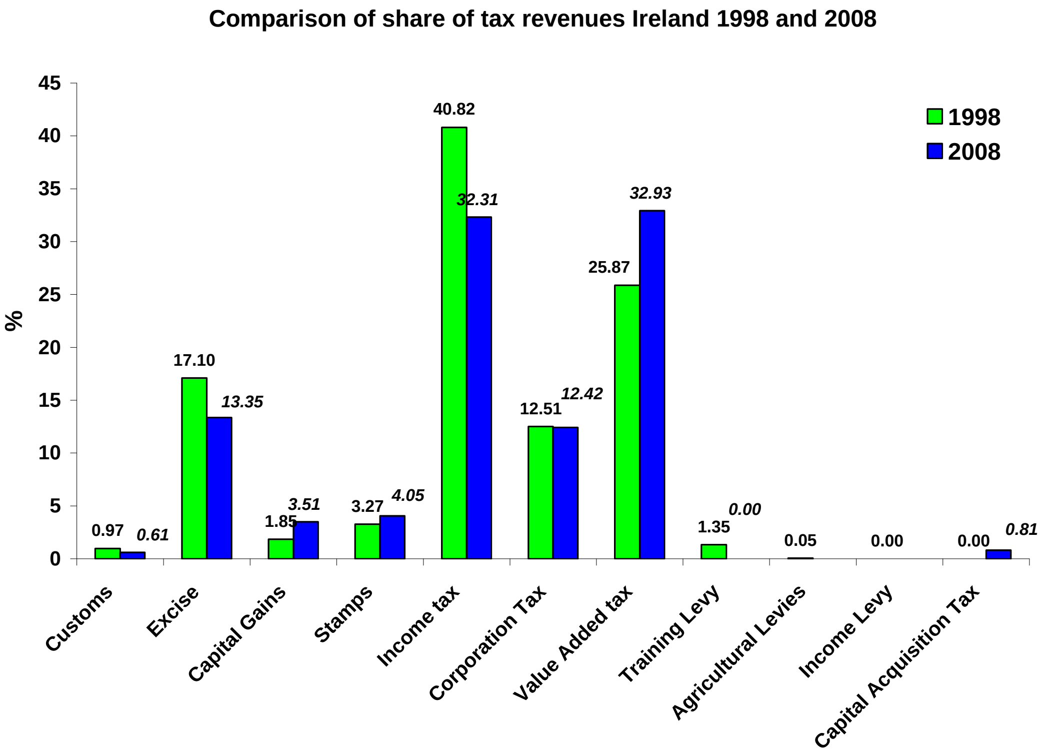
Moreover, it does not seem to give Government sufficient control to ensure lending takes place at the level sufficient to support economic activity. This appears to be the experience of the UK, US, and Germany. It was also the experience with the New Deal 75 years ago.

A second but equally important objective should be to prevent foreclosure on homes. The six months stay of execution and the voluntary nature of the code of practice cited in *Building Ireland's Smart Economy* are too short and weak respectively. Congress has already made specific proposals on this issue (see Part II).

If Government moves towards deeper involvement in the banks it should impose conditions which ensure that the eventual recovery can be used to contribute to pensions as in the Swedish model. We are anxious also to ensure that any consolidation in the industry is done in a way that protects both employment levels and conditions.

The Need to Reflate the Economy and Maximise Employment

It is necessary to find a way to reflate the economy. The fiscal situation would appear to limit the prospect of direct tax cuts (in fact we argue later that the elimination of tax shelters and an increase in capital taxation is desirable in the interest of fairness). We do not favour the continuing trend of moving from direct to indirect taxation because of its regressive effects and would view the increase in VAT in Budget 2009 in that context. The Graph below shows the reduction in income tax and the rise in less progressive VAT over the past decade. It also indicates the dependency on the property boom for taxes.



The Government's intention to reorder the priorities of the NDP to frontload labour intensive projects is welcome. How this will happen in practice needs further elaboration. For example, the Metro North project, if proceeded with immediately, would probably need to source expertise from abroad. An approach to project planning which ensures that any necessary training is provided in advance to allow the employment of Irish workers is desirable. The objective should be to get the best value for money in labour market terms from the NDP. Given the radical change in the assumptions underpinning the plan in relation to economic growth and population growth it might be more efficacious to divert some of the money to innovation and skills development. A realisation that the economy must be rebalanced such that we do not return to employing 14 percent of the labour force in construction should inform consideration of this matter.

In the context of this economic recession, the uncertainty as to when the economy will begin to recover and grow and the danger of a large scale hysteresis effect in human capital and skills the longer negative economic growth continues, the objective of any national job scheme must be to maximise the number of people that can remain at work that is possible at a given time, and to further ensure that they are equipped to become sufficiently adaptable to new processes within their existing industries or to take up other opportunities in other industries.

Ultimately, a national jobs scheme must cater for two types of firms:

(i) Ensure the survival of firms that in "normal economic conditions" would be performing well. This will entail support for firms undergoing a transition phase from more traditional manufacturing to higher tech activities and correspondingly to institute direct support to the workers concerned.

(ii) In cases where firms are due in time to relocate, downsize or close, to ensure supports be put in place to help train and upskill workers to become adaptable to other processes within their industries or in other industries.

The costs associated with such a scheme would be met both by the reallocation of existing State resources in terms of unemployment benefit and by broadening the eligibility criteria for Enterprise Ireland RTI grants and the R&D tax credit.

The provision of training supports would be put in place to cater for a continuum of firm and worker training needs.

1) Already, there are a large number of companies that have reduced staff hours and production processes to a three or four day week.

    - In place of monies paid out in pro- rata unemployment benefit to workers on a three or less day week, exchequer resources should be alternatively allocated to the provision of training and upskilling opportunities for these workers on a reduced working week. While the training allowance would be covered by the State, the costs of the training provision would depend on the type of training required by the workers and by the firm.

    - For firms whose medium term survival depends on the adaptation to higher tech processes, this transition phase should be supported by access to the Enterprise Ireland RTI grant and/or R&D Tax credit. Training needs would be firm specific and designed by management and workers together.

    - For firms with little or no scope to adapt or change and with bleak economic prospects, the type of training or upskilling undertaken by the worker during the time not working would be at the discretion of the worker. It is these instances that point to the urgent need for free access to third level part time courses for those who have not attended previously and which calls for the immediate roll-out of this commitment made under *Towards 2016*.

2) Firms and subsidiaries, both Domestic and Foreign owned that are becoming increasingly vulnerable in current market conditions.

- In order to pre-empt the scaling back of production or other cutbacks, a transition phase within the firm to higher tech processes and activities should be supported by accessing the RTI grant or R&D credit to upskill and retrain the existing work force of the company. In a situation where firms have made their relocation intentions known or that it is clear that the firm has a limited economically sustainable future, the training and skilling options of employees should not be tied to the firm.

- The type and timing of upskilling and training provision would be subject to firm level negotiation. Already there are a number of examples of firms across the country with limited future prospects in sectors such as mining or in traditional manufacturing that have agreed to training provision during work hours or on the basis of partially within and outside of work hours and which is FÁS funded.

A Social Solidarity Pact

A Social Solidarity Pact is a way of ensuring that those who carry the burden of economic adjustment during the recession are best positioned to do so. This adjustment cannot be carried by workers alone, whether in the private or the public sector. A key question for these discussions is to ask what is everyone else going to contribute?

While the concept of a Social Solidarity Pact requires teasing out, some indicative components would include the following:

Employment Protection We must maximise the retention of people in work because the social and economic consequences of allowing people to slip into long term unemployment are so dire. This implies intervention along the lines already suggested to equip people to qualify for new jobs while still at work even in fragile employments. It requires innovation and creativity to design a type of flexicurity model suitable for our welfare regime. It should allow for a combination of job sharing to facilitate training and/or a return to education. It would have the additional benefit of gearing people for the new economy that it will be necessary to create.

Preventing a Race to the Bottom This is an ever present danger, particularly in circumstances of recession. It highlights the need to complete the enactment of the five pieces of labour market legislation agreed in *Towards 2016 Transitional Agreement.*

An Incomes Policy The economy is suffering at present from a paradox of thrift in which people feel that it is the patriotic thing not to spend. In the same way demands for pay cuts, if realised, could serve to precipitate a deflationary spiral from which it could be hard to recover. Efforts should be made to inform the public of the real consequences involved. Moreover, given the limited scope for a fiscal stimulus maintaining wage levels is important.

Towards 2016 contains a commitment to **moderate executive remuneration** as a policy. Tangible efforts need to be made to put this into effect. Conversely the minimum wage needs to be enhanced to protect the 5 per cent of the workforce who are most vulnerable to the pressure of economic adjustment.

There is an impending crisis in private sector **pensions** which has been well documented separately (see Part III). A Social Solidarity Pact, if it is to mean anything, cannot leave people exposed in the way that they are now.

A Tax Policy Congress has long argued that, as a matter of fairness, income from all sources should be taxed the same. Thus capital taxes should apply at the relevant income taxes rates and all reliefs should have a clear economic or social objective and be evidenced based. Tax exiles should be subject to strict enforcement of conditions relating to their status. Any expectations of widening the tax base to compensate for the loss of property related transactional taxes will only be realised if the PAYE public perceive the regime to be fair.

In these circumstances the tax base could be further progressively expanded by the introduction of an income-related **property tax** on all properties other than the individual's primary domestic residence (indeed, the latter could also be included in respect of 'trophy houses' by imposing the tax after a certain threshold has been reached). Apart from the revenue affect, such a measure would also simultaneously demonstrate equity of approach and also disincentivised non-productive investment.

It is, however, also necessary to recoup the erosion of the income tax base that favoured the higher paid, resulting from the reduction of the top rate of tax from 48 percent in 1998 to 41 percent at present, in clear contradiction of the unanimous recommendations of the NESC in its 1996 and 1999 Strategy Reports. Accordingly, it will be necessary to **reintroduce the 48 percent rate** of income tax on higher incomes, related to an appropriate multiple of average industrial earnings.

Stabilising the Public Finances

Congress is persuaded of the need to stabilise the public finances, not least to prevent a deteriorating situation which, if left unchecked for a period of years, could become unmanageable. The instruments available to Government to address this situation include:

– Public Sector Pay and Pensions
– Taxation
– Borrowing
– Public Expenditure
– Time Scale

Unfortunately, the extreme nature of the public debate about these issues disguises the fact that correcting the problem is as much about restructuring the tax base as it is about restricting pay growth.

The fact that we lost up to 20 percent of our tax base due to an irrational reliance on property transaction taxes is a reality that must be confronted. Just as it is also a reality that our public expenditure is amongst the lowest of the OECD countries.

It is necessary also to take account of unavoidable social costs – pensions provision, early childhood learning, care of the elderly, unemployment support and health funding – which must increase substantially into the future.

What is required, in our opinion, is an intelligent debate about the level and quality of public services the Irish people want. Having ascertained this, a plan is required which balances the components of pay, pensions, expenditure, borrowing and tax to be realised over a sustainable timescale.

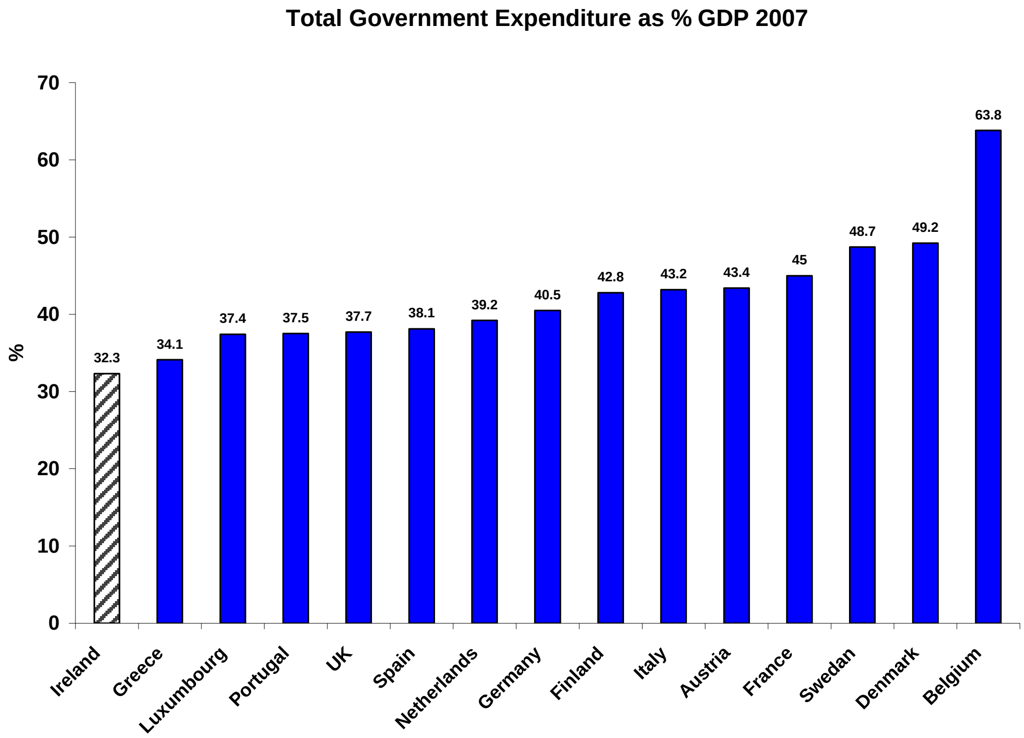
On the positive side we note the adroit actions of the NTMA in borrowing early such that by the end of 2008 cash balances on hand had increased from **€4bn at the beginning of the year to €21bn** at the end with a resultant debt to GDP ratio of 20 percent.

Nevertheless we are open to discussions on how to constrain the growth in public sector pay and pensions costs. This could include conditions for deferral of pay increases, restrictions on overtime working, incentivised career breaks, flexible working hours and other innovative measures of which this list is simply indicative.

In terms of trying to capture a mood of public support for a Social Solidarity Pact there might also be an opportunity to launch a **Domestic Savings Bond –**

a National Recovery Bond – which people would contribute to if they felt they were part of **A FAIR** and genuine effort to put the country back on its feet.

The wisdom of borrowing to invest in the National Pensions Reserve Fund in current circumstances is very questionable as is continuation with the hospital co-location project.



Public Spending & Corporate Welfare

As the graph above demonstrates and as we have stated publicly on a number of occasions, public spending in Ireland is low by international standards as a percentage of GDP. We also make the point in the analysis in Part II that if public spending is being trimmed, then it is not sufficient just to examine and trim labour costs in the public service, but we should examine the vast array of tax expenditures particularly those going to industry and to wealthy individuals in subsides, such as the so-called Business Expansion Scheme, few of which have been subject to proper cost benefit analysis. The ones that were so subjected failed the test. They were the property based tax incentives and these are being slowly – too slowly – being phased out. In one year alone, 2006, these cost almost €500m in lost taxes. This kind of tax expenditure has to be seriously analysed now in the crisis. There is a significant corporate welfare system in Ireland. Congress is not averse to business subsides but in a crisis we must cut our cloth to suit our needs, as Government ministers frequently state. Further the array of subsidies to agriculture and agri-business must be reviewed. Finally there must be a massive clamp down on evasion and new tight laws on tax avoidance schemes (ie so called 'incentives' to wealthy people, companies, farmers etc) and on tax exiles.

Competitiveness

The most immediate threat to competitiveness is the fact that, unlike some other Euro zone countries, we have extensive trade with the UK and the US. The weakness of the Dollar and Sterling consequent upon lower interest rates is affecting exports. Whatever political steps can be taken to impress upon the ECB the need to reduce interest rates should be taken.

In infrastructure terms the weakness of our broadband network is a major inhibition to building a 'Smart' economy. It is arguable that this is comparable to the way things were with the inadequacy of telephones in the late 1970s. It is worth considering renationalising eircom to overcome the market failure in this sector of the economy.

The cost of living in Ireland is 20 per cent above the EU average. This is a major drag on competitiveness. As the Government's own document notes unit labour costs are not out of line with Europe. This is shown in Table II (Part II) where Ireland is 22nd in total labour costs for employers in the richest 30 counties in the OECD. The fact is that other costs have been allowed to drift up. Failure to effect a pass through of Sterling devaluation is a case in point.

Medium Term Strategic Issues

Congress believes that it is important to decide whether we are about a short term project to stabilise the public finances or a more medium term effort to deal with all the issues we have to deal with. In our view we need to take this medium term perspective to:

- Rebalance our economy to achieve a mix and a scale which is sustainable. This would require us to address market failures such as broadband provision;
- To address unavoidable social costs including pensions, early learning, health funding;
- To devise strategies for upskilling and employability maximisation;
- To deal with energy security and environmental sustainability.

A new '*Green Deal*' – involving a major shift towards renewable technology (coordination of transmissions system investment, zero emission targets, interconnection, commercialisation of ocean technologies) will be led by public enterprise companies and, therefore, requires that all commercial restrictions currently operating through the regulatory system – investment, expansion, market shares – must be removed.

New investment and job creation strategies should be employed to improve our physical stock – most notable in house insulation, school construction and upgrade and construction/purchase of housing stock for social housing.

To complement public led investment in physical infrastructure, there should be renewed prioritisation of the National Spatial Strategy (NSS) with accelerated investment in the development of Gateway regional economic centres (and associated hubs) where economies of scale and of integration can be availed of, as they will provide much of the extra infrastructural capacity needed. The ill-considered Decentralisation programme should be openly abandoned in favour of a new decentralisation programme based on the NSS and on social partnership discussions and analysis.

Investment in social infrastructure (public services) has a multi-fold benefit: job creation, universal provision which can reduce enterprise costs, an increase in disposable income and, so, demand, and improved access to the labour market.

- *A National Network of Childcare* – crèches/places to incentivise work entry. This will create jobs, increase disposable income as childcare costs are substantially reduced, and reduce labour costs (i.e. upward wage pressure to pay for private sector childcare);
- *A Primary Health Care Network,* similarly, will involve job creation, a healthier society (thus reducing illness costs) and a divert health demand from expensive tertiary (hospital) care to les costly primary care;
- *Increased Educational Investment* will provide returns on a short and long term basis to our economic competitiveness – especially as Forfas has benchmarked most categories as poor, or of concern.

In terms of situating economic activity the National Pensions Reserve Fund, since it has already been raided to prop up the banks, should now be opened to commercial capital and enterprise projects in Ireland with identifiable returns.

Conclusion

The focus of public attention has been almost exclusively on the public finances. But, as the OECD report indicates, the quality and size of the Irish Public Service compares favourably with the rest of the OECD. The public service has not caused the problem in the public finances. The evaporation of 20 percent of our tax base constituted by property related windfall taxes has caused a problem for the public service. More broadly the problem is with our economy not just the public sector and fixing the public finances will not fix the economy. Nevertheless, because Ireland is a small open economy we may be falling more quickly than others and quick action may feed into investor confidence in a way that could also allow recovery to take place sooner than might otherwise be the case.

Congress is willing to work constructively with Government to achieve that objective. It is important to decide whether the task in hand is a short time correction of the pubic finances or a more medium term project to convert the economy to a more sustainable model rooted in society. If it is the latter there may be some difficulty in reconciling it with the activity of the McCarthy Committee. It seems to Congress that any savings achieved in 2009 need to fit into a medium term intelligent balance between pay and pensions costs, tax, borrowing, services and timescale. Given Ireland's relatively favourable debt to GDP ratio there must be scope for a civilised compromise embracing these variables.

Congress can support the strategic objectives of the Government's plan relating to the need to frontload employment creating projects and creating a new green industry. We can also support the aspiration to move up the value chain in respect of innovation, skills and R&D. Our reservations lie in our perception that the document does not recognise either the urgency of dealing with the recession, as distinct from the recovery, or the fact that, when recovery comes, it will not be a return to the conditions of the last ten years. The economic model of that period is defunct.

Part II: Creating the Smart Economy

Critique of Government Framework Proposals

"Any great failure should forces us to rethink. The present economic crisis is a great failure of the market system."

- Robert Skidelsky, biographer of Keynes, January, 2009.

New Thinking Needed

Building Ireland's Smart Economy sets out the harsh position facing Ireland and the Irish people. What this analysis seriously lacks is a new economic philosophy and this shows. Ireland's current abysmal position is the result of the pursuit of economic policies which were partly based on a now defunct economic model. This was the turbo-liberal economics of Thatcher and Reagan dominated by de-regulation, liberalisation and privatisation. This system has collapsed in a very short time, humiliatingly and with a bang. Yet it is clear that part of this Framework is still infected with this defunct ideological economics. This document is flawed because much of it is based the new liberal economic philosophy. However, the proposals of Congress, based on a coherent and sceptical economic philosophy, should greatly improve the Framework if adopted.

Re-regulation, wholesale nationalisation and the emergence of the Big Government, with all that implies, is the new economic order. Thus it is surprising that this economic Framework espouses corporate welfare programmes through subsides, even more tax breaks and further de-regulation. The new tax reductions for businesses and for wealthy individual entrepreneurs and partnerships and substantial state aid in subsidies for vague R&D programmes is disappointing, because they do not work effectively.

Congress does not favour overbearing regulation or very high tax rates and is against *bureaucracy* and *red tape*. Firm regulation at national and international level and reasonable, fair and well structured taxes are the backbone of an economy. It was the rampantly pro-business, anti-regulation philosophy of the government and its Regulators which ultimately led to the collapse of the Irish banking system. This Framework tells us that hard lessons have yet to be learned by some in government.

Indeed The root cause of the international, synchronised recession was the sub-prime lending in the US, due to lack of regulation promoted by Bush's 8 years of Government, aided by the Fed, the US Central Bank, under Alan Greenspan, who has now recanted his faith and devotion to the unregulated market. The toxic debt was parcelled up, given AAA ratings by dubious rating agencies, and sold off to international banks. Irish banks took on part of this debt, but it was their own drunken lending that has exacerbated the crisis we face. They did this with little or no supervision from the now-departed Financial Regulator and were cheered on by financial sector economists who dominate the Irish media.

This was greatly compounded by a Government which had massive surpluses but which wasted much of the opportunity provided by these billions of Euros to transform Ireland. Minister Charlie McCreevy will be judged harshly by history. He is the Minister who blew the boom.

"The Irish public finances deteriorated significantly in 2008 reflecting the significantly changed environment."

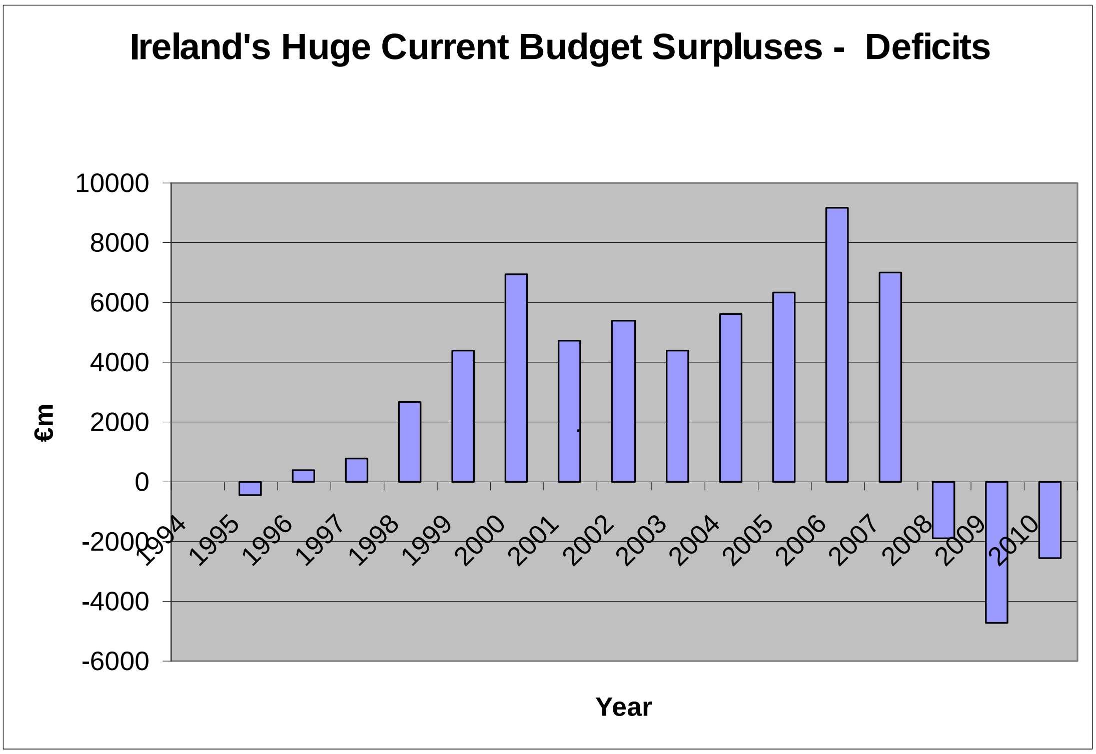
This statement in the Framework (p21) paper seems to imply that the recession was imposed on us externally and was not substantially of our Government's making with it tax-cutting, pro-cyclical and deregulation policies. On page 37 there is no explanation of why the 10 years of Exchequer surpluses turned into a deficit so rapidly. Congress would point out that the national debt is still low at 41 percent of GDP, but the net position with the Pension Reserve Fund and the huge cash in hand sum of €21bn, is only 20 percent of 2008 GDP[1]. It is important the crisis is not exaggerated, for effect. There could be an unintended outcome.

The crisis was coming for a long time and Congress had repeatedly warned of the need to change policy from one of 'growth for growth's sake' to one of development, but to no avail.[2] Instead the Government pursued growth with its fiscal polices of business subsidies and inflating the property bubble at a time of very low interest rates.[3] The bubble burst and the situation was exacerbated by the virtual collapse of the world financial system, spreading like a plague from the US.

The huge tax surpluses on the current account that poured into the government coffers over many years - from 1998 to last year - is set out in Figure 1 below. From these, investments were made in capital projects, which was very important, but each year, taxes were cut, especially in the late 1990s and the early years of this decade, by Minister McCreevy. In many other Euro countries, surpluses were small or close to zero in many years of this period.

Figure 1

[1] NTMA preliminarily Results for 2008.
[2]For example, in Pre Budget Submissions, 2004 -2008..
[3] For example, tax breaks to property investors to end of 2007 have cost over €3,000m in lost taxes. In 2006 alone they cost almost half a billion Euro in taxes foregone or lost.



Source: CSO and Stability Report in Budget 2009

These current Budget surpluses totalled a staggering €58bn in the period. A prudent, progressive Government would not have cut taxes so much, and a vast, counter-cyclical fund could have been raised to pay for improvement in 2009, instead of having cutbacks.

Congress has fundamental disagreement with some assertions of the Framework paper. On *Strengths of the Irish Economy* on p 29 Congress would concur with all points listed with two major exceptions.

"A competitive economy in many respects through low corporation tax, overall productivity levels, a well-educated and young workforce and a smart approach to business regulation."

The low corporation tax is no longer a strength of the Irish economy. It is and has been an artificial state support to business which has attracted firms in the past, but as nominal corporation tax rates are reduced all over the world, it is rapidly losing its attraction. Further, it is a very vulnerable attraction and can be eviscerated overnight by a policy change in another country, e.g. the USA. Thus it is naive to continue to have it as a core attraction.

The second alleged strength of the economy – our regulatory framework - has been proven to be a major weakness, has greatly undermined Ireland's reputation as an economy in which to do business and has placed vast sums of taxpayers money at risk. This is the so-called 'smart approach' to business regulation. The pathetic system of regulation of the Irish financial sector which allowed banks to lend wholesale without prudence indicates a complicit Regulator. The very low interest rates imposed on a booming Ireland meant that a first year economics student would have ensured that the banks were very prudent in their lending. Yet IFSRA was fast asleep[4].

Congress and Irish workers suffered for many years with little or no regulation of labour standards, until NERA was established at our behest. It is remarkable that the Government still has not learnt that the Irish system of regulation has been proven to be a major competitive disadvantage! To assert that it is otherwise is myopic. Ireland's international business reputation is in ruins, thanks to our perverse, pro-enterprise system of banking regulation.

The statement on page 28 that the attributes of a Smart economy include "light and adaptive regulation; a favourable tax environment for citizens and business; low costs of doing business and minimal 'red tape,'" is not acceptable to Congress, nor we suspect, to anyone who has lived in de-regulated, "low tax" Ireland over the past while! It has now been proven that light regulation does not work!

Congress can work with the idea of minimal red tape but we support firm and adaptive regulation. The tax system can no longer favour exiles, the wealthy, investors and certain businesses, at the expense of ordinary citizens.

---

[4] Had the government also been fast asleep too would have mitigated the current bust, but it was busy cutting taxes which accelerated the property bubble.

Regulation

The Framework paper states:

"We will implement measures to reduce administrative burdens on business by 25 percent by 2012, beginning with concrete measures in the five priority areas identified by the High Level Group on Regulation – Taxation, Environment, Health and Safety, Statistics, Employment and Company Law."

Congress is against red tape and favours effective and firm regulation but the term "burden of regulation" is again[5] pejorative. One person's burden is another's liberation. Workers' rights are not "burdens" and must be respected.

But what cannot be denied is that a major contributory factor to the current crisis was the failure of corporate governance. Corporate wrongdoing is not the product of a few bad people. It is the systematic result of inadequate regulation, conflicted corporate governance mechanisms combined with the greed of speculators and corporate insiders. What's needed is a comprehensive reform agenda to bring a long overdue sense of responsibility and to restore accountability. We must make Chairmen, CEOs and Directors fully accountable and hold them responsible. This must be an urgent priority for Government.

In particular, Congress suggests:

- That NERA and the Health & Safety Authority be exempt from any rationalisation of workplace inspections.
- That the High Level Group of Workplace Regulation be asked to identify measures that can reduce administrative duplication without undermining worker protection regulations.
- That serious consideration be given to the Congress suggestion for the establishment of a single regulatory commission that would regulate the various economic sectors.

[5] Like the neo-liberal pejorative term *tax burden*, which should not be used by Irish public servants.

Nationalising the Banks

Congress was the first to call for Government to nationalise the country's banks and warned that any investment from private equity funds or venture capitalists would cause turmoil in the banking system. The Government has done this in all but name, but in a way where:

a) it has no control over lending and governance;

b) the taxpayer is exposed to massive potential liabilities;

c) there is little real upside for the taxpayer, and

d) the top management who got the banks in trouble are still running them

As Congress General Secretary David Begg pointed out at the time: "It beggars belief that Government could even countenance investment from venture capital and private equity funds - precisely the same sources which brought about the current international crisis. You only have to look at eircom and our deficient communications' infrastructure to realise the damage these people could do to the banking system."

Congress listed 15 proposals some of which have now been implemented, at least partially by government and others which have yet to be addressed. See the list at

http://www.ictu.ie/publications/fulllist/nationalise-the-banks/

As the economy is in such bad shape radical steps must be taken which will improve welfare for all for years to come and build competitiveness. One proposal put forward by Congress is to abolish the 'shareholder value' model of corporate governance of all companies. This model allowed managers to get total control of some major companies, including the six Irish banks, and bring them to the ground.

It is disappointing that the framework proposals neglect the important area of corporate governance. However, it appears that the neoliberal model is still infecting the body politic, almost like the Japanese soldier continuing to fight the Allies in the jungle long after the War.

Congress believes we must have employee representatives on all financial companies' boards as we can no longer trust the 'shareholder value' appointment and governance system. We are calling for a more European-style governance structure for private firms in Ireland, based on stakeholder not shareholder value. Congress seeks direct state investment in the banks in ordinary shares, to follow logically on the state guarantee and so take the upside for the risk-bearer, the PAYE taxpayer.

State Holding Company

Congress has also proposed that the Government shareholding in the Irish banks should be placed in a State Holding Company, similar to the UK's UK Financial Investments (UK FI). This was modeled on the Shareholder Executive set up five years ago to hold the UK government shares in state companies. Congress set out details for the establishment of a State Holding Company (SHC) in 2005[6]. The body was to be a passive investor in the commercial state companies providing an opportunity for Pension funds and others to invest in them and to provide capital for their expansion. As privatisation was then still in vogue, the government did not endorse our detailed proposals.

When the state's shares in the banks are later sold off, this money can be maintained in this SHC for investment in commercial state companies to build up indigenous Irish international firms. ESB, AER Rianta and other state firms are investing profitably abroad and if they had a progressive supportive shareholder in the SHC, unlike the current parsimonious resentful and risk adverse investor, this would help Ireland to secure its economic future. For more see visit
http://www.ictu.ie/publications/fulllist/governance-for-state-companies/

---

[6] *A New Governance Structure for State Companies*, Summer 2005, Congress.

The framework proposals are somewhat ambiguous on developing indigenous enterprise. On page 30 it is unclear whether it wants to develop same or continue a strong reliance on US firms. Congress holds that a small open economy benefits from FDI, but the effort to develop strong indigenous firms has not been as successful as it might be, compared to Finland and other Nordic countries. This is in spite of many state aids, tax breaks, low taxes, low social security and direct supports to the enterprise sector. The crisis may breed a new approach to indigenous firm. One such group of Irish firms is the state-owned firms, which could expand abroad much more if the shareholder was more supportive. For example, ESB and DAA are already multinational companies.

Taxation

The document has several references to the need to "broaden the tax base". However, the only specific reference to actions on tax are to narrow the base, with even more subsidies to wealthy investors and to R&D businesses.

The thrust of innovation policy is based largely not on real private sector entrepreneurship emerging on its own, but on state aid to the sector in the hope of such new commercial ideas. This is to be driven by unspecified tax breaks to corporates, to partnerships and to individuals, though the breaks are not specified. However from press speculation it appears as if companies will pay little or no tax and high paid individual will pay little or no tax either, at a time when low paid workers are tightening their belt and see their real incomes fall.

To propose to give even lower tax breaks and other "incentives" to some companies is dubious because the already low rate of corporate taxes means that it may be ineffective. But if it is proposed to give personal tax breaks as is rumoured of only 15 percent or even less on remittances, while workers pay at a rate of 42 percent plus PRSI, plus the income levy of 1 percent, is unacceptable and wrong.

The document asserts that "Ireland's low tax burden plays a significant role in attracting foreign investment and ensuring the creation of employment throughout the country." Yet all the Nordic countries with very high taxes are always in the top 10 most competitive countries in the world.[7]

Taxation policy should be evidence-based and grounded in an overall philosophy of equity, combined with economic efficiency and the recognition that taxation is an integral part of a modern society and not 'a burden'.

Key objectives of Taxation

- that income from all sources be taxed in the same way, in so far as is feasible

- to encourage preferred economic activity. But be aware that many tax incentives often become diffused, multiply and thus become ineffective and costly, too often negating the originally intended effects. Thus all tax incentives should be subject to full economic assessment

- simplicity

- tax adequacy

- neutrality.

Generally indirect taxes or taxes on consumption are more regressive than income tax and have contributed to Ireland's high price levels.

---

[7] The working papers of OECD, the liberal economic think tank, show different outcomes on the political issue of the impact of the levels of direct taxation on economic performance, most in favour but with some against. In general conservatives favour low direct taxation. For example, see qualification on page 27 of National Competitiveness Council Competitiveness Challenge 2005 on this issue where Congress dissented from the dominant neo-liberal view of low taxation and topically today, against low regulation. The issue of taxation is complex, but the real actuality of the Nordic success is striking and its contrasts with the parallel success of the low tax US, with its economic instability and its failed social model.

New Proposals for Tax Avoidance, High Earners, Evaders, Tax Exiles

The framework contains no obvious measures to tackle high income earners, who avoid tax through tax shelters provided by this Government, tax evaders and tax exiles who earn millions but contribute little or nothing. New measures should resolve to:

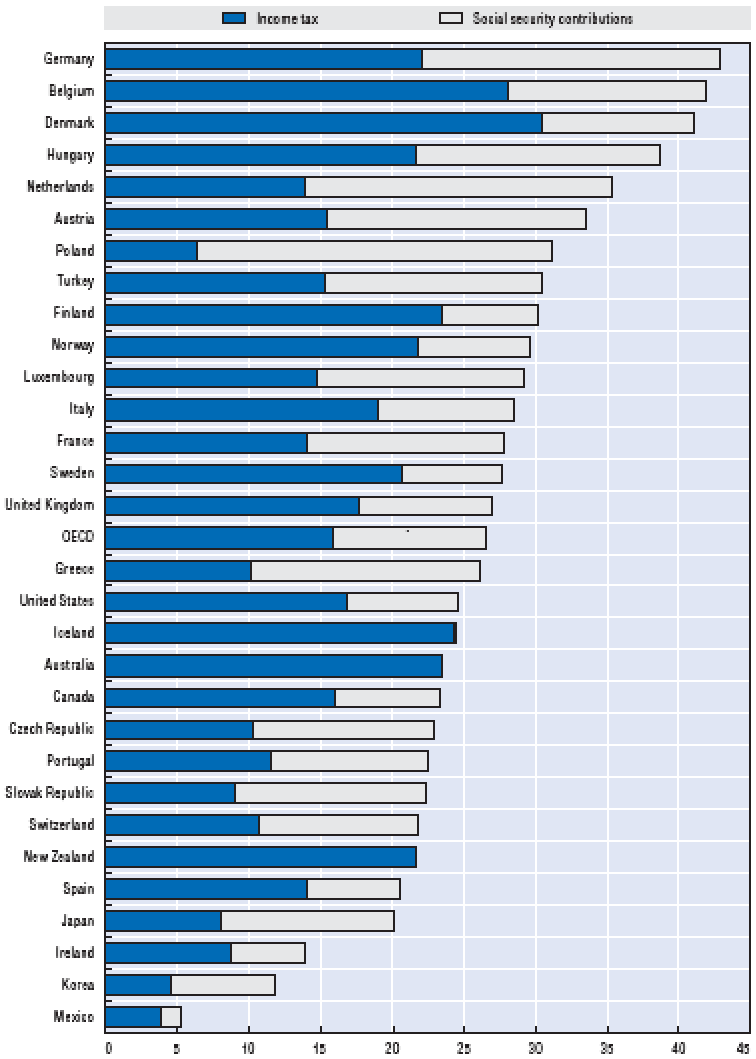
- abolish all property based tax incentives
- end all incentives except those proven to be effective by independent economic cost-benefit appraisal
- move against evasion;
- restrict 'home' visits by tax exiles to a 30 day period;
- consider widening the tax base
- increase taxes on all high earners
- give consideration to wealth taxes.

Incomes Policy

Any incomes policy much include curbs on those at the very top, including the solicitors and accounting partners who reputedly earn over €1m a year in fees in Ireland, the overpaid CEOs, CFOs and all the other overpaid executives, directors and owner managers of medium sized importers which made excessive profits by not passing on the gains from the fall in sterling and the dollar.

Table 1

Figure 0.2. Percentage of gross wage earnings paid in income tax and employee social security contributions, 2007[1, 2]



StatLink http://dx.doi.org/10.1787/187255583175

1. Countries ranked by decreasing tax burden.
2. Single individuals without children at the income level of the average worker.

Source: OECD calculations based on country submissions and OECD, *Economic Outlook No. 81*, June 2007.

The graph shows that workers in Ireland pay the 27th lowest taxes and social contributions in the richest 30 countries the world, followed only by Korea and Mexico. Single workers, on average earnings without children, have a personal average tax rate at below 15 percent in these three lowest taxed countries.

At the other end workers contributions in Germany, Belgium, and Denmark pay over 40 percent of their annual wages in income tax and employee social security. There is a strong case for higher employer social security contributions in the economic downturn to help pay of rising unemployment.

Wages in Ireland have been rising in recent years but are still are relatively low compared to many other countries. However, from a competitiveness perspective we must look at total labour costs and here Ireland scores very well on the wages front. The table below published by the conservative OECD shows that total labour costs in Ireland are a long 22nd place down the list on the 30 member club. This gives lie to the *Pay Cuts Chorus*. Commentators demanding a cut should base their assertions on analysis and get their facts right. It is especially disappointing to see formerly reputable economists calling for pay cuts as the panacea of the crisis.

Table 2

Table 0.2. **Income tax plus employees' and employers' social security contributions**

As % of labour costs, 2007[1]

Country[2]	Total tax wedge[3]	Income tax	Social security contributions		Labour costs[4]
			Employee	Employer	
	(1)	(2)	(3)	(4)	(5)
Germany	52.2	18.4	17.4	16.4	59 526
Belgium	55.5	21.5	10.7	23.3	57 141
Austria	48.5	12.0	14.0	22.6	56 630
United Kingdom	34.1	16.0	8.4	9.7	56 612
Luxembourg	37.5	13.0	12.6	11.9	54 000
Norway	37.5	19.3	6.9	11.3	52 048
Netherlands	44.0	12.1	18.6	13.3	51 828
France	49.2	9.9	9.6	29.6	50 260
Sweden	45.4	15.6	5.3	24.5	48 763
Switzerland	29.6	9.7	10.0	10.0	48 489
Japan	29.3	7.2	10.6	11.4	46 916
Korea	19.6	4.2	6.7	8.7	46 604
Finland	43.7	18.9	5.4	19.4	45 302
United States	30.0	15.7	7.1	7.2	44 347
Greece	42.3	7.9	12.5	21.9	44 304
Australia	27.7	22.1	0.0	5.7	42 579
Denmark	41.3	30.2	10.6	0.6	41 252
Canada	31.3	14.4	6.6	10.4	38 627
Iceland	28.3	23.0	0.2	5.1	38 232
Italy	45.9	14.4	7.2	24.3	36 692
Spain	38.9	10.8	4.9	23.2	36 329
Ireland	22.3	7.9	4.7	9.7	34 379
New Zealand	21.5	21.5	0.0	0.0	29 037
Portugal	37.4	9.3	8.9	19.2	27 453
Czech Republic	42.9	7.7	9.3	25.9	23 604
Hungary	54.4	16.1	12.6	25.7	21 552
Turkey	42.7	12.6	12.3	17.7	20 182
Poland	42.8	5.4	20.5	17.0	19 847
Slovak Republic	38.5	7.1	10.6	20.8	18 215
Mexico	15.3	3.4	1.3	10.6	11 766

StatLink http://dx.doi.org/10.1787/187687606251

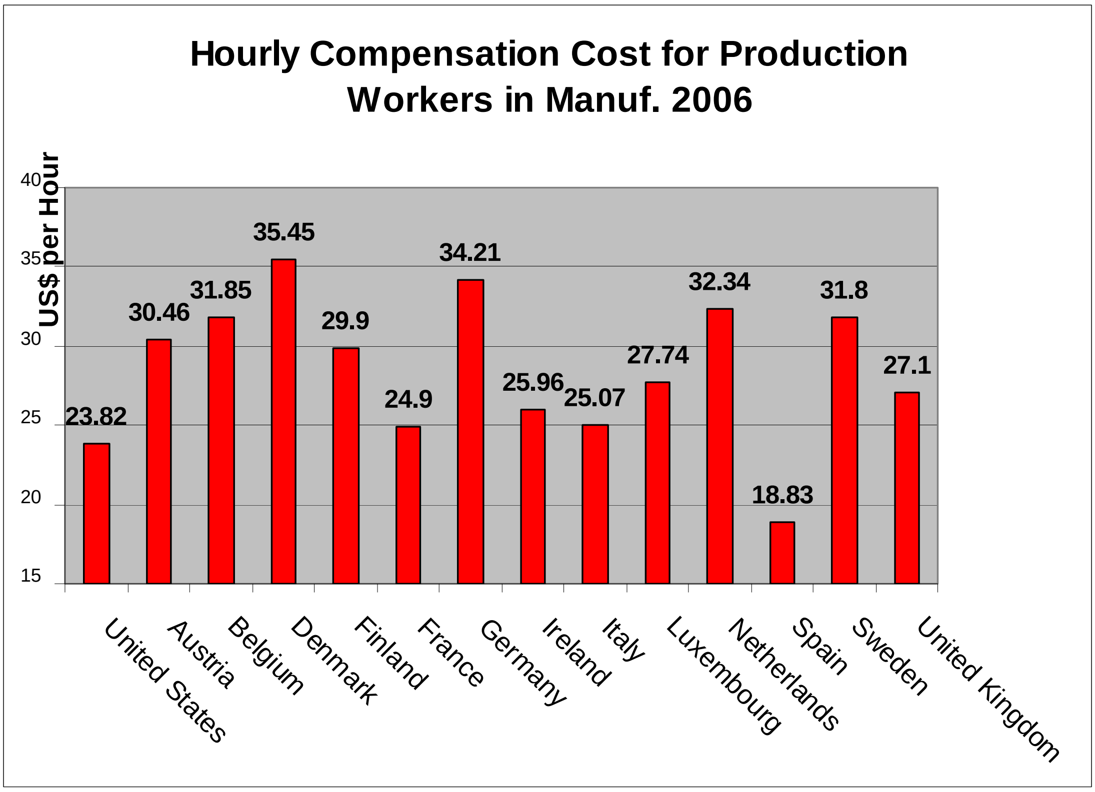
1. Single individual without children at the income level of the average worker.
2. Countries ranked by decreasing labour costs.
3. Due to rounding total may differ one percentage point from aggregate of columns for income tax and social security contributions.
4. Dollars with equal purchasing power.

Source: Country submissions; OECD Economic Outlook 81 (June 2007).

Furthermore, the total cost of employing the average Irish worker in 2007 was just under $34,379 compared to $59,526 in Germany, or a similar $56,612 in the UK. Thus the cost of employing an Irish worker is only 58 percent that of employing an average German worker. The table above sets out the tax and social security paid by workers and bosses. It can be seen that income taxes are very low here, at under 8 percent of the total, while the employer pays under 10 percent in social security.

Compare this to 30 percent payable by employers alone in the highest country, France, or the early 20s in many European countries. It is time to switch off the Pay Cuts Chorus! This deflationary song, not matter how often it is sung, will not get Ireland out of the hole it is in.

Figure 2



Source: US Bureau of Labour Statistics

The above table shows that the hourly compensation cost of industrial workers in Ireland is relatively low compared to many other countries. We still have a competitive advantage on wage levels and with our higher productivity we have an even higher advantage on unit labour costs.

Inflation

Congress estimated in its response to the Budget[8] that the imposition of the various increases in user charges, in petrol prices, in VAT, the travel tax etc and the forthcoming rise in public transport prices etc. would <u>add about 0.8 percent to inflation</u> in 2009.

On the threats to the economy, on page 24/5, Congress is in broad agreement, but with a number of caveats. We might disagree with the interpretation of this statement in the report: "A deterioration in Ireland's fiscal position and a need to broaden the tax base".

Our views on broadening the tax base differ substantially from Government's, where we place emphasis on equity. Ireland is no longer a low tax economy as is too often asserted. It has low direct taxes, but high taxes on consumption which has contributed significantly to our high cost base. In turn this has put pressure on wages in response to prices levels which are some 15 percent above the average levels in the richest 15 EU states. Congress is willing to work with the social partners on a *comprehensive* and equitable cost reduction programme for Ireland's competitiveness. Thus the statement "weakening of competitiveness generally as a result of rising prices and a need to ensure that wage levels reflect competitive pressures" can be addressed, if approached imaginatively.

Unfortunately, the framework proposals are riddled with inconsistencies, which must be eliminated in favour of coherence. For example, it is stated that "our cost base has risen and we need to restore our cost competitiveness" while it is also stated that we have "A competitive economy through low tax, high productivity etc." Ireland's price levels are high because government insisted, against Congress' advice, in pursuing a high indirect tax policy in tandem with low corporate and direct tax rates. Does this mean that finally government is going to listen and adopt a coherent taxation programme – which might also aim at equity?

[8] Congress, *Response to 2009 Budget*, November 2008.

Table 3

Table 1.3
Comparative *Consumer Price Level* indices (EU15=100)

Countries Vs EU15	2006 Services	2006 Goods
European Union (15 countries)	100	100
Belgium	101.8	101.5
Denmark	136	130.2
Germany	97	100.9
Ireland	**123.1**	**113.9**
Greece	80.3	89.6
Spain	89.9	87
France	109.6	96.1
Italy	95.8	102.6
Luxembourg (Grand-Duché)	104.3	96.9
Netherlands	100.4	97.9
Austria	93.5	98.9
Portugal	74.2	89.9
Finland	121.3	111.5
Sweden	113.1	111
United Kingdom	106.1	105.6

Source: EU Commission, Europa Database 2008.

As the table above shows Ireland has the second highest price levels in the richest EU 15 countries, particularly for services. This is why workers need to maintain their wages, particularly if the professions and others are not contributing to the solution of our economic crisis.

A Fiscal Stimulus

The section in the Framework on providing a Fiscal Stimulus (p 40-43) points to the planned continued investment in the economy, which has to be funded by borrowing. This is to be welcomed. However, the point remains, that it was bad economic policy based on pro-cyclical taxation policies which were also regressive, and tax breaks for wealthy investors (further regressive, but popular with builders, banks and newspaper editors with fat property supplements) which contributed substantially to the bust and this crisis.

Capital investment is needed, but the level outlined by Government may not be enough in this crisis. It is needed and is welcome. The international dimension in the framework is weak. Without a coordinated stimulus package in Europe, rising from this deep, deep recession will prove difficult for Ireland. A stimulus in a small open economy does not work on its own. Further giving even more tax subsidises to business[9] in the hope of a boost is throwing good money after bad. Better to invest in directly in real projects and in upskilling. Congress is not averse to discussing innovative funding methods for off-balance sheet funding for the state, provided they give value for money.

The Obama stimulus package is excellent and will help us. But Europe matters more. Congress recognises that coordination in Europe is difficult to achieve, especially with a recalcitrant Germany, which is still deeply anti-Keynesian, due to the economic consequences of World War II, which led to the 1930 debacle. Germany is Europe's engine. Ireland's attitude to the Lisbon Treaty weakens our negotiating position on a Europe-wide stimulus package.

And had we not reduced taxes so much and given billions in property tax breaks, and boosted the boom, we would have a big pot of money in the state's coffers to ride out the bust.

The crisis was due to failures in corporate governance and regulation which allowed greed by those at the top of the enterprise sector to overrule equitable economics. Internationally agreed standards, such as the OECD Principles of Corporate Governance, and coordinated regulation, must be strengthened. Strengthened international regulation, taxation policies and the need for increased transparency in cross-border financial transactions have been highlighted by the OECD.[10]

---

[9] Action point 4 on p42 and the pages on corporate welfare proposals on p42 and 43.
[10] OECD, Nov 2008, *OECD Response to the Crisis*, Paris.

Much more can be done in accelerated investment with plummeting land and property values. The state can purchase houses for those who need housing, and so boost the sector. Investment in public transport must be further boosted with declining land values and to help us reduce climate change while improving social mobility and with better urban mobility, boost economic competitiveness.

A Keynesian Style Package

Congress is perturbed by the view widely promoted by some economists that the solution to the crisis is a deflationary one – to cut wages, especially of low and middle income workers. The solution is exactly the opposite.

It is the role of the state to provide the stimulus. We should pursue our own focused investment programme in labour intensive infrastructure and in upskilling and education, but especially preschool and primary, which will help the economy and ultimately tax revenue.

At the end of 2008, Ireland's debt to GDP ratio had risen substantially from 24.8 percent at end 2007 to 41.3 percent. It will grow further this year, with borrowing. Congress supports borrowing for investment and to get Ireland over the present crisis.

Ireland's debt is lower that the EU average of 60 percent, even at 41 percent. However, if we net off our Pension Reserve Fund the net debt is reduced to 30 percent of GDP. However, as Ireland has massive cash balances too of a very high €21bn, the real position of the net national debt is just 20 percent, one third of the EU average[11]. Thus further borrowing is not the insurmountable problem that some economists are claiming.

[11] NTMA, Preliminary Statement for 2008, Jan. 2009.

Strategic State Intervention

"There is a need to enhance the adoption of technology, including the penetration of broadband in businesses and households, so as to improve productivity"

This statement does not address how this is to be achieved. We should at least acknowledge why our broadband penetration is so low and why strong investment was choked off. Investment was very high in 1999 until the dominant player, state-owned and debt-free Eircom was privatised for ideological reasons. It is for sale again and its price is low. While it is an emaciated version of the once proud state-owned company, consideration should be given to nationalising it.

These are unprecedented times. The global economy has been irretrievably changed by the events of recent months. For example, we have nationalised toxic banks at vast cost to taxpayers.

Competitiveness v Equity

Congress holds that enhanced equity is not incompatible with competitiveness. Indeed, we hold that in a modern society, fairness will enhance competitiveness. There are many references in this document to competitiveness, but the only reference to equity, - which occurs three times, is to "private equity". Where there is a reference to "helping the less well-off though welfare,"[12] the word fairness does not appear at all. Yet the word competitiveness appears no less than 45 times.

Rethinking Welfare & Public Services

In the Government's framework proposals the provision of state welfare and public services are not discussed for their role in providing social, political and economic investment, but rather are treated as an unproductive economic cost to

[12] P 39.

the nation. The particular trajectory that is emerging is to cut back on public services, to end universality and to retreat from social insurance. This agenda got off to a flying start in the recent Budget which reduced welfare generally and particularly directed an attack on universal services (medical card) and social insurance payments, (reducing eligibility for benefits and reduced levels of provision).

This analysis in the plan may arise from a conceptual inadequacy about the role of social security and public services or may arise from exactly the opposite, an understanding that social security and public services are hard to cut back as long as they have middle class support. Central to any strategy to reduce public services and social security is to convince workers that public services and social security are a 'bad deal' for them and that they would be better off if they were to turn to private forms of insurance. A good example of this is the situation with pensions and health care. The development of both runs into strongly entrenched interests, intent on defending private sector provision. In health this resistance is marshalled under the co location proposals.

Congress is proposing that the Government rethink the role of welfare and public services and shape a more relevant and up-to-date model of welfare and public services that better meets the needs and priorities of those living and working in a smart economy. The effects of restructuring, contracting out, agency work, and company closures have led to job losses and 'insiders' have quickly become 'outsiders'. Social welfare payments are so inadequate that most families fall over a financial cliff and their situation will become desperate in a very short period. Workers report worries about debt, mortgage repayment and particularly the fear of losing the family home. Immediate action also needs to be taken to reduce the unacceptable delay, sometimes of eight weeks, which recently unemployed workers experience before they receive their unemployment payments.

Many workers in employment lack a strong skill base which will make finding replacement employment more difficult as less skilled workers encounter problems in finding work and of the quality (conditions and pay) of the employment available.

Unfortunately, the Government's framework proposals contain one significant, almost fatal flaw, with regard to unemployment and job losses. The proposals contain no analysis regarding future potential job losses and therefore no initiatives to deal with such scenarios, despite the fact that all projections and forecast agree job losses will happen with greater frequency, over the coming months.

Indeed, the unemployment figures are up almost 100 percent in one year and the percentage of jobless is predicted to breach the 12 percent mark in 2009. It is important to note that this is happening across all sectors of the economy and it is imperative that Government addresses this glaring deficiency in its plans. We need new measures to respond to a wholly new era.

Providing Reassurance through a Flexicurity Model

There are important lessons which may be learnt from those Nordic countries where they have developed a concept of 'flexicurity'. The Danish model of 'flexicurity' combines generous social protection arrangements with employment protection measures. Danish workers facing economic dismissals have long notice periods providing them time to find another job before their existing job ends. They also have high levels of unemployment payments which guarantee a worker 80 percent of their working salary for 48 months. This means that Danish workers feel the highest degree of job security and job satisfaction in EU surveys in comparison to their other European colleagues. At over 5 per cent of GDP Danish expenditures on labour market policies are the highest in the European Union. Though more than half of this expenditure is on passive measures, their Government has placed considerable emphasis on the participation of the unemployed in active measures, a policy that has been dubbed "learnfare." After a period of receipt of benefit, unemployed workers participate in training and educational programmes to improve matching in the labour market.

We must respond to the changing situation, be relevant to the concerns and needs of the modern worker and their family and support the development of the Smart Economy.

'Flexicurity' to the Smart Economy

Congress is calling for the development of a new model of 'welfare' that supports the Smart Economy. What's needed is an Irish 'flexicurity' built on social rights, adequate social security during periods of unemployment, training and upskilling and access to public services.

Protecting Incomes

In practice this means that workers facing loss of employment, (through unemployment, redundancy, sickness, injury, caring and old age) will be entitled to adequate social security: improved social insurance benefits to reflect the level of contributions and previous earnings (the equivalence principle). Earnings related benefits allow workers to see the connection between their income, their social insurance payments and the benefits they might eventually receive should they suffer from a work related risks. A replacement income, related to the workers lost income (replacement ratio of 80% and subject to a ceiling).

Developing Capacity to Participate in the Smart Economy

The development and maintenance of skills is a core priority for unions and workers. The growth of knowledge-intensive work will be one of the most important influences shaping work and workplaces in the coming years.Access to training is fundamental for improving the chances of all workers on the labour market. Yet the lack of training provisions for workers, particularly those on non standard contracts is endemic. For those working in sectors that are continuing to experience structural change due to technological change and globalisation access to training is critical. However experience has shown that life long learning and access to personal skill enhancement has remained outside the grasp of the majority of the workforce. In Ireland employers do not devote sufficient resources to training. Specific training opportunities (i.e. courses linked to jobs advice/career guidance) need to be provided by Government to build the capacity of Irelands workers to benefit from the Smart economy, for example by equipping workers not only in fourth level education but also with skills for ‘green jobs’ and to take up employment opportunities created under the NDP.

Access to Training Necessary

Under the Social Solidarity pact it will be possible to agree a ‘training guarantee’ for workers. Both law and collective agreements can play a role in securing this guarantee. To overcome any possibility concerns about a negative impact on competitiveness the pact can conclude certain compulsory requirements on employers to a) support workers learning and b) provide access to training. The Pact needs to establish the minimum training rights to be provided along with framing the negotiation arena for example by;

a) Provide workers (in and out of work) with at least one session with a career coach to develop their own SMART Economy training plan so as to identify what they need to ‘future proof’ their employability in the smart economy;
b) Provide that workers are to be guaranteed a number of paid hours for up/re skilling and vocational training (linked to their smart economy training plan);
c) set out the obligations on employers to provide access to personal skill enhancement training and guidance;
d) guarantee the right to re-training when unemployed.

These rights and obligations can be facilitated and partially supported by Government particularly where the worker is in a vulnerable job or has low skills.

Flexible Working Arrangements an Alternative to Redundancy

Businesses should be encouraged to develop voluntary flexible working arrangements that provide flexible working arrangements choices for workers anyway but the current emphasis on cost cutting and job losses give a particular emphasis and urgency to their provision. (Flexible working arrangements encompass a whole variety of arrangements, not just part-time working. These include: job sharing, home working, term-time-only working, and career break/leave schemes.)

In circumstances where workers agree to reduced hours as an alternative to job losses, social welfare rules should support this 'choice' and not work against workers . Under the current rules when a worker's hours of work are reduced from 39 to 15 hours they lose their entitlement to their Family Income Supplement. This happens because of unnecessary and inappropriate rigidity in the social welfare rules which require that a person be in full-time employment (at least 19 hours per week) to qualify for FIS. And the inflexibility does not stop there. To add even more to the injustice of the situation, workers who show the most flexibility and who are willing to work their 15 hours on any day of the week are, as a consequence, barred by social welfare from receiving their unemployment payment. Such workers are considered to be ineligible for their unemployment payment, this despite their loss of earning and hours. This is because social welfare rules require that a worker be 'fully unemployed' for at least 3 days in 6. So by workers agreeing to be available to work their hours on any day of the week that are penalised by having their entitlement to unemployment benefit removed from them as they are not 'fully unemployed' . This could be addressed by restricting employers' ability to request this excessive flexibility, by providing for a long period of notice of work rotas and by changing social welfare rules.

Tackling unemployment through Local Labour Clauses in Public Procurement

Local Labour clauses are emerging across the EU as a way of linking spending on capital projects and services with public policy objectives such as reducing unemployment and combating social exclusion. Specifying local labour requirements in the tender/contract helps to maximize 'value for money' and ensures equality for those submitting tenders. The EU Procurement Directives apply to all public sector contracts above a certain level and provide for 'acceptable local labour provisions'. Examples of these include:

- Specifying that an agreed number of employment opportunities, training opportunities and/or work placements are provided by the contractor in connection with the project;
- Specify a number of apprentices generally and a number of unemployed apprentices specifically by a ratio of contract value;
- Requiring any vacancies in connection with the project to be notified to agreed local agencies / sources;
- Aiming provisions specifically at a target group, e.g. people who have been unemployed for over 6 months,
- With careful planning and preparation, the inclusion of local labour clauses in public procurement can make an important long-term contribution to social inclusion and regeneration and is therefore an important tool in implementing the Smart Economy.

Social Job Creation

We need to develop and (re)discover the potential of social enterprises and the non-profit community led sector to meet the dual aims of creating employment and providing much needed local community, social and personal services. Partly financed by public funds, partly by voluntary donations and partly by market generated funds such services can meet presently unsatisfied needs. The jobs created would offer incomes better than social benefits and would provide an opportunity for all members of society to contribute during periods of unemployment.

Indebtedness & Repossession

Congress believes Government must take immediate action to protect households badly affected by the current economic crisis. The Minister for Finance must move now to protect home owners facing the threat of repossession, possible homelessness and higher debt. With the dramatic growth in debt in recent years and the increasing number of clients presenting at Money Advice and Budgeting Service, who have higher levels of debt, multiple creditors and mortgage arrears, it is imperative that Ireland puts in place fair and appropriate laws to deal with the casualties of this crisis. The proposal contained in the Government document need to be strengthened in this regard, given that they are no more than a voluntary code of practice which the banks sign up to. While the tax payer is underwriting the banks to the tune of €400bn, no one should be losing their home. In addition, Government must also ensure that the lenders pass on ECB interest rate cuts.

When someone has lost their job or income, we should move to protect the family home by introducing a two year moratorium on lenders initiating proceedings for enforced sale or repossessions. And during this 2 year period, we should:

- Require lenders to conclude an 'affordable mortgage and debt payment arrangement' which protects a 'minimally adequate' standard of living;

- Guarantee debtors access to MABs personnel when they are negotiating the 'affordable mortgage and debt payment arrangement';

- Suspend interest and other charges and penalties as these only exacerbate financial distress;

- Introduce a Court protocol to always require lenders seeking a repossession court order on secured debt to be forced to show they have tried to find all possible alternatives through the above debt settlement mechanism when borrowers get into trouble with their repayments;

- Abolish imprisonment for non payment of debt and provide free legal representation for households at risk of repossession;

- Protect debtors and their families from undue demands and harassment by their creditors and provide more information to people in financial difficulty about their rights and entitlements;

- Give greater resources and powers to MABS to bring about early intervention and demonstrate a commitment to provide the best possible support to debtors and vulnerable borrowers.

- Government should reverse their proposals in the Social Welfare Bill which will limit the payment of mortgage interest supplement, this payment provides much needed help towards the cost of a mortgage;

- Government should begin work immediately with representative groups to develop other options for example a partial local authority buy and rent back scheme or shared equity schemes as an alternative, in the long run for those facing repossessions.

- Government should take advantage of the availability and price of homes at this time and make sufficient purchases to meet T16 social housing targets.

Many EU Member States have specific legislation concerning the collective settlement of debts which deal with the social, legal and economic treatment of over indebted people. It's clear that non-judicial procedures play a major role and have been subject to a pilot by the Money Advice and Budgeting Service and recommended by FLAC in their report *An End Based on Means.* Also of importance in this context is the Vincentian study on what constitutes a Minimum Essential Budget.

The Ideas Economy

On the wider agenda of Action Area 2 ***Building The Ideas Economy – Creating The Innovation Island*** in Chapter 6 there is much that Congress supports. However, there are two major points of disagreement. Instead of investing a staggering €500m in the Innovation Fund, every study demonstrates, unequivocally, that it would be far better spent in education - in primary, secondary, third level, fourth level and life long learning, but with the emphasis on primary. Indeed where is the radical solution here?

Why not invest in a massive pre-schooling primary educational programme, which would improve people's academic prospects and employability. It is obvious that education is the area to invest in for competitive advantage, for each person's own welfare, both personal and financial, for firms' competitiveness and for the nation. Yet the educational area is not seriously dealt with in this document.

Congress is specifically proposing *massive investment in a programme of* ***No Child Left Behind, Ever*!** Under this programme, every child of three, or under, in Ireland today, and from now on, would be guaranteed participation in a comprehensive programme, not on a pilot basis, but nationally, in early child childhood education. In this crisis, every effort should be made by all the Social Partners to develop such a comprehensive programme immediately. It will repay huge dividends in delivering the Smart Economy for decades to come. It is disappointing that the Programme on the Smart Economy does not even consider childhood education and care as key investment in early human capital and future smartness.

Congress also believes that the dubious business of handing out more tax breaks – more *corporate welfare* - is a waste of taxpayers' money. Business enjoys ridiculously low rates of Corporation Tax and social insurance taxes in Ireland. Many businesses contribute too little to Irish society. There are a great number of tax shelters provided already by Government, which undermines the progressiveness of the tax system. In an economic crisis, to provide even more tax shelters and to give more cash subsidies to dubious and unproven R&D

ventures, start ups, entrepreneurship and innovation, patents etc., demonstrates again that the Japanese soldier is still fighting the lost war in Government economic policy. Subsidies and tax breaks seldom work effectively nor repay themselves. In a severe crisis, Ireland can no longer afford to indulge business as it did.

Enhancing the Environment and Securing Energy Supplies and ***Investing in Critical Infrastructure*** are two major areas where Congress can agree with many of the suggestions contained in the framework. We however, have a serious problem with one ideological suggestion, grounded in the now defunct economics which caused the crisis. This is the proposal to break-up the ESB, on page 80. Let us be quite clear: Congress will oppose this vehemently. The ESB is very small by international standards and there is also a move back to integrated utilities in Europe.

We would invest more in infrastructure and particularly in housing and public transport in this severe downturn.

On the environment it might be worth saying that the crisis is the time for the Government to finally grasp the waste nettle and address this elephant in the room, with action on waste to energy, with associated district heating schemes or similar use of excess steam produced. In Ireland we have been deluding ourselves that we are "re-cycling" when often the carefully separated domestic waste products are later mixed together, exported to poorer countries (where markets also fluctuate so that they are not guaranteed outlets) or/and incinerated anyway.

We are pussy-footing with recycling in the home and everywhere else when there are not stable markets for waste products, excepting metals (which, whilst subject to markets, tend to be more stable. In any event, producing many metals through recycling is more environmentally sustainable due to the high positive impact of metal extraction). The markets for paper and for glass are sharply unstable and subject to massive fluctuations and unless there is state intervention (currently prevented by Brussels) to at least, partially, support protected domestic waste facilities for such products e.g. a paper mill or bottle factory, they wont be built and operated. And so we will have times, like at present, where our paper piles up in warehouses (and may eventually be incinerated). The building of waste to energy plants here takes many years longer than say, the US, with the high level of opposition and narrow political opportunism.

Dealing with this issue will take political courage but is necessary in the downturn if:

a) the problem of dealing with our own waste is to be resolved,
b) waste energy is utilised to heat homes as is common elsewhere in Europe,
c) jobs are to be created and
d) the environment is to be protected.

Public Transport

Investment in public transport, in this era of rapid climate change and urban congestion, which may be less labour intensive than other areas, must be a priority. Thus while the building of metros and trams networks does entail the import of carriages, and capital intensive tunnelling for the Metro, its impact will be very beneficial in reduced pollution, reduced congestion, reduced land and labour costs in the downturn and in building closer, socially networked cities. Thus Metro North should proceed and be accelerated.

The planning and construction of a tram network should begin immediately for Cork, Galway, Waterford and Kilkenny. No construction firms which are CIF members should be given contracts in these major projects. CIF rejects the partnership process when it suits. It cannot have its cake and eat it. The EU competition rules can be applied to all firms who adhere to Ireland's social mores and agreements.

On the section on entrepreneurship and business start ups on page 65 there are a number of corporate welfare proposals which are contradictory, regressive and offensive to PAYE taxpayers who have to pay for these subsidies.

"A number of taxation measures are being introduced including:

- ***exemption from corporation tax arising in the first three years of operation for business start-ups;***
- ***tax abatement scheme for restricted shares, and a refund in the case of forfeited shares, to assist companies, including start-up companies, in retaining key employees;***
- ***a Remittance Basis of Taxation scheme which will apply in appropriate circumstances to income earned from the exercise of an employment in this State where the payment is made outside of the State;"***

If there is real entrepreneurship, it does not require such a high level of state handouts. It is contradictory to hand out taxpayers money to entrepreneurs, if they are worthy of the name. Sure the state should not impede them, but to give them such a generous *Businessmen's Dole* is offensive to PAYE taxpayers while simultaneously allowing Corporations to be tax free for three years. As we pointed out in our response to Budget 2009:

"The three year tax exemption scheme for start-up companies has all the hallmarks of a new tax shelter for businesses. The government will have to apply to Brussels as it admits it may be in breach of the EU strictures on state aid to business. This will mean €10m a year less in taxation every year from business. This scheme is another form of Businessmen's Dole. It will be a real bonus to firms which have profitable areas of business which they will seek to establish 'at arms length' in new corporations. With a modicum of imagination they can avoid tax altogether!"

We further stated in our response to what was an ill-constructed Budget:

"The government characterised the budget as 'patriotic'. Yet it imposed a 'solidarity' tax on labour and none on capital. Why should labour alone be expected to do its patriotic duty? Why does capital, in the form of companies, escape from contributing? Indeed the owners of capital, i.e. of companies, were re-assured in the Budget speech that they would not be asked to contribute to the empty coffers. "I want to emphasise that this rate of (corporation) tax is not for changing upwards and it will continue to be a central part of Ireland's economic brand," *Mr Lenihan said. Tánaiste Mary Coughlan emphasised this point also. There was even an implication that when the economy improves, the low rate of corporation tax might be further reduced!"*

The government reversed many initiatives but not the ones which assist business. What is worse is that without it appearing in the Budget statement, and in breach of long standing practice of signalling openly what was to be in the Finance Bill, the government quietly inserted a U-turn on exempting a highly paid business elite from most income taxation, provided they were paid into offshore accounts, on a remittance basis. This action is unacceptable.

In yet another piece of Corporate Welfare the following tax breaks for some elite businesses are proposed:

"Revised arrangement for the taxation of Intellectual Property will be developed during the course of 2009. We are committed to reforming the corporate tax regime in this area having to regard to the recommendations of the Commission on Taxation with particular emphasis on:

- ***a tax deduction for trading companies for capital expenditure on intangible assets;***
- ***unilateral credit relief for all trading companies;***
- ***any other measures recommended that the Commission consider will support the development of the knowledge economy."***

What is this Government thinking of in this crisis? Is this all it can think of – more tax breaks to business?

Public Service Reform

The final *biggish idea* in the framework is Public Service Reform and it is a concept Congress can embrace. However, a few points need to be made. The Government statement in the framework reads:

"Ireland's public servants must be open to change and innovation. They must show flexibility and be willing to meet the rigours of performance management and external accountability."

This implies that the major issue is employee resistance which is impeding change, when the real issues are reform structures which are fit for purpose and competent and well trained management which can lead.

There have been major public policy errors especially in capital spending, on roads, Westlink bridge spec and its privatisation, the M50 road design (happily in the past) etc., on PPars, on the Luas, on Voting machines, on Decentralisation. These costly errors have undermined public confidence in the public sector. Furthermore, the boom was blown by government with pro-cyclical policies compounded with massive tax breaks for wealthy property investors. The quality of economic advice for government needs radical and immediate improvement, whether the fault for the extent of the bust lies with the Government politicians and/or advisors. The continued adherence to the now discredited liberal economic ideology of corporate welfare and tax breaks so evident in the framework document is chilling.

We must use the crisis as an opportunity to transform economic and social policy and to transform the way in which the Department of Finance dominates public policy but much of the thinking in the Department is very short-term and overly-conservative.

Moreover, the 'pro-business' perspective has now been proven to be against the wider public interest (demonstrated by the collapse of the Irish banking system).

The Department's strongly pro-cyclical economic record has contributed to the crisis, along with its poor corporate forecasting skills.

We need to shift policy to deeper economic analysis and deeper evidence-based policy formulation, where the economic and the social have parity of esteem; and where most politicians are forced to begin to think in terms of society and not just what they *think* is good for business (usually short-termist) by strongly written evidence-based reports from within a Government Economic Service, within or outside, the existing structure.

The statement that "*private and not-for-profit sectors in the delivery of certain services can deliver cost efficiencies or offer better local networks and public access*" than existing public services is part of the outdated ideology of "*Private good, public bad*."

Properly managed public services equal and can surpass private. All Irish bank bosses would fully agree with the statement on page 96 that "Ireland's regulatory environment is perceived as being highly favourable". That is part of our problem – light regulation is no longer acceptable. The crisis in pigmeat industry in December 2008 indicated what happens when regulation is poor or breaks down.

Congress can agree with this statement on p96:

"A more effective, simple and transparent regulatory and administrative environment is essential to effectively achieve Government objectives, maintain the trust of citizens, reduce transaction costs and increase regulatory compliance."

Such thinking provides the basis for progress on the issue of regulation. Lastly, the action points on page 98 on *public service reform* should include a major initiative on management training and re-structuring where appropriate.

One Hand Clapping?

On the last page of the Framework, page 101, we are informed there is to be a Cabinet Committee to oversee the Framework which will be advised by an *Advisory Council of Business Leaders*, established by the Tánaiste, Mary Coughlan TD, which will "report regularly to her and the Cabinet Committee" on the steps to return the economy to sustainable growth. The framework places great emphasis on the Social Partners but yet this new body is established to advise on the economy but is reserved only for one Social Partner body – the employers!

Part III: A Note on Measures Needed to Deal with the Pensions' Crisis

Background

Congress has been urging Government to engage with the pension provision problem for a number of years, well before the extent of the current crisis became apparent. We have made pensions a central issue in several national agreements. We succeeded in getting a number of reviews and even a Green Paper. We have failed to achieve any positive action from Government.

Congress has responded to the unfolding crisis in a constructive, flexible and creative fashion. The idea of sharing the risk through the use of hybrid schemes was first suggested by Congress and has helped in some circumstances. There has been no corresponding flexibility or creativity on the part of Government, particularly on the part of the Department of Finance.

It appears to us that the Department believes that the crisis of funding pension schemes is not their concern. Anything which Congress has suggested which involves action or even a decision by the state has been either dismissed or ignored. On the few occasions the Department of Finance have been forced to respond to our views, it is to suggest that everything we say exposes the taxpayer to risk and must be resisted. This is disappointing for two reasons. Firstly, some of our proposals pose no risk to the taxpayer. Secondly, those who are making the decisions enjoy generous pensions which are totally underwritten by the taxpayer. It is unreasonable to expect the taxpayers to provide a risk free pension to a privileged few while the same few see their function as to ensuring that the majority of taxpayers are left without any protection for their pension benefits.

Since the pension debate began some years ago the only contribution from the Department of Finance has been to prevent consensus emerging at the Pensions Board by disassociating itself from otherwise unanimous recommendations. The Department never explains its stance. When a given proposal is dismissed the Department never suggests an alternative proposal but rather leaves the social artners to suggest something else, which they will then dismiss in turn.

The Current Situation

- Nearly half the value has been written off Irish Pension schemes in the last year. **It needs to be understood that even if there is a Lazarus-like recovery in the markets there is no way back from these losses.**
- 90 percent of schemes do not reach the Minimum Funding Standard.
- Informed commentators have predicted that some large Defined Benefit (DB) schemes will collapse very soon. This may lead to a domino effect and a panic withdrawal from DB schemes, even amongst solvent employers.
- Most of the assets of a wound up insolvent scheme up will go to pensioners.
- Active and deferred members of DB schemes are likely to lose their pensions.
- Defined Contribution schemes are also losing their value and confidence in funded pension provision is evaporating
- The state has promoted funded pension provision and advised workers and employers that investment in funded pensions is prudent.

- The state has also led workers to understand that funded pensions, particularly DB, were risk free.
- The rights conferred by government on deferred members keeps them immune from the pain that active members are forced to take to keep schemes in existence.
- The state has assured workers that the system of pension regulation was robust enough to ensure that they had a reasonable expectation to receive what they had been promised and paid for.
- The crisis requires immediate responses to try and salvage something from the wreckage of our pension system.

Suggestions for Short Term

- The priority order on wind up needs to be changed to ensure some equity (of loss) is spread between pensioners, actives and deferreds.
- Where active members are forced to accept reductions in benefits the same reduction need to apply to deferreds.
- The Congress suggestion that leeway could be given to trustees to decide what the priorities should be has already been dismissed by the Department's representative as a recipe for anarchy. We suggest that this proposal is worthy of a more considered response. If our suggestion is not viable the Department should address the problem of how active members can be encouraged to increase contributions to a scheme which they believe will give them no benefit in the long run.
- A state annuity could save between 15-20 percent and in a major wind up active members get something rather than losing their entire entitlement. A state annuity poses no risk to the state or the taxpayer in spite of statements to the contrary.
- Congress has many times called for a pension protection fund to no avail. It is almost certain that workers who lose their pension in the next few months will appeal to Europe on the basis of the Robins Judgement which found that the UK Government had not done enough to protect the

pension rights of workers whose companies go bankrupt. The Irish state has done nothing effective in this regard.

- If a solvent employer decides to walk away from their pension promise a certain level of basic protection needs to be in place to ensure a minimum benefits.
- IBEC has called for a weakening of the Minimum Funding Standard, at least in the short term. Congress supports any measure which will encourage employers to stick with their DB schemes. However, while this measure might help employers to feel better it will not put one penny into any scheme which has more liabilities than assets.

Long Term Implications for Pension Provision

Informed opinion amongst pension experts is that the current system for providing second pillar pension through investment funding, whether DB or DC, cannot provide an adequate pension at a price workers or employers can afford to pay. The Government and the Department of Finance need to evaluate this proposition. If the proposition is valid then we must start planning a new model of pension provision which can ensure that when a person comes to retire the pension they and their employer have paid for is available to them.

Congress believes the best way of achieving this outcome is for workers and employers to invest their pension contribution into the PRSI system.

Irish Congress of Trade Unions,

January 2009