

**Draft Framework for
a Pact for Stabilisation, Social
Solidarity and Economic Renewal**

28 January 2009

Framework for a Pact for Stabilisation, Social Solidarity and Economic Renewal

1. The Challenge

We are experiencing the most profound global economic crisis in seventy years. In addition to the effects of an international financial and banking crisis and a worldwide recession, the Irish economy is suffering from the aftermath of a large housing and construction boom and a loss of cost competitiveness after a period of sustained growth.

This is being exacerbated by the decline in the value of Sterling relative to the Euro which is placing extreme pressure on Ireland's base of exporting companies.

While the uncertainty about international developments makes predictions difficult, Ireland now faces the prospect of:

- a reduction of up to 10% in national income over the 2008-10 period
- a loss of more than 120,000 jobs over 2009 and 2010
- an increase in unemployment to more than 10%
- tax revenues in 2008 more than €8 billion below expectations, and a further fall projected in 2009, creating an unsustainable Exchequer deficit
- without further adjustments, a General Government Deficit in the range of 11% to 12% of GDP for each year up to 2013

There are in fact significant downside risks to these projections including:

- a steeper or more prolonged downturn in our main trading partners
- the possibility that global financial market problems deepen or persist for some time
- further exchange rate appreciation
- a further decline in international and domestic confidence and investment

Although the pace and scale of the economic crisis is unprecedented, making a full analysis of the causes and implications for global and domestic policies difficult at this time, the Government and Social Partners agree that urgent and radical action is required to restore stability

to the public finances, to maximise short-term economic activity and employment and to improve competitiveness.

Failure to implement radical decisions has the potential to erode national and international confidence in the Irish economy with profound risks for all sectors of Irish society.

This document therefore sets out a framework within which the Government and Social Partners have agreed to develop a Pact for Stabilisation, Solidarity and Economic Renewal.

2. Shared response through partnership

As Social Partnership was central to Ireland's economic resurgence starting with the Programme for National Recovery in 1987, the Government and Social Partners believe that a similar approach now, based on an equitable approach to tackling the problems facing the country, will help us find a way through current difficulties and support internal and external confidence.

In developing a Pact, the Government and Social Partners are fully committed to an approach in which all sectors of society contribute in accordance with their ability to do so, and conversely the most vulnerable, low paid, unemployed and social welfare recipients are insulated against the worst effects of recession.

The Government and Social Partners believe that by making the correct decisions now, and committing to working together through the further difficult challenges which lie ahead, we can deliver reforms which allow us to still realise our shared goals for Irish society, most recently outlined in *Towards 2016*, while also laying the foundations for sustainable economic recovery.

3. Stabilising the Public Finances

The Government and Social Partners are agreed on the necessity to progressively reduce the level of Exchequer borrowing over the next five years in order to reduce the General Government Deficit to below 3% by 2013 through an appropriate combination of expenditure and taxation adjustments.

Public Expenditure

The adjustment to be achieved through reductions in expenditure will be based on the following criteria:

- ensuring a fair and equitable spread of the burden of adjustment
- maximising the level of sustainable employment
- solidarity with those now losing their jobs
- maintaining high-priority public investments
- careful forward priority planning
- increased efficiency, effectiveness and a focus on outcomes

The scale of the necessary adjustment requires scrutiny of all areas of public expenditure including agreeing measures on how to constrain growth in public sector pay and pension costs.

Taxation

The adjustment to be achieved through further taxation measures will be informed by the following principles:

- o Changes to be fair and equitable with a higher proportion falling on higher incomes while minimising distortionary effects between different forms of tax
- o Support the productive sector of the economy to keep Ireland competitive
- o Ensuring that tax expenditures are fully evidence-based
- o Broaden the tax base and make changes that are straight forward, easily understood and easy to administer
- o Additional progressive tax measures consistent with the social solidarity approach

Additionally, given the urgency of the situation and the role that taxation will have to play in bringing stability back to the public finances, the Government is asking the Commission on Taxation to identify appropriate options to raise tax revenue and to complete its report by September 2009.

An Equitable Approach

The Government and Social Partners believe that support for these adjustments will be strengthened by measures which demonstrate that the burden is being shared equitably across society. This includes:

- the need to ensure that moderation in respect of executive remuneration is seen to contribute meaningfully to the adjustment required
- that those who benefited most from the economic boom should make a particular contribution to the adjustment required

Delivering the Fiscal Stabilisation Framework

The Government and Social Partners agree that a credible response to the fiscal situation requires a further adjustment at this stage of the order of €2 billion in 2009.

In addition to this immediate adjustment required in 2009, the Government and Social Partners commit to working together under the Pact to support the further adjustments required to reduce the General Government Deficit below 3% over the remainder of the five year period.

4. Short-term Stabilisation of the Economy

Given the severity of the short-term economic crisis facing the country, a range of measures will be undertaken as part of the Pact to stabilise the economy and minimise negative social impacts.

In order to **maximise economic activity and employment in the short-term**, the Government will:

- provide a fiscal stimulus in 2009 and 2010 by maintaining capital investment at a high level by both international and historical standards
- re-prioritise this capital expenditure in 2009 and 2010 in order to support labour-intensive activities where possible
- bring forward further proposals to support enterprises during this extremely difficult period, recognising in particular the pressures arising from currency movements, and thereby support those in vulnerable employments
- act quickly to improve competitiveness including increasing competition across the economy and reforming price regulation in areas such as energy

It is recognised that **stabilising the financial and banking sector is essential** to secure a banking system which is fit for purpose.

Accordingly, Government action will seek to:

- assist those who get into difficulties with their mortgages; in early 2009 a new statutory Code of Practice in relation to mortgage arrears and home repossessions will be brought forward, and the mortgage interest scheme will be reviewed
- maximise the flow of credit to the enterprise sector and ensure early introduction of a code of practice on business lending
- introduce controls on the remuneration of senior executives, in accordance with the recommendations of the independent committee established by the Minister for Finance, including the requirement that bonuses are measurably linked to reductions in guarantee charges, reduction in excessive risk taking and encouraging the long term sustainability of the institution
- maximise sustainable employment in the sector

Recognising that unemployment will rise significantly in the period ahead, the Government and Social Partners will work together to **maximise employment and help those who lose their jobs** by:

- designing a flexicurity approach appropriate to Irish conditions which keeps people working where feasible and equips people to return to employment as quickly as possible by maximising the availability and impact of education, upskilling and training supports
- redeploying resources to ensure efficient and timely delivery of direct State supports to those who lose their jobs including social welfare payments, redundancy payments and payments to workers in cases of insolvent companies

The Government and Social Partners will address the serious and urgent difficulties facing private sector **pension** schemes.

5. Work together to implement a reform agenda

The Pact will set out a short-term agenda to address the economic crisis facing the country. In doing so, the Government and Social Partners acknowledge that reform and change across many areas of economic and social life need to be prioritised to ensure that Ireland emerges from the crisis as quickly as possible.

However the Government and Social Partners commit to working together on the following priority issues in the period ahead, within the agreed fiscal stability framework set out above:

(i) to implement an agenda for enterprise and competitiveness based on the *Framework for Sustainable Economic Renewal: Building Ireland's Smart Economy* including:

- building on strengths in the Agriculture, Fisheries and Food sectors
- developing the ideas economy with intensified R&D activity and greater commercialisation of the output of that research
- supporting the manufacturing sector
- encouraging entrepreneurship and business start-ups
- pursuing opportunities to expand the services sector, in particular international services
- realising the long-term potential of the tourism sector
- improving trade, investment and tourism links with new and fast-developing markets
- pursuing opportunities in the Green Enterprise sector, including in the area of energy efficiency

(ii) to develop a new approach to upskilling and reskilling those in employment and those outside the labour market; we will convene a Jobs and Skills Summit in March 2009 to devise innovative approaches to maintenance of employment, creation of new employment and early and active engagement with those losing their jobs; we will also seek to maximise eligible support from the European Globalisation Adjustment Fund for initiatives to support those who are made redundant

(iii) to ensure that sheltered sectors of the economy, including professional services, bear their full share of the burden of adjustment

(iv) to implement the employment rights provisions in the *Towards 2016 Transitional Agreement*

(v) to deliver measurable public service reform to improve the efficiency and quality of public services, based on the Government's Statement on Transforming the Public Service published in 2008

(vi) to continue implementation of the Health Service Reform Programme, including utilising the Health Forum under *Towards 2016*

(vii) to finalise a comprehensive framework for future pension policy which responds to the challenges facing the Irish pensions system in the years ahead

(viii) to ensure our approach to regulation, accountability and corporate governance delivers a sustainable society and economy

6. Conclusion

The Government and Social Partners commit to work intensively over the immediate period ahead to develop specific measures to finalise and then implement a Pact based on this framework.

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