

# How The Rich Wage a Class War

Kieran Allen

Whatever the consequences, Labour must discharge its historic obligation to defend working people as best it can. At this juncture, it can only do so from within the Government. Connolly's party must stay in and fight on.<sup>1</sup>

This is what Jack O'Connor, the President of SIPTU wrote in the latest issue of his union magazine.

Ireland's largest union is totally dominated by the Labour Party. Virtually all full-time officials of the union are encouraged to join. The union is affiliated to the party and each member pays a proportion of their union dues to the Labour Party, unless they explicitly ask to opt out. The union also pays over €90,000 in funds to the party each year. So it is probably no accident then that the internal culture of the union is one of permanently induced pessimism and fatalism. Every defeat is covered with the cry that 'it could be worse'. Every attack by the *Irish Independent* is taken as proof positive that the union must desperately hold on to the Croke Park deal. Originally, 17,000 jobs were supposed to be cut from the public sector but now it is 30,000 and rising yet still SIPTU clings to its piece of paper.

Naturally, therefore, its leader would claim that Labour was 'defending working people' while in Coalition government. But the most cursory glance at the record of the FG-Labour coalition government would suggest otherwise. Far from even the appearance of a change from the Fianna Fáil era, there has been a continuity between this government and the last.

That continuity arises because both administrations have waged a one sided class war to protect the privileged and make the majority of working people pay for the crisis.

Two incidents to do with taxation policy illustrate the open, the brazen manner in which this war has been conducted.

In the budget of 2011, the state agreed to provide tax relief to foreign executives who sent their children to private schools. Fees of up to €5,000 a year could be written off from any benefit-in-kind tax. In addition, 30 percent of all income accruing to foreign executives up to €500,000 a year would be automatically written off for tax purposes, representing a potential saving of €52,275. All of this was introduced against a backdrop of extreme austerity as single parents, those on rental income supplement and social welfare recipients experienced significant falls in their income in the same budget.

On the surface, this was a strange decision but the internal manoeuvring that preceded it was even more extraordinary. Moves to bring about the change were led by two accountancy firms, Deloitte and KPMG, and were backed up by the American Chamber of Commerce and Citibank. In March 2011, John Bradley, a tax partner at KPMG sent a letter to Gary Tobin, head of the business tax team at the Department of Finance, which included detailed amendments to existing tax laws and eventually provided the basis for the alternative legislation. On receipt, The Department of Finance immediately drew up calculations based on figures supplied by KPMG. Then in April KPMG announced details of a special tax relief scheme they

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<sup>1</sup>'Connolly's Party must stay in and fight on' *Liberty*, September 2012

had negotiated with the Department of Finance in the Netherlands, and sent on a copy to the Irish Department with a note which stated: ‘This is a good example of the competition which Ireland Inc faces in this space’ and suggested that the Irish system ‘looks very clumsy compared to the Dutch offering’<sup>2</sup>. By December, the desired changes were incorporated in the budget, but instead of expressing the slightest gratitude, KPMG complained about a cap on the tax relief, which, remember, was €500,000 a year. ‘Do we want the important people to come here but not the really, really important people?’ they plaintively moaned.

Then in October of 2012, Finance Minister Noonan casually announced that Ireland would not adhere to an EU Commission plan to impose a Financial Transactions Tax. The proposal was for a 0.1 percent tax on shares and bonds and a 0.01 percent tax on derivatives (speculative contracts that gamble on different types of risk). The EU estimated that Ireland could garner €500 million from this tax the equivalent of what the government intends to raise on the property tax next year. Yet it was rejected.

Noonan’s stance was framed by the shadowy Irish Financial Services Centre (IFSC) Clearing House Group. This body is composed of representatives from the leading financial services firms such as JP Morgan, PricewaterhouseCoopers, Ernest & Young, Barclays Bank, Deloitte, HSBC, William Fry, State Street, Bank of Ireland, AIB, Porsche FMS and others. They meet in a committee session every month in the Department of the Taoiseach and effectively dictate state policy on the financial sector. No representative of a trade union or a community association is allowed into their meetings lest they raise embarrassing

arguments about why billionaires should pay up. The meetings are held in secret and no minutes are provided to the public. A recent Irish Times article described the IFSC Clearing House Group as a ‘lobby group’. But this is a misnomer. It is an agency that is embedded in the key Department of the Taoiseach and so effectively writes policy. It is not a lobby group but rather the corporate wing of the Irish state.

These two brazen examples of a class bias in taxation policy only serve to illustrate a wider, underlying pattern. The Irish state’s policy for dealing with the economic crash has arisen from and feeds back into an economic structure that arises from its role as a tax haven in the global economy. A key sector that benefits from tax haven status is the financial sector located in the IFSC, where the average rate of tax on corporation profit is a mere 5 - 7%. While all capitalist societies tailor their policies to the needs of capital, the manner in which it is done in Ireland is naked, direct and crude in the extreme.

## How the bailout was done

It began with the infamous guarantee to the banks. On 29 September 2008, the Fianna Fáil-Green government issued a blanket guarantee to cover the liabilities of banks. A deposit guarantee scheme was extended to cover all deposits up to €100,000 in Irish banks. But in an unprecedented move, the state also guaranteed all bondholders who had issued money to Irish banks, plus debt securities taken out from Irish banks by financiers across the world. The total overall exposure of the Irish state amounted to €428 billion. The move followed an extraordinary ‘incorporeal’ cabinet meeting where Ministers were asked

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<sup>2</sup>‘Multinationals benefit as their financial advisers pile pressure on governments’ *Irish Times*, April 22nd 2012

to vote over their mobile phones. But the background manoeuvrings showed how the Irish state was at the beck and call of financial interests. The briefing document on government strategy for dealing with the banking crisis was written by Merrill Lynch, who charged Irish taxpayers €7 million for their advice. Merrill Lynch had developed a particular speciality on Wall Street for selling mortgage backed securities and had been losing \$52 million a day between July 2007 and July 2008<sup>3</sup>. Two weeks before it advised the Irish government it was taken over by Bank of America, because it was on the verge of bankruptcy.

Merrill Lynch had a lucrative underwriting relationship with Irish banks, and so, maintained very cordial relations with them. This was neatly illustrated six months earlier, in March 2008, when Phil Ingram, a banking analyst at Merrill Lynch, had examined the commercial loans of Irish banks and concluded that a major writedown was in the offing. A *Vanity Fair* journalist takes up the story:

For a few hours, the Merrill Lynch report was the hottest read in London in the London Financial Markets, until Merrill Lynch retracted it. Merrill had been a lead underwriter of Anglo-Irish bonds and the corporate broker to AIB. They had earned huge sums of money off the growth of Irish banking. Moments after Phil Ingram hit the Send button on his report, the Irish banks called their Merrill Lynch bankers and threat-

ened to take their business elsewhere<sup>4</sup>.

When Merrill Lynch issued their faithful memorandum on the banking crisis on the 28<sup>th</sup> of September 2008, they made one extraordinary claim. ‘It is important to stress’, they noted ‘that at present, liquidity concerns aside, all of the Irish banks are profitable and well capitalised<sup>5</sup>. In other words that they were fundamentally sound and were only suffering a cash flow problem. In a power point presentation to the National Treasury Management Agency, they had also suggested that 97 percent of Anglo-Irish loans were ‘neither impaired or past due’. The Merrill Lynch memorandum provided a number of options, including the proposal of a state guarantee for the six domestic banks. But one option was entirely discounted ‘allowing an Irish bank to fail and go into liquidation without any government intervention<sup>6</sup>. This, it was argued, would lead to a shock to the whole banking system and, ‘the ensuing “firesale” of assets could precipitate asset deflation and hence force other Irish banks to take significant writedowns on their own asset portfolios thus depleting their capital portfolios’<sup>7</sup>.

Here then was a failed bank which specialised in the sale of mortgage backed securities suggesting to an independent state that it should guarantee bank bondholders to ensure there was no further writedown of their assets.

When the government agreed to the guarantee scheme they hired the legal firm, Arthur Cox, to help draw up the necessary legislation. Arthur Cox was one of the most lucrative legal firms in Europe a testimony to the activity of Ireland’s tax

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<sup>3</sup>‘Chief struggles to revive Merrill Lynch’ *New York Times*, July 18th 2008

<sup>4</sup>‘When Irish eyes are crying’ *Vanity Fair*, March 2011

<sup>5</sup>Memorandum from Merrill Lynch, 28th September 2009 p.2

<sup>6</sup>Memorandum from Merrill Lynch, 28th September 2009 p.3

<sup>7</sup>ibid p.3

planning nexus and its partners were generating income of €1 million a year. It also had a close relationship with one particular bank, Bank of Ireland, as it acted as a lawyer for them and was involved in discussions with the government about a private equity company that wished to take shares in the bank<sup>8</sup>. None of this was regarded as a conflict of interest and Arthur Cox was paid €11 million between 2008 and 2009 to undertake the legal work to implement the bank guarantee, and to undertake other work relating to the bank crisis. Nor was it assumed that there was any conflict of interest listening to advice from Goldman Sachs. It held a meeting with the government on the 21st of September to discuss the situation at Irish Nationwide Building Society. There it was asserted that the Irish Nationwide Building Society was also facing a ‘liquidity problem’, and that ‘help from the authorities will be required’<sup>9</sup>. This was somewhat wide of the mark, as the bailout of Irish Nationwide eventually cost the Irish state over €3 billion.

At a time, therefore, when an Irish government was making the most important decision in the entire history of the state, it surrounded itself with corporations involved in speculation and tax planning. Some have subsequently sought to discover links between the then Taoiseach, Brian Cowen, and the board of Anglo-Irish Bank as a possible explanation for why the state underwrote its enormous debts. There were undoubtedly some connections but the focus on the rather clumsy figure of Cowen misses the wider point. The decision to prop up the interest of bondholders, by guaranteeing all the liabilities of the banks, was the logical outcome of a state policy that promoted the IFSC as a

key cornerstone of its development strategy. The repeated references to ‘protecting Irelands international reputation’ that was subsequently used to counter any suggestion for a writedown in debt, was simply a coded reference to this.

## Neo-liberalism intensified

In a modern capitalist society, the state develops close links with elements of civil society and uses the mass media to establish its intellectual hegemony over society at large. The key strata that promote a militant neoliberal outlook are those who benefit from Irelands role as a tax haven. Ireland has an unusually large number of solicitors, accountants and tax planners who form of the core of the property-speculation-tax haven axis. This strata is so large that their numbers represent the equivalent of one third of the manufacturing workforce. They play an important role in Irish politics and often form the core activists for right wing parties. In the past, they were avid supporters of Fianna Fáil but now they have overwhelmingly switched to Fine Gael, as that partys high level of support among the AB<sup>10</sup> classes testifies.

At a very abstract level, this strata finds its ideological expression in the discipline of neo-classical economics. Heavily influenced by the Chicago school, this model assumes a pure form of capitalism that is guided solely by its internal logic. All social relations are dissolved into isolated monads which are subject to ‘market forces’. The state is seen, at best, as a provider of only a limited number of public goods, which profit makers have no interest in. Or, at worst, it is seen as a source of the main ‘rigidities’ that hinder

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<sup>8</sup>‘Main law firms dominance pays off handsomely’ *Irish Times*, 10th May 2010

<sup>9</sup>Note of Meeting with Goldman Sachs, 21st September 2008

<sup>10</sup>A socio demographic classification used to denote the upper and middle classes.

the pure workings of the market. These debatable assumptions lay the basis for an austere form of mathematical modelling, which purports to make predictions, while at a less abstract level practitioners give exact ‘risk assessment’ models for those who want to play the market. The outlook that accompanies this form of economics fits well with the life experience of those who play the financial and property markets.

The crash has dragged these advocates of ideologically soaked economics out from behind their lecterns and into the TV studios. They have learnt how to put their theoretical understanding into the popular laymans language. The advocates of pure capitalism have come out fighting and there has been, as Thomas Frank put it, ‘another ‘Great Awakening’ of a revival crusade preaching the old-time religion of the free market’. The crash did not occur because of capitalism, it appears, but because Ireland did not have enough of it.

At the core of this intellectual response was a rejection of any form of Keynesian solution to the crisis. The Irish state, it was asserted, could play little role in stimulating the economy because it was a small open economy and the benefits of any stimulus package would only flow to its economic rivals. The Irish strategy would instead focus on ‘regaining competitiveness’ in order to gain increased market share for its exports. As the crisis developed, this consensus hardened into a number of claims that can be summarised as follows.

1. *As every state needs a functioning banking system, it was necessary to bail out and fully re-capitalise the banks.* At the start of the crisis in 2008, Minister for Fi-

nance Brian Lenihan claimed that it would be ‘the cheapest bailout in the world’<sup>11</sup>. Unfortunately, this prediction fell very far short of the mark. Current figures for direct state support to the banks range from €62.8 billion<sup>12</sup> to €70 billion<sup>13</sup>. Up to December 2010, the state had directly provided €46.3 billion. However, a loss assessment exercise performed by BlackRock Solutions estimated that a further €24 billion was required.

In addition, the Irish state has undertaken to ‘clean up’ the loan book of the banks by purchasing faulty loans at discount prices. Its National Assets Management Agency (NAMA) has become the largest property owner after it acquired property that was initially valued at €72 billion, for €32 billion. However, it is by no means clear that it will recover this outlay as Irish property prices have already fallen dramatically. Given an enormous overhang of vacant and habitable houses currently about 15 percent of the housing stock prices can be expected to fall further. In the meantime, NAMA has been financed by state bonds, which carry relatively high rates of interest.

Taking all these factors into account, Standard and Poors has estimated that the cost of Ireland’s bank bailout will reach 90 billion<sup>14</sup>.

2. *The Irish state can cope with this level of sovereign debt. There would be a few hard years but the finances of the state would eventually recover.* The main advocate of this position has been the Economic and Social Research Institute (ESRI). In its Quarterly Economic Commentary in the Spring of 2010, it stated that the debt was ‘manageable’ and ‘would in no way

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<sup>11</sup> ‘Irish bail out the cheapest in the world’ *Irish Times*, 24th October 2008

<sup>12</sup>EU Commission, *The Economic Adjustment Programme for Ireland*, Summer Review 2011

<sup>13</sup>Dail Eireann, Written Answers on Bank Re-Capitalisation, 20th July 2011

<sup>14</sup>Standard and Poors, Explaining Standard and Poors’ Adjustments to Ireland’s Public Debt Data, 28th August 2010.

threaten the solvency of the state'<sup>15</sup>. A year later its chief economist, John Fitzgerald, made the same argument in a more extensive analysis of Irish debt dynamics, claiming that if the Irish government stuck to its austerity programme, 'the Irish debt burden will stabilise at a manageable level in 2013 and 2014' though there would be considerable uncertainty in the future<sup>16</sup>.

These predictions were primarily based on an assumption of growth in the Irish economy. A modest level of growth, it was claimed, would ensure that the debt to GDP ratio would decline. The growth predictions have, however, fallen apart and with them goes the assumption of a manageable debt.

3. *The key to growth was for Ireland to export its way out of the recession. To do so, it had to increase competitiveness.* The main strength of the Irish economy has been its export performance and this has led to a trade surplus during the three years of the recession, as Table 1 indicates. The strategy was to grow these exports in order to pull forward the Irish economy as a whole and reduce the debt to GDP ratio.

Table 1: Ireland's Imports, Exports and Trade Surplus (€m)

Year	Imports	Exports	Trade Surplus
2007	63,485.7	89,226.1	25,740.5
2008	57,584.8	86,394.4	28,809.6
2009	45,061.1	84,238.9	39,177.8
2010	45,763.6	89,192.9	43,429.4
2011	48,315	91,228	42,913

Source: Central Statistics Office, *Trade Statistics*.

While the figures for a trade surplus look relatively impressive, they result more from a decline in imports due to the collapse of the domestic economy rather than any substantial rise in exports. The exports are also concentrated on a very narrow spectrum, which is dominated by foreign multinationals. Overall, multinationals account for 75 per cent of all Irish exports and the exports of the indigenous sector are concentrated in food and drink. Within the multinational sector, pharmaceuticals are dominant. Yet a problem is also rapidly emerging here, as Bloomberg explains.

The strength of Ireland's drugs industry may turn into a weakness as the country drags itself out of the worst economic slump in its modern history. Five of the worlds top-selling dozen medicines are produced in Ireland and their sales will fall 52 percent to \$13 billion by 2013, from \$27 billion in 2010, as their patents expire.<sup>17</sup>

4. *One of the main ways in which competitiveness could be increased was by reducing pay. This would function as a type of 'internal devaluation' and compensate for the fact that Ireland was locked into a single currency where external devaluation was not possible.*

The argument for pay cuts was given intellectual support by the ESRI Professor, John Fitzgerald who put the matter succinctly in an article entitled 'How Ireland can Stage an Economic Recovery'. He advocated nominal pay cuts and suggested

<sup>15</sup>Barrett, A, Kearney, I., Goggin,I., Confey, T. *Quarterly Economic Commentary* Spring 2010, Dublin ESRI, 2010, p.7.

<sup>16</sup>Fitzgerald, J and Kearney, I 'Irish government Debt and Implied Debt Dynamics: 2011 to 2015' in J. Durkan,, D. Duffy and C. O Sullivan, *Quarterly Economic Commentary* Autumn 2011, Dublin ESRI, p. 27

<sup>17</sup>'Ireland faces €26 billion export headache as drugs stop working' *Bloomberg* 22 November 2011

that ‘if cuts in public sector pay rates mirrored cuts in private sector wage rates there would be a very significant gain in competitiveness, with a consequent big reduction in employment after three or four years’<sup>18</sup>. The link between the public and private sector was significant. Private sector employers were not strong enough by themselves to enforce pay reductions and needed to point to headline figures enforced by the state on its own employees.

A major assault has been repeatedly launched on the pay and conditions of public sector workers. The ‘inflated’ pay levels of Irish public sector workers became a constant theme in the media. The offensive functioned as a form of anger displacement so that grievances against bankers and politicians were miraculously transmuted into a grievance against ‘over-paid’ civil servants. High public sector wages was deemed to be one of the major causes of the ‘structural deficit’ not the huge interest payments being made to the bondholders and the ECB. These were simply removed from the frame of public debate. Figures from the OECD, however, provided a more complex picture than the propaganda would suggest. These showed that the salary levels of medical specialist or consultant doctors were way above the OECD average. So too were those of central government managers. But that was as far as it went. Using a comparison based on purchasing power parities and adjusted for differences in hours and holidays, the average annual compensation for employees in secretarial positions in the public sector was around the OECD average. So

too was the starting salary of teachers although the salary at the top of the scale was slightly higher<sup>19</sup>.

5. *Wage cuts would not necessarily depress the economy. They would rather increase the ‘confidence’ of international investors, and so Ireland would benefit from being the model pupil.* The issue was framed as a type of morality tale and the population were told that if they took pain for a short number of years, they would reap rewards later. It was almost as if there had to be atonement for the party years of the Celtic Tiger.

Expert economic advice was also on hand to show that this was a viable strategy. Thus Kevin O’Rourke, Professor of Economics at Trinity College Dublin, informed the population in a popular piece in the *Irish Independent* that ‘the cross-country evidence from the Great Depression is unambiguous: the more wages fell during the 1930s, the less output declined’<sup>20</sup>.

The government has been largely successful at depressing the living standards of those at work. In 2008, the average annual equivalised disposable income for those at work stood at €29,240, but by 2010 this had dropped to €28,144<sup>21</sup>. Findings from the Fifth European Survey on Working Conditions have shown that Irish and Baltic state workers were among those most likely to have experienced a pay cut in 2010. 48 percent of Irish workers have experienced a pay cut compared to 16 percent of all European workers<sup>22</sup>.

But while the state has been successful in its offensive, the attack on living stan-

<sup>18</sup> J. Fitzgerald, ‘How Ireland Can Stage an Economic Recovery’ *Irish Times*, 24th January 2009

<sup>19</sup> OECD, *Government at a Glance*, Paris: OECD, 2011 Chapter 6

<sup>20</sup> O’Rourke, K. ‘Currency Devaluation may look an easy option but it is a trick on workers’ *Irish Independent*, 26th February 2009

<sup>21</sup> CSO, *Survey on Income and Living Conditions 2010*, Dublin: CSO, 2011: Table 1 and CSO *Survey on Income and Living Conditions 2009* Dublin: CSO 2010: Table 1.4.

<sup>22</sup> *Industrial Relations News* ‘Workers in Ireland and Baltic States hit most by pay cuts’ *Industrial Relations News*, No 42, 17th November 2010

dards has prolonged the recession.

## Economic expertise

The policy consensus between the Irish state and the economic establishment was presented as a technical solution that transcended politics. It was not a matter of choice or conflict between social forces. There are simply no other realistic solutions.

But the experts who populated the TV screens and radio studios did not take an objective view from above the fray of class conflict. Their advice did not arise from a purely technical and apolitical standpoint. Quite the contrary. The advocates of neo-classical economics advocated solutions, which articulated the concerns of the immediate strata they were linked with and the wider capitalist class. Once again, the crudity of those connections was in evidence for anyone who wanted to watch.

The key figure in formulating policy on cutting public spending was Colm McCarthy, author of the Bord Snip report. Before becoming a professor at UCD, he had worked as a consultant with DKM Consultants and had drawn up a report for National Toll Roads defending its profit making activities as a reward for risk taking. He has opposed social partnership from an extreme right wing stance and has advocated a 'less Bolshevised system of pay determination'<sup>23</sup>.

The key figure in formulating the NAMA was another professional economist, Peter Bacon. Bacon was formerly the European director of one of Irelands biggest property companies, Ballymore Properties, owned by Sean Mulryan. He was also a director of a joint venture

between Ballymore and Michael Fingleton's Irish Nationwide in Britain, known as Clearstorm<sup>24</sup>.

And one of the key economic experts appointed to the Department of Finance after the crash in 2010 was Jim O'Leary. According to the Irish Times, he was 'expected to exercise considerable influence over budgetary and wider economic policy'<sup>25</sup>. Yet O'Leary was formerly a non-executive director of Allied Irish Bank between 2002 and 2008 and sat on its Audit and Re-numeration committee. This committee awarded annual payments of €2 million to Eugene Sheehy and €1 million payments to three other directors, plus extremely generous pension packages.

To put it more bluntly, the foregrounding of a certain type of expertise from neo-liberal economists gave cover to a distinct class bias. This is most evident in the policies, which have been implemented in order to close the 'structural deficit'. This economic category refers to the gap, which is supposed to exist between state revenue and spending. It is an abstract concept, which is deemed to be separate from fluctuations in the economic cycle and 'exceptional' measures such as bailing out banks. The mainstream media took it up with some gusto and framed all discussions on the Irish economy around the one question: 'How do we close the structural deficit'. The purpose here was to take attention off enormous sums used up in the bank bailout and to focus instead on cutbacks in the public sector.

Yet the separation of the 'structural deficit' from the banking crisis was entirely artificial. The Irish state has been forced to make enormous interest payments as a direct result of the bank bailout and re-

<sup>23</sup>'TDs cut and run as 3,000 jobs a week lost' *Irish Independent*, 5th July 2009

<sup>24</sup>'Just because Teflon is invisible when it is wrapped around the Golden Circle doesnt mean it is a figment of your imagination' *Sunday Tribune*, 19th April 2009

<sup>25</sup>'Welfare and pension bill may be targeted in December budget' *Irish Times*, 12th October 2010



capitalisation. Interest payments on Irish state debt have risen from €2 billion in 2008 to €4.9 billion in 2010, and to €5.1 billion in 2011. The policy of austerity, which has been implemented to pay for the bank bailout, also had a negative effect on tax revenues. As unemployment has grown to nearly 15 percent of the workforce, this has led to a major fall in tax revenue and a rise in social welfare costs. So a discussion on ‘how do you close the €18 billion structural deficit’ as if one were dealing with a static, permanent problem, was entirely artificial.



After four years of crisis the unemployment rate now stands at almost 15%

In reality, the focus on the structural deficit is an ideological construction designed to de-politicise the wider austerity programme by presenting it as a form of good housekeeping. The problem is that the housekeeper has been robbed and has been forced to make blackmail payments. Instead of dealing with these problems, he or she has simply been told to accept their fate and live within their budget.

## Class bias

However, even within these ideologically framed boundaries, the class bias has quickly become evident.

<sup>26</sup>Revenue Commissioners, *Statistical Report 2010: Income Distribution*, Dublin: Revenue Commissioners 2011 p.6.

First, there is a clear bias towards raising extra tax revenue from income rather than capital. This is evident in the five budgets which have been introduced since the crisis began.

Table 2: Tax revenue from Income and Capital

Year	Tax Revenue from Income	Tax Revenue from Capital
2009	€1,140	€63 *
2009	€2,786	€147
2010	€53	€0
2011	€1,192	€275 **
2012	€47	€174 ***
Total	€5,218	€659

Source: Department of Finance, *Budget and Estimates Measures*. Various years.

Figures for tax revenue on capital compiled from Corporation Profit Tax, Capital Acquisitions Tax and Capital Gains Tax.

\* Includes reduction in tax relief for Approved Retirement Funds (ARFs).

\*\* Includes further restrictions on tax relief for ARFs and removal of some property reliefs.

\*\*\* Includes removal of some property reliefs.

Ninety five percent of Irish income tax earners earn less than €100,000 and 49 percent have a gross income below €30,000. The Revenue Commissioners claim that those earning over €100,000 contribute 24 percent of income tax. But this figure is inflated because 65 percent of this category is composed of tax cases (rather than individuals), where married couples are both earning<sup>26</sup>. The burden of the tax adjustments is, therefore, falling on low and middle income earners.

Second, the other main area for generating tax revenues has been indirect taxes. Traditionally, Ireland has relied heavily on indirect taxes rather than taxes on wealth or capital, with 44 percent of its overall taxation being derived from this source as compared to an average of 35 percent for the EU<sup>27</sup>. The longer-term strategy of the state is to increase reliance on such taxes through property taxes, water charges, carbon taxes and an increased rate of VAT. The 2010 budget introduced a carbon tax and the most recent one in 2012 has increased the standard rate of VAT to 23 percent. Between them, these two taxes will raise €1 billion annually. In addition, a flat rate property tax of €100 per household has been introduced and water charges will be introduced in 2013. In both cases, there is a promise to structure these taxes according to ability to pay, but it is unclear how this will occur.

There is considerable evidence to show that indirect taxes hit the poorest sections of the population harder. One international study, for example, showed that the poorest 10 percent pay at least twice as much indirect tax, relative to their income, as the richest<sup>28</sup>. An Irish study came to a broadly similar conclusion, suggesting that 'indirect tax payments for households in the lowest decile amounted to almost 21 per cent of income. The corresponding figure at the upper end of the distribution was 9.6 per cent'<sup>29</sup>. Despite attempts to package the new charges with a progressive rhetoric, they represent an intensification of the 'user fee' model that forms a

core part of the neoliberal approach. Some gestures may be made to provide a minimum level of water for free, but the user charges will ease the way to privatisation and this eventually will lead to a removal of all social considerations. This certainly has been the pattern with charges for waste collections for domestic households.

Third, the other strategy for closing the 'structural deficit' has been to cut public spending, but this has also tended to hit lower income groups harder. The largest cut in the 2012 budget was on social welfare and protection, with a projected €812 million in savings. These have been concentrated on lone parents, the unemployed and short time workers, the elderly and large families. Lone parents have been a particular target of Labour Minister, Joan Burton. Henceforth, once a child reaches the age of 7, his or her parent will be deprived of One Parent Family Allowance. They will also only be allowed to earn €60 a week, rather than the current €146, before their allowance is reduced. Social welfare for the unemployed was cut the previous year and this year the rental supplement was cut by a further €6 a week. Short-term workers will lose out on social welfare allowances, particularly if they work on Sundays. The fuel allowance for the elderly has been cut, even though Ireland has one of the highest rates of 'excess deaths' with an estimated 2,800 passing away due to hypothermia<sup>30</sup>. Large families have been hit by a reduction of €19 and €17 a month in childrens allowance for the third and fourth child respectively.

<sup>27</sup> Barrett, A. and Wall, C. *The Distributional Impact of Irelands Indirect Tax System*, Dublin: Institute of Public Administration, 2006

<sup>28</sup> Decoster, A., Loughrey, J., O Donoghue, C. Verwerft, D. 'How Regressive are Indirect Taxes? A Micro Simulation Analysis of Five European Countries' *Journal of Policy Analysis and Management*, Vol. 29, No.2., 2010: p.335

<sup>29</sup> Barrett, A. and Wall, C. *The Distributional Impact of Irelands Indirect Tax System*, Dublin: Institute of Public Administration, 2006 p.8.

<sup>30</sup> Public Health Policy Centre, *All Ireland Policy Paper on Fuel Poverty and Health*, Dublin: Institute of Public Health, 2007

However, in a broader sense the attacks on public services have a discriminatory effect. By definition, the poor are more likely to rely exclusively on these services rather than use others, which require private funding. Even during the boom years, Irish public services lagged far behind the growth of the economy and middle-income groups were encouraged to find private solutions to make up for its shortfalls<sup>31</sup>. Thus, 47 percent of persons aged over 18, for example, took out private health insurance<sup>32</sup> and many resorted to private grinds for children to gain access to third level education. The cuts have exacerbated this two-tier system, though more people are being forced off private health insurance.

At present, 40,631 are on waiting lists for day care procedures and 14,061 are waiting for inpatient treatment. Most of these will wait over three months and nearly one in ten of those looking for inpatient treatment will wait over two years<sup>33</sup>. A survey conducted by the CSO also shows an increase in the numbers of waiting lists, with 8 percent of the population on a list in 2010 compared to 6 percent in 2007<sup>34</sup>. The situation for elderly patients who need long stay beds is reaching crisis point as the state is withdrawing from direct provision via the Health Services Executive (HSE). Table 3 illustrates the wider pattern on closure of public beds and the growth of the private sector. This is now set to accelerate after the last budget, as a further estimated 600 - 900 public beds will close. One result is that 1,100 older people, who are medically in need of a nursing home place and have been through a rigorous means test, are languishing on a waiting list for that bed. They are literally waiting for

others to die before accessing a bed.

Table 3: Beds by Category of Long Stay

Accommodation				
Year	2004	2006	2008	2010
HSE Extended Care	6,135	5,206	5,246	4,498
HSE Welfare Home	1,280	1,406	844	715
Voluntary Home or Hospital	2,954	1,496	1,557	1,600
Voluntary Welfare Home	NA	320	378	176
Private Nursing Home	9,042	13,285	14,932	13,785
Total	19,411	21,713	22,967	20,784

Source: Department of Health, Long Stay Statistics. Various years.

## Inequality

Of course there has been some debate about how to close the ‘structural deficit’. But that debate has been framed as one about raising extra taxes or cutting public spending. Those for raising more taxes are said to lean to the ‘left’ and those who favour more cuts are said to lean to the ‘right’. In reality, they are both different elements of the same strategy. The low and middle-income sectors of the population are carrying the main burden of paying for a banking crisis that was caused by a very small elite group. There has been no serious attempt to impose a wealth tax or to increase the very low rate of corporation profits tax. Even new sources of rev-

<sup>31</sup>Allen, K. *The Celtic Tiger: The Myth of Social Partnership*, Manchester: Manchester University Press

<sup>32</sup>CSO, *Health Status and Health Service Utilisation* QNHS Survey, Quarter 3, 2010 Figure 1.

<sup>33</sup>HSE, *Performance Report on NSP*, Dublin: Health Services Executive, 2011, p.26.

<sup>34</sup>CSO, *Health Status and Health Service Utilisation* QNHS Survey, Quarter 3, 2010

enue, which are based on the taxation of property, do not discriminate against the wealthy but rather seek to raise extra funds from the majority of the population. The result of these policies has been a rise in social deprivation and inequality.

The deprivation rate which is defined as those experiencing two or more types of enforced deprivation according to a common EU index - has nearly doubled from 11.8 percent of the population in 2007 to 22.5 percent in 2010. The most significant increase was among children aged between 0 and 17. Here there was a rise from 24 percent in 2009 to 30 percent in 2010. Average household income has also dropped 5 percent between 2009 and 2010<sup>35</sup>. These figures are particularly worrying because the Irish entered the recession with one of the highest ratios of debt to disposable income in the EU. In 1995, just before the Celtic Tiger began, the ratio of household debt to disposable income stood at 48 percent. But by 2012, this had risen to 211.3 percent - a more than fourfold increase<sup>36</sup>.

The lethal combination of rising deprivation, unemployment and high rates of debt is creating a looming crisis in mortgages. Ireland has a high rate of home ownership, with 76 percent of the population owning their own homes. The cost of houses during the Celtic Tiger years and the fact that banks are charging very high variable rates of interest in order to recapitalise themselves is creating a major problem of arrears. Unlike the US, the Irish state has actively opposed a foreclosure policy for fear of creating greater social instability. Yet the problem has not gone away and today 8.1 percent of mort-

gages are in arrears for over ninety days and a further 4.3 percent have been restructured due to financial difficulties, but are still in arrears<sup>37</sup>. In the longer term, this will lead to further major problems for Irish society.

This pattern of social suffering has also been accompanied by rising levels of inequality. Contrary to official propaganda, not everyone is 'tightening their belt'. After the crash of 2007, the net financial assets of households fell dramatically, but since then they have recovered and surpassed the pre-crisis level. In 2008, the net financial assets of households stood at €71,876 million but by 2010 they had increased to €117,153, representing a recovery of €45 billion<sup>38</sup>. The distribution of these assets is profoundly uneven but the issue is under-researched. The main source of information on wealth comes from the Bank of Ireland Wealth report, which was taken at the height of the boom. This indicated that the top 1 percent of Irish society hold 34 percent of the wealth, when housing is excluded<sup>39</sup>. We may safely assume that the bulk of the recovery in financial assets which includes cash, shares, pension and insurance funds, and business assets or liabilities comes from this sector.

Further evidence of the growth in inequality comes from the latest survey on income inequality. The income quintile share ratio and the Gini coefficient both show an increase in inequality since the crash, with a more dramatic jump between 2009 and 2010. In 2010, the average income of those in the highest income quintile was 5.5 times that of those in the lowest income quintile. A year earlier, the ratio

<sup>35</sup>C.S.O. *Survey on Income and Living Conditions*, 2010 Dublin: CSO 2011

<sup>36</sup>Central Bank, *Quarterly Financial Accounts for Ireland Q1: 2012*, Dublin Central Bank 2012

<sup>37</sup>Central Bank of Ireland, *Residential Arrears, restructures and repossession statistics*, Quarter ended September 2011, Dublin: Central Bank, 2011

<sup>38</sup>CSO, *Institutional Sector Accounts*, Dublin: CSO, 2011, Table 3

<sup>39</sup>Bank of Ireland, *Wealth of the Nation*, Dublin: Bank of Ireland 2007

was 4.3. The Gini coefficient showed a similar pattern increasing from 29.3 percent in 2009 to 33.9 percent in 2010 as table 4 illustrates.

Table 4: Indicators of Income Inequality by Year

Year	Gini coefficient	Income quintile share ratio
2005	32.4	5.1
2006	32.4	5.1
2007	31.7	4.9
2008	30.7	4.6
2009	29.3	4.3
2010	33.9	5.5

*Source: Central Statistics Office (2011) Survey on Income and Living Conditions (SILC). Preliminary Results for 2010.*

Profits are also showing signs of recovery as a direct result of wage cuts. The dry language of the Central Statistics Office makes the point with devastating accuracy.

The operating surplus or profits of non-financial corporations (NFCs) increased from €35.2bn in 2009 to €37.8bn in 2010 ... The other main component of value added is compensation of employees or wages and salaries which declined from €37.3bn in 2009 to €34.9bn in 2010. Therefore the improved profit share relates more to a decline in payroll costs for these corporations rather than to an increase in overall value added.<sup>40</sup>

## Investment strike

Some might argue that an increased level of inequality particularly if it is a tem-

porary phenomenon might be an unpalatable but necessary feature of a recovery. From this viewpoint, the crash may represent a sharp adjustment in the relative strengths between labour and capital. This re-distribution on income in favour of profit might encourage investment and help restore confidence in the economy again. But there is little evidence to show that. All indications are that the level of investment by private corporations has shown a calamitous fall and that, if anything, this fall is accelerating. In the period since 2007, the investment ratio fell from a high of 19 percent in 2006 to just 8 percent in 2010<sup>41</sup>. Table 5 illustrates the same pattern in absolute figures.

Table 5: Gross Domestic Fixed Capital Formation (€m)

Year	Amount
2006	48,311
2007	48,486
2008	39,340
2009	25,293
2010	18,074
2011	16,112

*Source: CSO, Quarterly National Accounts, Table 3.*

With investment declining, household consumption reducing and cuts in government spending, it is difficult to see how the Irish economy is set to recover. An optimistic scenario must rely entirely on a strategy of exporting in order to achieve growth. But the simplistic assumption that wage cuts would increase competitiveness and so lead to increased levels of exports is breaking down. In the first instance, those sectors of the economy, which had the highest level of exports tended to have higher wage rates. Thus chemicals and pharmaceuticals, which account

<sup>40</sup>CSO, *Institutional Sector Accounts*, p.8

<sup>41</sup> *ibid*

for the bulk of exports, were paying an average of €19.85 an hour compared to an average of €15.11 an hour for all of manufacturing<sup>42</sup>. But more generally, a reliance on exports markets to lead a recovery was based on the assumption that the recession in the global markets would be short lived and that the two main sales areas, the EU (56 percent of Irish exports) and the US (24 percent of Irish exports) would recover quickly.

However, the optimism about the fate of the global economy is rapidly diminishing and much of the concern is centred on the eurozone in particular. The debate about the survival of the euro and the position of the peripheral countries within it has only added to the uncertainty. The harsh truth is that the Irish elite gambled everything on defending their own privileges and being the model pupils of the IMF and the EU, and it has become unstuck. In their endeavours to be the best austerity pupils in the class, the Irish government has taken €24 billion out of its economy since 2008, in a series of five harsh budgets. That is the equivalent of 16 per-

cent of its GDP and represents the biggest fiscal adjustment of any advanced country in the past thirty years<sup>43</sup>.

It thought that by doing so foreign markets and foreign investors would come to its rescue and that it could pay off a ‘manageable’ debt. However, the over-optimistic predictions about growth have come unstuck and Irelands debt is rapidly becoming unmanageable. This becomes clear if we use GNP rather than GDP as the measure for the size of the Irish economy. In most countries, it makes little practical difference but in Ireland GDP is inflated by the transfer pricing practices of multi-nationals and it suffers from a high level of profit repatriation. If GNP is the measure used, the Irish debt is scheduled to peak at 150 percent by 2013, and even that is based on modest hopes of some growth. Should that occur and it seems the most likely scenario then Ireland will enter the same territory as Greece.

Given this record, the idea that the Labour Party is in government to ‘defend working people as best it can’ is really a sick joke.

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<sup>42</sup>CSO, *Industrial Earnings and hours worked* Dublin: CSO, 2007 Table 5

<sup>43</sup>K. Whelan *Irelands Sovereign Debt Crisis*, Dublin: UCD Centre for Economic Research, Working Paper Series, 2001