Towards A Framework for Solidarity and Recovery

Social Justice Ireland

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A FRAMEWORK FOR SOLIDARITY AND RECOVERY

A Discussion Paper

Social Justice Ireland

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Introduction

This discussion paper seeks to identify some of the essential components of **a framework for solidarity and recovery** in Ireland. It looks at the difficult current context and acknowledges that there are a range of challenges which make it difficult to ensure that social solidarity and economic recovery can be attained in an integrated manner. It identifies seven key areas that need to be addressed simultaneously if there is to be a comprehensive and coherent approach to securing recovery while ensuring solidarity. It also provides some additional material that may help to increase understanding of the scale of the adjustments required and how they might be delivered.

The current negotiations on public service pay are only one of a range of areas that need to be addressed if Ireland is not to repeat mistakes of the past when resources were awarded disproportionately to some groups over others. The outcome of these negotiations should not produce a situation where other sectors in Irish society, particularly those who are poor or vulnerable, will be further disadvantaged, as a result of the choices made and the consequent allocation of Ireland's scarce resources.

Of particular concern at this moment is the need to ensure that all aspects of Ireland's current multi-faceted crises be addressed in a coherent and integrated manner and to ensure that choices are made on the basis of the common good. There is always a danger that resources will be allocated to protect the interests of those who are strong, powerful and/or vocal.

Since taking up office the current Government has introduced two Budgets – both of which were deeply unjust, regressive and socially divisive. They hit people on low incomes, including the working poor, more than they hit the better off. Economically they failed to address unemployment. They provided neither a vision nor direction for the country. This situation must be changed fundamentally.

The Government's, and the troika's, focus has been disproportionately on reducing the deficit. Such reduction is important and required. However, reducing the deficit by creating a fractured society, a weak economy and persistently high unemployment is not a recipe for recovery.

Ireland needs a new approach which prioritises investment, promotes public services, protects vulnerable people and communities and ensures its development is underpinned by an equitable tax system.

This discussion paper does not claim to be the final word nor does it claim to have covered all relevant issues. *Social Justice Ireland* is concerned with issues of principles, paradigms and guiding values as well as with the specifics of problems and policies. It approaches all of these from a social justice perspective seeking at all times to tackle the causes of problems.

In presenting this discussion paper *w*e do not attempt to cover all the questions that arise around this topic. This paper is offered as a contribution to the ongoing public debate around these and related issues.

Context

Much has been written about the context in which Ireland currently finds itself. The National Economic and Social Council identified five interlinked crises at the core of Ireland's current problems; these were economic, social, banking, public finance and reputational[1]. *Social Justice Ireland* has written extensively on these issues[2]. We do not intend to repeat these discussions here. We simply highlight a few key points that may be of some help in clarifying the context within which a solution to Ireland's current series of crises must be found. We do this from a perspective that believes strongly that economic recovery and social solidarity are both required if there's to be a successful exit from the present recession and austerity.

Economic

The economic context in which Ireland currently finds itself is one of on-going recession which has resulted from three major economic factors:

- The collapse of the construction sector
- The collapse of the banking system and the decision by government that Irish taxpayers should rescue all of the major banks
- The international economic slowdown.

The resulting crisis is so severe that the image of 'war' has been invoked to characterise the response of Government[3].

One very obvious consequence was the huge increase in the Budget deficit as GDP fell, taxes plummeted, the cost of the bank bailout grew and Ireland had to borrow huge sums to pay its way.

These economic factors have contributed to a huge fall in the number of jobs available in Ireland combined with a huge rise in unemployment in the period 2007-2012. Domestic demand has fallen dramatically and Government projections see it falling again in 2013. This situation is being exacerbated by the lack of investment on a scale sufficient to reverse these trends. Unemployment is set to fall but this will occur, mainly, because emigration will continue.

Social

Despite taking almost €28bn out of the economy in tax increases and expenditure cuts since July 2008 Ireland still has 700,000 people at risk of poverty, falling domestic demand, record levels of long-term unemployment, rising emigration and 100,000 households on waiting lists for accommodation.

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[1] National Economic and Social Council, 2009, *Ireland's Five-Part Crisis: An Integrated National Response*.
[2] See, for example: Healy/Mallon/Murphy/Reynolds, 2012: *Shaping Ireland's Future: Securing Economic Development, Social Equity and Sustainability*;
[3] (Tánaiste, as reported in the *Irish Times* 15 December 2012).

Recent Government adjustments, particularly in Budgets 2012 and 2013, have placed an inordinate burden on low-paid and less well-off people. They hit people on low incomes, including the working poor, more than they hit the better off. The cumulative impact on those who are poor or vulnerable of the various initiatives taken by government in recent years has not been given sufficient consideration. In reality this cumulative impact is having devastating consequences for the weakest in society.

It is imperative that Ireland work its way towards reducing its budget deficit. However, other choices were available that would have produced much fairer outcomes. In reality, too much has been taken from those who can least afford to bear reductions in income and services and too little has been sought from those who can better afford to bear cuts in income and services.

Bailout

Another part of the current context is Ireland's bailout agreement with the International Monetary Fund (IMF), the European Commission (EC) and the European Central Bank (ECB).

There can be no doubt that the Irish Government and the Irish people have shown an exceptional willingness to tackle problems that are within their control. What can be questioned is whether or not the solutions currently being promoted are actually generating the changes they were meant to produce. While Ireland has met its targets on a wide range of issues the promised outcomes on growth, jobs, unemployment and investment are not materialising.

Of major interest in this context is the IMF's senior economist's (Olivier Blanchard) conclusion recently that the forecasts on which recent bailouts (including Ireland's) have been based were not accurate[4]. The Washington Post described it as: "a mea culpa submerged in a deep pool of calculus and regression analysis: The International Monetary Fund's top economist acknowledged that the fund blew its forecasts for Greece and other European economies because it did not fully understand how government austerity efforts would undermine economic growth.[5]" *Social Justice Ireland* has been pointing to this weakness in the troika's diagnosis of Ireland's situation since the bailout agreement was first agreed in 2010.

Need for a guiding vision

As decisions are being made within this very difficult context, a guiding vision that charts the future direction and shape of Irish society is needed. Such a vision should have a long-term perspective and act as a guide when policy choices are made. *Social Justice Ireland* believes that Ireland should be guided by the core values of:

- Human dignity
- Sustainability

[4] Olivier Blanchard and Daniel Leigh - *Growth Forecast Errors and Fiscal Multipliers*, IMF, January 3, 2013.
[5] The Washington Post, January 3, 2013.

- Equality and human rights
- The common good.

These values must be at the core of the vision for a nation in which all men, women and children:

- have what they require to live life with dignity, including sufficient income,
- have access to the services they need and
- are actively included in a genuinely participatory society.

Sustainability is a central motif for economic, social and environmental policy development. It is implicit in this that economic development, social development and environmental protection are complementary and interdependent.

Balanced regional and global development should also be at the heart of the vision of Ireland's future, along with the concepts of equality and a rights-based approach to the organisation of society.

The objective of sustainable international economic competitiveness will be a necessary component, along with the constant policy objective of ensuring that decisions are made in the interests of the common good, rather than to unfairly advantage individuals and vested interests over others.

At the core of such a vision should be a commitment to the common good. *Social Justice Ireland* understands the term 'common good' as "the sum of those conditions of social life by which individuals, families and groups can achieve their own fulfilment in a relatively thorough and ready way" (Gaudium et Spes 1965:74). This understanding recognises the fact that the person develops their potential in the context of society where the needs and rights of all members and groups are respected. The common good, then, consists primarily of having the social systems, institutions and environments on which we all depend, work in a manner that benefits all people simultaneously and in solidarity.

The National Economic and Social Council in its study of Ireland's five-part crisis states that "at a societal level, a belief in a 'common good' has been shown to contribute to the overall well-being of society. This requires a level of recognition of rights and responsibilities, empathy with others and values of citizenship".[6]

Need for a framework

If there is to be a guiding vision and the common good is to be protected then a more balanced framework is needed within which decisions can be made. There are two aspects to this:

1. There is need for an approach that has a much greater understanding of how government austerity impacts on a society's economic and social development.

[6] National Economic and Social Council, 2009, *Ireland's Five-Part Crisis: An Integrated National Response* (p.32)

2. There is a need for integration between the various parts of public policy that are seeking to address the various aspects of the crises and which form the core of such a framework.

For example, with further fiscal adjustments in prospect over the next few years it is vital that future cuts in pay and services should be confined to those who can afford to bear them. It is also critically important, for example, that greater emphasis be given to investment which must increase substantially if there is to be sufficient job-creation to reduce unemployment from its current dramatically high level.

Likewise there is need for an integrated approach. One of the major faults of the social partnership process was its relative failure to provide such an integrated approach. Some aspects of policy were highlighted over others because of the strength of particular negotiating groups. The resources available at a particular time were spent disproportionately to satisfy those with strong negotiating power. As a result there was a relative failure to address long-term structural problems. Some of these have been identified in *Social Justice Ireland*'s Socio-Economic Review[7] in which the authors state:

"Among these were:

- Failure to take action to broaden the tax base by, for example:
    - introducing a property tax;
    - removing existing tax exemptions which had no demonstrated benefit-cost advantage;
    - introducing user service charges.
- Failure to promote tax equity by, for example, introducing Refundable Tax Credits.
- Failure to overcome infrastructure deficiencies, such as broadband, public transport, primary health care, water, energy and waste.
- Failure to adequately address high energy costs.
- Failure to address high local authority charges on business.
- Failure to promote competition in sheltered sectors of the economy, such as professions.
- Failure to appropriately regulate the banking and financial services sector.
- Failure to manage the growth of personnel numbers in the public service."

Most people would recognise these failures now. However, there is a strong likelihood that similar mistakes may be made unless a comprehensive framework is put in place to guide the choices that will be made in the period immediately ahead.

[7] Healy/Mallon/Murphy/Reynolds, 2012: *Shaping Ireland's Future: Securing Economic Development, Social Equity and Sustainability*

Key elements of A Framework for Solidarity and Recovery

Social Justice Ireland suggests that the key components of a framework for solidarity and recovery should include:

- Public sector reform
- Taxation
- Public service Pay
- Investment and competitiveness
- Public services and public expenditure
- Debt
- Governance

Below we expand a little on each of these. Again, this is not meant to be the last word on any of these issues. However, how Ireland addresses each of these and how balance between these is maintained will decide the shape of Ireland's future for decades to come.

Public Sector Reform

It should be acknowledged that Ireland has continually sought to modernise and reform its public service systems and practices to ensure that it can continue to meet the needs and expectations of Government and citizens.

There have been a range of reviews of the public sector in whole or in part over many years. The most recent overall review was conducted by the OECD[8] in 2008 and found that the key public service reform challenge for Ireland was for the different parts of the Irish Public Service to work cohesively together, with a more integrated approach at the national and local levels. This would allow Ireland to more effectively identify and achieve wider societal goals, and to deliver more coherent services to citizens.

The OECD report identified the need for public sector reform in Ireland that would see the development of "new directions in which to further renew its agenda for public service modernisation, so that it continues to deliver improved outcomes for citizens, to respond to shifting and complex societal needs, and support business in gaining competitive advantage, thereby contributing to sustained economic success for Ireland".

There has been some progress in public service reform. However there has been a relative failure at the level of implementation.

A key issue that needs to be addressed is the values or the culture that underpins the public service. A public service ethos should underpin everything that the service does. This ethos should include a sense of dedication and commitment to the common good. Without such an ethos then the public service will be just another pathway to richer pastures.[9]

Social Justice Ireland supports efforts to develop a public service that is more efficient and effective. In particular, major progress is required in the following areas:

- Policy design and evaluation. Insufficient care is taken to identify relevant alternatives, to assess them fairly based on evidence and to publish the results. Little progress seems to be made in this area.

- The development of unique identifiers to be used throughout the public service for people, property and businesses. With appropriate safeguards, this would facilitate major improvements in the efficiency of the public service and the quality of service delivery to citizens. Little progress seems to have been made in this area.

- Alignment of service availability with the needs of citizens. Some progress has been reported in this area.

In discussing public sector reform and planning for the future it is important to realise that public services are not all delivered by the public sector. How these services are to be delivered in the future is a major issue that requires discussion.

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[8] OECD, 2008, *Transforming Public services: Citizen Centred = Performance Focused*.
[9] For an interesting reflection on these issues cf. Noel Coughlan, 2011: *Rethinking the Irish Civil Service* Studies: Summer 2011

Taxation

Social Justice Ireland believes that Ireland should increase its total tax-take to 34.9 per cent of GDP (which would still keep Ireland as a low-tax economy as defined by Eurostat). We also believe that it will be necessary to provide additional tax revenue to cover the annual cost of servicing the banking element of Ireland's debt. A rough estimate of what the latter might require would be €2.5b extra per annum. (In making this calculation we are assuming an Anglo promissory note restructuring and we calculate the cost of servicing €70b of bank debt at an average of 3.5 per cent per annum).

According to Eurostat the average, weighted tax-take among EU-27 countries is 38.4 per cent of GDP.[10] Eurostat shows Ireland's total for 2010 was 28.2 per cent of GDP so there is plenty of scope for movement. Only Lithuania (27.1%), Romania (27.2%), Latvia (27.3%) and Slovakia (28.1) take a lower proportion of GDP in tax. (Please note tax-take refers to all taxation and not just income tax.)

Increasing Ireland's tax-take is particularly relevant given the collapse of taxation revenues from 2008 onwards and the obvious and immediate need for Government to rebuild the Irish taxation base. According to the Department of Finance (2011), the total tax-take was 29.9 per cent of GDP in 2010 and is projected to be 30.6 per cent in 2013[11]. We project that Ireland's total tax-take will be 31.4 per cent in 2014 and 31.8 per cent of GDP in 2015 as measured by the Department of Finance. It is this low level of taxation that has placed the exchequer in such a precarious position and put so much unnecessary pressure on public services. While a proportion of the explanation for Ireland's current low overall tax level is related to the recession and austerity policies, a large part is structural and requires attention. The current low-tax model is not sustainable and must be addressed.

The total taxation figure represents not just those taxes collected centrally by the exchequer but also contributions to the social insurance fund and revenues collected by local authorities.[12] If the tax take were increased to the level proposed by *Social Justice Ireland,* significant additional revenue would be raised. In 2015 it would mean the total tax-take would be more than €5.3bn higher than that projected by the Department of Finance[13]. We believe Government should move in this direction.

It is obvious that Ireland can never hope to address its longer-term deficits in infrastructure and social provision if we continue to collect substantially less tax income than that required by other European countries. As outlined in some detail in previous publications, *Social Justice Ireland* believes that these tax reforms should not be attained through increasing income tax rates, but rather via reforming and broadening the tax base so that Ireland's taxation system becomes fairer. One initiative that might be considered in this context would be the introduction of an *effective* corporation tax rate of 10 per cent. This would mean that corporations would have to pay a *minimum* of 10 per cent of their profits in tax in Ireland.

[10] Eurostat, May 21, 2012: *Taxation trends in the European Union*.
[11] The Department of Finance numbers are drawn from the Budget documents. We recognise the percentages vary between Eurostat and the Department of Finance. The latter has a higher figure for Ireland. These numbers are calculated differently but the difference is not of major import here as the point being made remains valid with either set of calculations.
[12] There are also some EU related taxes but these are small in the overall context.
[13] In this we are using the Department of Finance's base for calculation. The Eurostat approach would provide a higher additional tax-take.

Public Service Pay

According to Budget 2013, the Exchequer Pay and Pensions Bill for 2013 will be €18bn. Public servants have already taken two pay reductions amounting to an average of 14%. Top salaries have been reduced by up to 30% and new entrants' pay has been cut by a further 10%[14].

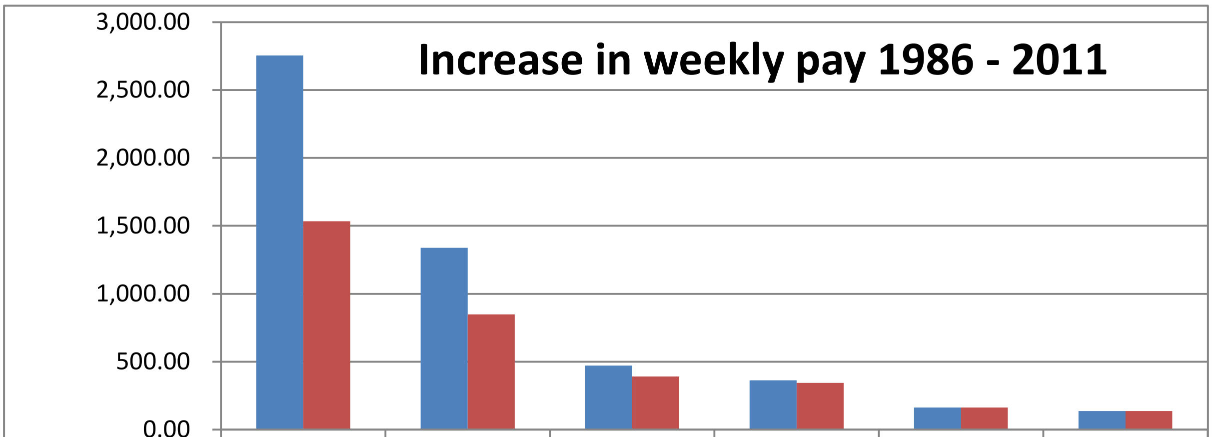
The reduction in public service pay rates and pensions that occurred in 2009/2010 is estimated to have produced gross savings for the Exchequer of €1.687bn[15]. The pay cap of €200,000 was introduced in 2011.

Despite these measures, the major differentials that developed over many years between the gross pay of those at the 'top' of the public service and those at the 'bottom' persist.

Research produced by *Social Justice Ireland* shows that the **gross** pay of TDs rose by €1,338 a WEEK in the 25-year period 1986-2011 while unemployment benefit rates only rose by €135 in the same period. Government ministers' **gross** pay rose by more than €2,754 a WEEK in the same period.

Social Justice Ireland's research also shows that over the period 1986-2011:

- The gross pay of clerical officers in the public service rose by €471 a week.
- The gross pay of a person on the average industrial wage rose by €362 a week.
- The contributory old age pension for a single person rose by €162 a week.



	Minister	T.D.	Clerical Officer	Average Industrial Wage	Single Contributory Pension	Single Person receiving Unemployment Benefit
Gross Weekly	2,754.08	1,338.44	471.27	361.92	162.35	135.84
Nett Weekly	1,533.89	848.27	391.93	343.93	162.35	135.84

[14] *Minister Howlin in Dáil Éireann, 5 December 2012*
[15] Implementation Body Public Service Pay Agreement 2010-2014, *First Progress Report*, June 2011 p. 7

The Public Service (Croke Park) Agreement 2010-2014 is concerned with a reduction in Public Service numbers and the maximisation of efficiencies and productivity in the use of resources through revised work practices and other initiatives. The Croke Park Implementation Group has reported that savings of €1.5bn (pay €810m, non-pay €678m) have been achieved in the first two years of the Agreement[16].

Government has indicated that it wishes to remove a further €1bn of gross pay/pensions by 2015[17]. Talks have commenced with trade unions to explore the possibilities. It has been reported that everything is on the table except core pay and compulsory redundancies.[18]

To provide a sense of the scale of the challenge involved in reaching this target *Social Justice Ireland* has analysed the gross savings in public service pay/pensions if the following adjustments were made:

For serving public servants

- Reductions are applied so that those on pay, including allowances, of €40,000 per annum or less suffer no pay reduction
- Those on pay over €40,000 experience some reduction in pay. The reduction starts low and rises thereafter so that bigger reductions are applied to higher pay. (Details of the formula used are set out in Appendix 1.)
- If the application of the formula would reduce pay from above €40,000 to below €40,000, pay is set at €40,000
- There is an absolute upper limit on public service pay, including allowances, of €120,000.

For public service pensioners

- Those on pensions of €40,000 or less are exempt from reductions
- For those on pensions of over €40,000, pensions are reduced so they are *pro rata* with the proposed new pay of serving public servants
- If the application of the formula would reduce a pension from above €40,000 to below €40,000, the pension is set at €40,000
- There is an absolute limit on public service pensions of €60,000.

[16] *Chairman of the Implementation Body: Report to the Oireachtas Public Accounts Committee 11 October 2012*
[17] *Minister Howlin in Dáil Éireann, 5 December 2012*
[18] *Irish Independent, 21 November 2012*

Details of this analysis are provided in Appendix 1. The analysis shows the actual impact on the salaries of a range of people with incomes currently above €40,000

It is interesting to note that full implementation of this approach would provide Government with over 80 per cent of the €1bn in gross savings it is currently seeking in public service pay and pensions. The actual saving would be a total of €822m gross.

The net saving (after pension levy, income tax etc.) would be around €365m.

This proposal could be extended to cover other groups depending on subsidies from the State e.g. some commercial semi-state companies and some banks.

Employees of any of these bodies would have their pay determined in accordance with the formula for the public service. In addition, as part of this proposal, payment to any person providing services to the public service e.g. lawyers, consultants, accountants, broadcasters, would be capped at €1,000 a day and commensurate reductions would apply to more junior staff.

Investment and Competitiveness

Budget 2013 marked the eighth fiscal adjustment to the Irish economy since the current crisis began in 2008[19]. The increases in taxes and decreases in public expenditure to date total almost €28bn - equivalent to 17% of 2013 GDP. This has been directly removed from the economy by government. This helps explain the large and sustained drop in domestic demand in the Irish economic since 2008. It also has a major impact on the provision of public services (cf. next section).

Based on the plans outlined in Budget 2013 the Government intends to remove a further €5.1 billion from the economy over two Budgets (2014 and 2015) - this does not account for any debt restructuring which may occur in 2013. However, if these plans are implemented, the overall sum of the adjustments from 2008-2015 will total €33 billion - equivalent to 18.17% of the GDP forecast for 2015.

It has become increasingly apparent that such adjustments are putting the domestic economy under too much pressure. The domestic economy will continue to shrink in 2013 driven by further reductions in household and government spending. Budget 2013 projects flat employment levels and a small reduction in unemployment, most likely driven by emigration rather than recovery. The lack of investment is critical. Without investment there will be no jobs. Without jobs there will be no recovery. Without a recovery Ireland will be stuck in austerity for the foreseeable future.

When taken together with the growing costs of servicing the national debt, *Social Justice Ireland* believes there are two obvious conclusions:

- An investment programme, off the books if necessary, is urgently required to generate increased employment.
- Ireland’s banking debt needs to be restructured (we return to this issue below).

There is also an issue with competitiveness. Ireland lost competitiveness throughout almost all of the last decade. While national income climbed, so too did wages. Simultaneously, Ireland’s infrastructure, both physical and technological, failed to keep pace with the rest of Europe while many of our public institutions performed badly. Overall, while there was progress in some sectors, we slipped backwards in many key sectors relative to our international competitors – a challenging phenomenon for an export-orientated economy.

Without doubt, rebuilding this competitiveness must be a key feature of Ireland’s recovery. Already unit labour costs have fallen relative to our EU counterparts and this trend should continue. Irish wages are likely to be static at best while other EU countries will record small increases. However, as the World Economic Forum’s *Global Competitiveness Reports* have pointed out, competitiveness is about more than just labour costs. Therefore, as Ireland recovers attention needs to be paid to the other key areas of competitiveness, including infrastructure, technological connectivity, public sector efficiency, innovation, education/skills and the cost of doing business and living in Ireland.

[19] For a more detailed outline of the numbers contained in this section cf: *Social Justice Ireland*’s ‘Analysis and Critique of Budget 2013’, published December 6, 2012.

Public Services and Public Expenditure

What level of services should be available, how these services are to be delivered and how they are to be financed are issues that need to be discussed across society. Agreement on the future shape of Irish society is crucial if these questions are to be answered. Agreement on this issue is also crucial if Ireland is to plot a pathway from its current situation towards a future where these services are provided and financed at the level sought and agreed.

Cuts in both national and local social services and support initiatives are being made at a particularly difficult time, just when demand for these services is rising. Public services and the infrastructure that enables such services to be delivered are being eroded. This will have very negative consequences in the longer term.

All too often decisions made in times of crisis focus on short-term gains and savings with no regard for their potentially negative long-term consequences. Cutting funding for particular disability services, for example, may save money in the short term but can also imprison people with a disability in their own homes and result in increased acute hospital costs subsequently. In reality, many decisions made during the current series of crises are set to have such negative effects.

Many public services are provided by community and voluntary organisations. These have come under huge pressure in recent years as the recession has forced an ever-growing number of people to seek their help on a wide range of fronts. But, at the very moment when the demand for their services increased, Government has reduced the funding available to many of these organisations.

It is noticeable that the scale of cutbacks by Government in the funding for provision of public services by the community and voluntary sector is proportionately much larger than for public services provided directly by the public sector. There has been no adequate explanation for this inequitable disparity.

The impact of these cuts and the threats of further similar ones continue to undermine the social infrastructure within Irish society and its ability to cope in the present circumstances.

Social Justice Ireland believes there are three key questions to be addressed as part of a Framework for Solidarity and Recovery:

- What level of services Irish people want?
- How are these services to be financed?
- How are these services to be delivered?

It is not possible to deliver continental European levels of public service with United States levels of taxation. Nor is it reasonable to expect that the public sector, or the market for that matter, should deliver all public services. The future is likely to see a situation where public services are delivered by the private sector and the community and voluntary sector as well as the public sector.

Debt

The annual cost of servicing Ireland's national debt has increased to become a central component of total government expenditure in recent years. In 2007, prior to the collapse of the economy, the banks and the tax take, just less than 3% of total government revenue was used to service the national debt. Since then the gross national debt has climbed from €25bn to almost €170bn.

In 2013 servicing the national debt will require over €9bn - equivalent to 15.6% of total government revenue. Naturally, as this interest bill increases, the pressure to cut other areas of expenditure increases. This is especially the case given the restrictions of the bailout agreement with the Troika.

It is important to recall how Ireland took on the debt accumulated by banks. As the banks came under huge pressure, institutions such as the European Central Bank were adamant that no bank should be allowed to default in the EU. The alternative, they believed, would be serious 'contagion' and the possible failure of other banks which would put the euro under major pressure.

Countries such as Ireland were pressed by international institutions to 'socialise' their debt by agreeing that the state would take full responsibility to repay all the debts accumulated by private banks. In practice this would move responsibility for repaying these debts from the banks to the State. Those who had gambled their money and lost (bondholders and many other financial institutions across the EU and beyond) would, as a result, be repaid in full.

The repayments would be funded by increased taxes and cuts in public expenditure in Ireland. In practice, this would mean a programme of austerity would have to be imposed. Poor and vulnerable people and ordinary taxpayers would pay for debts they had no hand, act or part in accumulating.

There is something profoundly unjust, unfair and immoral about this approach. Yet it was insisted upon, particularly by German and French political leaders as well as the European Central Bank.

Since the banking collapse, approximately €64bn has been used to bailout the various banks. Of this, some €20bn was not borrowed, but rather taken from the National Pension Reserve Fund (NPRF) and diverted to the banks. Little of this money is likely to return to the NPRF exposing the exchequer in the long-run to the various pension costs the fund was intended to offset.

Of the total national debt at the end of 2012 25% was borrowed as part of the bank bailout. A large proportion of this is comprised of promissory notes for Anglo Irish Bank (approximately €30bn).

The €64bn cost will increase in the future as it does not include, for example, the annual interest repayments Ireland will have to make on borrowings to pay for the annual Anglo promissory note repayments. The € 64 billion also doesn't include 'contingent liabilities' that may become real depending on NAMA's financial performance and whether the mortgage crisis deepens.

Social Justice Ireland believes that this situation requires a number of reforms:

- Government needs to restructure the national debt so that the annual burden is reduced;
- In addressing the banking component of the national debt, Government should seek a full write-off of the Anglo promissory notes—this is money we are paying ourselves;
- In addressing the remainder of the banking debt, the Government should secure a significant write-off of the debt; this is debt which is also predominantly derived from

inappropriate lending by international institutions and bond holders to Ireland. It is not our debt.

Reducing Ireland's interest burden would notably assist the Government's fiscal situation. In the long-term, however, a significant write-off of debt seems essential If Ireland's economy is to recover any time soon.

Social Justice Ireland believes it is now time for the international institutions and the national governments in countries such as Germany and France to take on their share of the responsibility for what their banks have done.[20]

[20] This article from the Wall Street Journal website may be of interest in this context: http://online.wsj.com/article/SB10001424127887324624404578255103590739948.html?mod=ITP_opinion_0

Governance

The current series of crises risks a regression in rights, social protection and democracy. On the one hand there is a danger that people put all their trust in the market as the only real source of solutions to the challenges being faced. On the other hand, there is a risk that people expect Government to resolve all the challenges effectively and fairly. Both of these extremes must be resisted.

Because resources are scarce it is important that all stakeholders recognise the importance of securing the wellbeing of all. There must also be recognition of the need for social, environmental and intergenerational justice.

To be effective, an approach is required that is characterised by a spirit of reciprocity, mutual accountability and a shared commitment to reducing social inequalities and inequalities of influence.

We live in a world in which no-one is totally independent or immune from the damaging consequences of other people's actions or failure to act. The most advantaged population groups must not ignore their interdependencies and responsibilities vis-à-vis the rest of society. This is especially important when the least advantaged see their achievements in terms of access to rights, public services and common goods threatened.

It is very important that all sectors of society work together and share responsibility for combating the causes of inequalities, poverty, insecurity and discrimination in a way that is commensurate with their position and resources.

Taking a 'shared social responsibility' approach would require individuals and institutions, both public and private, to be accountable for the consequences of their actions or omissions. This would apply to such areas as the protection of human dignity, the environment and common good, poverty and discrimination and the pursuit of justice, development and social cohesion.

It is clear that all individuals and institutions do not have equal responsibility in each of these areas. Some have much greater resources, power or capacity and, consequently, have greater responsibility. But all have some capacity and, consequently, some responsibility.

For such an approach to work effectively would require much greater transparency and accountability, much greater access to knowledge and a deliberative approach to decision-making. It would require a new approach to responsibility in a context of interdependence.

The Council of Europe produced a draft of a new Charter on Shared Social Responsibilities in 2011. (Council of Europe 2011) It could provide a very good basis for proceeding on this issue.

Of particular importance in this approach would be the engagement of those who are affected by a decision, in the process of developing those decisions. If people are to take genuine responsibility for the decisions made and the actions taken then they must be part of the process that produced the decisions and the actions in the first place.

Conclusion

This is a crucial moment for Ireland. Critical choices are being made. It is essential that a guiding vision of Ireland's future be spelt out to guide these choices. It is also crucial that a framework be identified to ensure that all these choices are developed in an integrated manner. This discussion paper is a contribution to the development of such a vision and framework.

Decisions are currently being made on Ireland's bank-related debt, on public service pay and on public sector reform. Decisions are also being made on an on-going basis on issues such as taxation, public expenditure and the level of investment. These decisions have major implications. They will impact on the level of public services available in Ireland in the future and on the level of employment and unemployment. They will impact on poverty, economic and social infrastructure and domestic demand. They will determine whether or not Ireland manages to reduce its budget deficit and begins to pay its way. These decisions will, in fact, shape the future of Irish society.

Of particular concern at this moment is the need to ensure that the various aspects of Ireland's current crises are addressed in a coherent and integrated manner. Choices should be made on the basis of the common good. Resources should not be prioritised to protect the interests of those who are strong, powerful and/or vocal.

As pointed out already, *Social Justice Ireland* believes that the focus of both Government and the troika has been disproportionately concentrated on reducing the deficit. Such reduction is important and required. However, reducing the deficit by creating a fractured society, a weak economy and persistently high unemployment is not a recipe for recovery.

Ireland needs a new approach which prioritises investment, promotes public services, protects vulnerable people and communities and ensures its development is underpinned by an equitable tax system.

This discussion paper does not claim to be the final word nor does it claim to have covered all relevant issues. It is offered as a contribution to the ongoing public debate around these and related issues.

Appendix 1

Some details of one proposal regarding serving public servants and pensioners

The scope of this proposal includes everyone who is working in or for Government and everyone who is working in or for an organization that is subsidized by Government. The following are included:

All public officeholders; civil and public servants; judges; banks which benefit from subsidies or guarantees; public service pensioners; public and voluntary hospitals; HSE; CIÉ, RTÉ; representative, voluntary and community organizations which receive state subsidy; all semi states which are not financially independent; consultants, lawyers etc. doing work for the public service.

The calculations in this Appendix refer only to 292,000 public servants and some 139,000 public service pensioners and the exchequer savings that follow from this aspect of the proposal.

The terms of the proposal for public servants and pensioners are that no reductions are applied to those public servants on low and modest pay/pension and progressively greater reductions are applied to those on higher pay/pension.

For serving public servants

- Reductions are applied so that those on pay, including allowances, of €40,000 per annum or less suffer no pay reduction
- Those on pay over €40,000 experience some reduction in pay. The reduction starts low and rises thereafter so that bigger reductions are applied to higher pay according to the following formula:

Portion of pay above €40,000	*Proposed reduction*
Portion of pay greater than €40,000 and less than or equal to €50,000	10%
Portion of pay greater than €50,000 and less than or equal to €60,000	15%
Portion of pay greater than €60,000 and less than or equal to €70,000	20%
Portion of pay greater than €70,000 and less than or equal to €80,000	30%
Portion of pay greater than €80,000 and less than or equal to €90,000	40%
Portion of pay greater than €90,000 and less than or equal to €100,000	50%
Portion of pay greater than €100,000 and less than or equal to €125,000	60%
Portion of pay greater than €125,000	65%

- If the application of the formula would reduce pay from above €40,000 to below €40,000, pay is set at €40,000
- There is an absolute upper limit on public service pay, including allowances, of €120,000.

For public service pensioners

- Those on pensions of €40,000 or less are exempt from reductions
- For those on pensions of over €40,000, pensions are reduced so they are *pro rata* with the proposed new pay of serving public servants
- If the application of the formula would reduce a pension from above €40,000 to below €40,000, the pension is set at €40,000
- There is an absolute limit on public service pensions of €60,000.

Impacts on gross pay and gross exchequer savings

Substantial savings would arise from the proposal. Gross payroll savings of some €775m would arise from serving public servants and a further €47m from public service pensioners – see Tables (i) and (ii) – giving a total of €822m.

For serving public servants, the application of the above formula results in gross pay reductions for different pay ranges as follows:

Table (i) Proposed reductions in gross pay of serving public servants

Number of public servants	Current average pay incl. allowances	Proposed pay incl. allowances	Proposed reduction	Gross Exchequer saving €m
18,350	€22,295	€22,295	-	-
33,686	€29,795	€29,795	-	-
78,536	€39,795	€39,795	-	-
69,010	€49,795	€48,816	€980	€67.6m
40,467	€59,795	€57,326	€2,469	€99.9m
23,182	€69,795	€65,336	€4,459	€103.4m
13,665	€79,795	€72,357	€7,439	€101.6m
6,255	€89,795	€78,377	€11,418	€71.4m

3,041	€99,795	€83,398	€16,398	€49.9m
2,112	€117,295	€90,418	€26,877	€56.8m
975	€142,295	€99,553	€42,742	€41.7m
2,721	€179,795	€112,678	€67,117	€182.6m
292,000	**Totals**			**€774.9m**

This table is derived from PQ39606/12 of 19 September 2012. Allowances of €1.4bn are added

(Press Statement Minister Howlin 18 September 2012) and apportioned evenly across the public service

For public service pensioners, the application of the above formula would result in gross pension reductions for different average gross pensions as follows:

Table (ii) Proposed reductions in gross pensions for retired public servants

Number of pensioners	Current pension after PSPR	Proposed pension	Proposed reduction	Gross Exchequer saving €m
8,759	€8,064	€8,064	-	-
16,080	€11,046	€11,046	-	-
37,488	€14,882	€14,882	-	-
32,941	€18,713	€18,713	-	-
19,316	€22,504	€22,504	-	-
11,066	€26,213	€26,213	-	-
6,523	€29,911	€29,911	-	-
2,986	€33,772	€33,772	-	-
1,452	€37,548	€37,548	-	-
1,008	€44,195	€40,000	€4,195	€4.2m
465	€53,547	€40,000	€13,547	€6.3m
1,299	€69,959	€42,254	€27,705	€36.3m
139,382		**Totals**		**€46.8m**

Pensioners are allocated to serving average pay (see Table (i)) but only pensionable allowances are included (estimated from Review of Public Service Allowances, DPER, September 2012). It is assumed that on average pension recipients receive ¾ of full pension. It is likely that the table underestimates Exchequer savings.

Net impact on public servants, pensioners and the Exchequer

Reductions in the gross pay and pensions of public servants would be accompanied variously by reduced liability for pension levy, income tax, USC, PRSI etc. As these reduced liabilities vary according to the (unknown) household circumstances of public servants and pensioners, it is not possible to calculate these effects precisely. However, it is likely that the net loss for higher paid public service workers and pensioners and the corresponding net gain for the Exchequer would amount to around €365m.

Further details are available from *Social Justice Ireland*.