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# EU 'Austerity' Deal won't work – Irish Workers face a grim Future

**by Frank Connolly**

The EU summit on Friday 9 December, during which 26 out of 27 member countries agreed on a new intergovernmental treaty including a "fiscal compact" to enforce budgetary discipline on states which breach the 3% deficit (of GDP) limit, will not provide the growth strategy that is necessary to help deeply indebted euro zone countries out of recession.

The fiscal compact proposals will not solve the problems of the euro for the peoples of Europe but will instead "institutionalise austerity" by enforcing an annual structural deficit that does not exceed 0.5% of GDP. A strategy for growth and for a rapid job generating recovery is completely missing. Without such a strategy there is no relief in sight for the stressed countries.

Nor did this summit, dominated by German and French political and financial considerations, include any suggestion of debt restructuring, or euro bonds or any kind of fiscal transfer mechanism to direct resources from prosperous regions to those which are struggling.

The key fact resulting from this European Council is that countries which are burdened by unsustainable debt will have even less prospects of growth. This is certainly the case for Ireland where the European "fiscal compact" will greatly restrict the policy space of future Irish governments. This is perhaps the greatest threat to recovery for an economy that is reeling from the weight of the 2010 EU/ECB/IMF high interest loan facility of €63 billion and an enormous sovereign debt burden following the recapitalisation of the main banks.

The proposed introduction of automatic fines for governments that breach the 3% deficit limit will indeed place substantial difficulties on countries like Ireland which require economic growth to escape from their current debt burden.

For the Irish economy this Fiscal Pact or German designed "austerity" package, as it is now being described by opposition parties, cannot have arrived at a worse moment as unemployment rates exceed 14.4% for the third quarter of 2011, with the long term jobless accounting for more than 56% of the total out of work. In the same period the Irish economy has contracted at its fastest rate in two years.

With the state's finances totally dependent on ECB funds and a budget in early December which took a further €3.8 billion out of the economy through public service cuts, reductions in capital spending and mainly indirect taxes, the outlook for any recovery this year looks gloomy and official agencies have just down-graded growth projection for 2012 to just 1%. The faltering US, British and European economies are of particular concern for a country that is largely reliant on an export-led recovery.

For the Irish trade union and progressive political movement the outlook is stark. On the dark horizon is the outworking of what appears to be the strategy of European, mainly German finance capital, to achieve the impossible – growth through austerity. In any case where it has been claimed to have worked it has always been accompanied by a loose monetary policy by the relevant central bank. But, so far, the European Central Bank has been precluded from such an intervention.

Instead, the recipe is to slash pensions, dismantle people's rights at work through what are euphemistically called "labour market reforms" and sell off lucrative state assets to corporate vultures at bargain basement prices. The policy is to jettison what remains of the gains made by working people across Europe in the context of the post-war settlement. The objective is, apparently, to ditch as many of the achievements of so called "social Europe" so that European Capital can participate more effectively in the global race to the bottom.

Unsurprisingly, the austerity-led strategies are being played out at a time when centre right, and overtly right-wing, parties dominate the European political map. The possibility, however slim, of a return of socialist or social democrat governments in elections this year and next in Germany, France and indeed the survival of Barack Obama for a second term in the US offers some hope for the restoration of sanity to global fiscal and economic policies.

It may be too little too late, at least in the case of Ireland, where already €20.6 billion has been taken out of the economy over the past five years and, as a consequence of the EU/ECB/IMF loan, a projected €12.4 billion will be sliced over the next four. Since 2009, the equivalent of 13.4% of GDP has been taken out of the economy with a further 8% to be extracted by 2015.

This "adjustment" has involved unprecedented cuts to the pay and pensions of workers in the public service and a severe deterioration of the services on which those on social welfare, the sick, the elderly and the vulnerable depend. It has meant that spending on vital capital projects which could create jobs for the tens of thousands of construction and other workers who have lost their jobs since the collapse in 2008 has been sharply reduced. While export-based private industries have sustained employment and wages, the international outlook is far from favourable while the domestic manufacturing, retail and other potentially wealth producing sectors are flat and falling.

Overshadowing all of this is the massive sovereign debt burden which is expected to peak close to 120% of GDP in 2013 (not including the enormous bank liabilities). The total banking (contingent and actual) and sovereign liabilities of the state are close to a stratospheric 235% of GDP.

It is evident that the Irish state cannot reduce this to any acceptable level without an EU supported write-off through the issuance of ECB guaranteed bonds and a series of other agreed measures. It is unacceptable to most Irish citizens that the state is forced to pay annual promissory notes on the debts of defunct toxic banks encouraged to borrow at low interest during the sustained and artificial property bubble, with the encouragement of German, French, British and other finance houses now seeking the return of their money with heavy interest.

It is accepted that domestic blame lies with errant and incompetent political leaders who encouraged the evolution of "blind eye" regulation across the banking and financial sectors. In late 2010, a hundred thousand Irish workers took to the streets of Dublin on the week that the EU/ECB/IMF troika arrived in town to take control of their country's economic destiny. The anger and despair, while not mirroring the street violence in Greece, was palpable and resulted in the routing, in the February 2011 general election, of the centre right Fianna Fáil party which dominated three successive centre right governments since 1997.

In a dramatic and historic shift, some 40% of voters supported for broadly left wing parties, which represented a doubling of their traditional vote in the country. The Labour Party, the largest left-wing party, entered a coalition government with Fine Gael (FG), which has now replaced its long-time adversary, the now seriously diminished Fianna Fáil, as the main party of the right. Government policy reflects the roughly 2:1 power balance between Fine Gael and Labour which in the recent December budget managed to ensure a 56:44 ratio of public spending cuts to taxation, compared to the 75:25 envisaged in the FG manifesto.

Major internal government battles continue on issues relating to the mechanisms that protect low-paid workers, on the right to collective bargaining which is yet to be enshrined in Irish law and to which the Labour Party is committed and on the future of publicly funded community employment and other welfare schemes which provide assistance and incomes to the most vulnerable and their communities.

The health and education budgets are also under strain while an agreement that protects the pay and jobs of public sector workers in return for deep rationalisation and cost savings across the administration of government-provided services is under pressure from employer groups and right wing forces, encouraged by a compliant media, seeking to make those least responsible take the burden of the economic and financial collapse. Meanwhile, no coherent or serious effort is made to tax the considerable number of people in Irish society who have accumulated wealth at home and abroad. The gap between those at the top and those at the bottom continues to widen with reports calculating that 5% of the population controls some 48% of the country's asset wealth. To illustrate the scale of inequality it is worth noting that Ireland has the second lowest tax take as share of GDP across the EU 27 in 2009 and was ranked 27th out of 34 across the OECD in that same year (source: Eurostat and OECD).

Modest proposals made by SIPTU (Services Industrial Professional and Technical Union) to incentivise well-endowed Irish pension funds to raise approximately €4 billion – about 5% of current pension fund balance sheets – for investment have yet to be adopted, although they are under consideration by government. Together with €2 billion from the residue of the National Pension Reserve Fund this would generate tens of thousands of jobs providing the route to growth.

Clearly, the challenge facing the trade union and progressive movement in Ireland, and globally, is truly awesome. If the EU insists on imposing even greater austerity without any prescription for recovery the Irish people may well resist any invitation to alter existing treaties through referendum change. A new, fairer way forward must be found.

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