Ulster Bank

Like looking for a needle in a haystack

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With hindsight, it is clear that the Taoiseach should have made a state of the nation address early last December once the true state of the public finances became known.

Instead, two months were spent debating before action was taken and the public sector now feels hard done by, pouring their energies into futile demonstrations and putative strikes.

Indeed, the debate on the pensions levy has become so warped that it is now widely regarded as "unfair" that the lower paid should have to bear a greater percentage increase after-tax than the better off.

This pays scant attention to fact that we have a progressive tax system designed to ensure that higher earners pay more tax when incomes go up. The corollary is that the reverse has to apply when incomes fall otherwise we are doubling up.

In addition, the public sector unions have successfully propagated the myth that their members are being asked to bear an unfair share of the burden of adjustment.

This reflects the piecemeal fashion in which the measures are being introduced. It was captured neatly in an ICTU ad last week which said that they accepted the need for €2 billion savings but felt that the burden should be shared equally.

The ad would have been more accurate had it stated that ICTU accepted the need for €20bn savings and that the public sector were lucky to have been asked for only 10% of the total required.

Assuming that the proposed measures are implemented, the Government will have secured €3bn, including another €1bn in 2010 from the termination of the wage agreement or 15% of the total.

In an attempt to inject some balance to the debate, it is worth considering where the remaining €17bn might come from.

There should be no doubt that this will involve draconian increases in tax and further swinging cuts in public spending.

It is hard to see how An Bord Snip could secure more than, say, another €5bn no matter how many bodies they abolish or how many programmes they slash. The prospect of another 10% cut in public sector pay rates, €1.7bn, must be a real one.

Equally, it is hard to see how this can be achieved without, say, a 10% cut in social welfare rates, another €1bn. This can be justified given that rates need to fall by 7.5% anyway to unwind the unwarranted 3.25% increase in the last budget and to match the 3.25% fall in the CPI this year.

These are the type of hitherto "unthinkable" measures that will have to be considered.

However, even so, it is clear that cutting more than €5bn from spending will be next to impossible. We are forced, therefore, to turn to higher taxes for, say, another €5bn.

A €1,000 tax on all houses would yield €1.5bn, and carbon taxes perhaps another billion, leaving €2.5bn to be found from income tax, i.e. a further 20% increase in everyone's existing income tax bill. The average taxpaying unit earns between €75,000 and €100,000 and pays about €17,300 income tax. Their bill would increase by €3,500 per annum.

At this stage, we are €10bn to the good, leaving another €7bn to go. It is simply not possible to imagine this coming from either additional spending or further tax increases.

The public capital programme therefore will have to be abolished. This would yield €6bn, leaving us still €1bn short of target. Would someone pass me the smelling salts please?

Pat McArdle, Irish Examiner 23rd February 2009