

# THE CITIZEN

Issue 3 Autumn 2010

## Budget Choices in a Civic Republic: Why Economic and Political Equality Needs to be at the Core of Budget 2011

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What might we expect in Budget 2011? In better times, budgetary strategy is about determining who gets what in society; in recessionary times, we are led to believe it is more about who will lose what. The government has framed the 2011 budget in a way that suggests it has no choices. We know the government has targeted €3 billion savings in the 2011 Budget, the same in Budget 2012 and €2 billion savings in Budget 2013. However, in April, the EU insisted that capitalisation of Anglo Irish Bank be classified as public expenditure. During May, international interests rates and costs of debt servicing increased in line with the Greek and emerging Spanish fiscal crises. We can expect these savings targets to be revised upwards.

That is not necessarily to say that we should necessarily accept these savings targets. Even in recession, there is still wealth in Ireland. Irish GNP and GDP figures are still high in historical and global comparative terms. We need to ask where is this money, who has it, and how can it be distributed in such a way as to maximise the common good. The British election debate has brought into sharp focus the fallacy of a deflationary budgetary strategy, which only serves to suck money out of local economies, destroying the capacity for economic recovery. The Irish government still has choices in this budget: it could extend the time and framework for managing the public deficit over a longer period; it could borrow not just to save the banks but also to invest in job protection and creation or to protect the poorest from budget cuts; or it could choose to tax the still substantial wealth in Irish society.

Assuming the government does not listen to such common sense, we then need to ask how savings (likely to be amended upwards) will be realised. The class, gender, and other social consequences of economic and fiscal policy need to be recognised and placed at the centre of this debate. In the absence of a political choice or decision to amend the time frame or borrow more, savings can only be realised through direct cuts in public sector wages or social welfare payments, more general reductions in public services, and/or increases in taxation. Last year, the government decreased both social welfare payments and public sector wages and more generally cut public expenditure. Taoiseach Brian Cowen sold this approach as 'sharing the pain,' 'fair,' and 'protecting the most vulnerable.' However, as The Poor Can't Pay campaign has shown, the budget directly hurt the most vulnerable<sup>1</sup>. The Poor Can't Pay evaluation of Budget 2010 showed that the poor did pay and that they paid disproportionately for the cost of fiscal rectitude in budget. They paid with direct abolition of the Christmas bonus and a direct reduction of €8 per week in the lowest payments (4.1 per cent decrease in the basic rate), extra charges for social rent, and charges on medical card prescriptions. This overall reduction of 6 per cent in the weekly income of Ireland's poorest households will of course impact on consistent poverty. There is already evidence from the Society of St. Vincent de Paul and others of a greater degree of food poverty, fuel poverty, housing poverty, and indebtedness. Nor was there sharing of pain. The richest earners in both the private and public sectors were protected with no income tax increases and, in the public sector, smaller than average reductions in higher grade wages. There is, of course, a class dimension to all this: it is the working class and, in particular, working-class women who depend most on welfare and suffer most when welfare and public services are cut.

This raises the question of what is meant by 'fair' and 'sharing the pain,' and points to how dangerous these concepts are as guidelines for public policy. We are fooled into accepting the lie that it is fair to treat everyone the same. But it is not fair when Ann on €200,000 per annum and Mary on €20,000 per annum both lose 10 per cent of income. For Ann's family, such a cut of €20,000 means less money to save or invest; for Mary's family, a cut of €2,000 means a significant deterioration in quality of life, lower quality food, going into debt for basic utility bills, and less social interaction. Not being able to afford a second holiday does not cause the same level of pain as not being able to afford your children's school books.

If fairness and sharing pain are not useful measures, by what criteria should we judge the budgetary policy of a civic republic? – what civic republican values can act as litmus tests for government budgetary policy? Equality and freedom are abstract values but can also work as practical policy objectives of a civic republic. In a civic republic, we expect to find practical implementation of the principles of mutual protection and empowerment. A civic republic guarantees its citizens freedom from private power or *dominium*: a gender equality litmus test would show whether the budget enables women's economic independence and equality.

A principle of freedom from public power or *imperium* would involve effective mechanisms for public scrutiny, public control, and a free society enabled and empowered to publicly voice its dissent about budgetary strategy.

## Equality

A civic republican value of equality would be translated into policy and institutions by way of policies that promote mutual protection and social justice through a minimum income; employment rights; and the basic infrastructure to provide for basic needs, such as education, housing, health, income, and legal aid. The budget should maintain and increase Irish social expenditure, so public services can be maintained and developed. A starting point for a civic republic would be to guarantee an absence of entrenched poverty. The government recognise that almost five per cent of the population lives in consistent poverty (they live on less than sixty per cent of median disposable income and experience the absence of certain essential goods). It is government policy in the National Social Inclusion Strategy to reduce the number experiencing consistent poverty to below two per cent. It is hard to see how this can be achieved in the context of social welfare cuts. In *The Spirit Level* (2008), Wilkinson and Pickett make the argument that equal societies almost always do better. They argue that there is an incontrovertible correlation between equality and the well-being of society as a whole and that the more unequal the economy the more dysfunctional the society. A national policy of reducing the level of income inequality or relative poverty should be a basic and fundamental objective for a civic republic. No matter which measurement is used (gini coefficient<sup>2</sup>, relative income poverty, or income quintiles), Ireland is ranked joint ninth highest of the EU 25 and in the highest rankings of the OECD for the numbers living in relative income poverty. Ireland, despite EU recommendations to the contrary, refuses to set a target for lowering relative income poverty. In fact, the danger is that Budgets 2010 to 2012 will further impoverish the 14 per cent of the Irish population already living in relative poverty and bring more and more people into that net.

Clearly, a government committed to eradicating poverty and increasing equality would give increases in social welfare payments a priority call on increased resources. The complete absence of social welfare in the agenda of both government and public sector unions negotiating the March 2010 Croke Park deal stands as an indictment of how this republic values equality or espouses mutual protection. Of course, increasing social welfare rates is not the only way to achieve income equality. Wealth is the opposite side of poverty, and a budget seeking to achieve equality should avail of policy instruments that narrow income differentials by narrowing the gap between the highest incomes and the median income. This can be done through a maximum wage policy, in which no wage could be more than a specified multiple of the lowest. For example, if the minimum wage was €18,000 per annum, a multiple of seven for the upper limit would ensure a maximum wage of €126,000. A reduction in inequality and redistribution of wealth could be achieved through a combination of statutory wage caps and taxation measures.

A civic republic can not maintain high quality, accessible public services without the levels of taxation necessary to fund those services. The tax level should be benchmarked against at least the average EU tax take, and taxes should be collected in a progressive way, with the tax base including all forms of wealth and high compliance enforcement. Tax reliefs should be minimal, standard rated, and used only for employment creation; social gain; and to promote environmentally, economically, and socially sustainable behaviour. Tax shelters and rules that facilitate tax exiles should be eliminated. Figures from the Revenue Commissioners for 2008 show sixteen hundred PAYE earners each earning over €1 million after tax and thirty-three thousand each taking home between €200,000 and €1 million. In practical terms, Budget 2011 could access this wealth through a property tax; an increase in the top tax rate for high earners; the abolition of remaining discretionary tax allowances; and the standard rating of pension reliefs. The political decision not to pursue a tax-led strategy for managing the public deficit has implications for public expenditure levels, redistribution of wealth, and inequality.

Economic policy should seek to eliminate income, pay, and employment gaps between groups, paying particular attention to women and members of minority ethnic groups. Gender equality should be a litmus test for a civic republic. The Irish social welfare system perpetuates a male bread-winner model of welfare, in which over 150,000 women are treated as the dependent spouses in their households and men are paid their spouses' social welfare payments. This system not only denies women economic independence and personal freedom but also renders them invisible in the policy system and denies them the right to participate in labour market integration programmes. A policy objective of individualising the tax and welfare system is a basic requirement for a civic republic.

## Freedom and the Right to Work

In a civic republic, freedom and respect are rights that are not conditional on the whim of others and not given by others as free rein. The International Labour Organisation stresses the importance of work, decently paid and freely chosen, as a fundamental right. One way in which freedom is denied in the labour market is to keep social welfare at such a low level that people are forced by poverty to take employment regardless of pay and conditions. Reductions in social welfare not only force people to take up employment but are also part of a larger strategy to drive down basic standards and the minimum wage and to force people to take jobs at these reduced rates. The Irish minimum wage is a basic benchmark of social

protection and a statement of a bottom line in our labour market. Contrary to the myths employers and others propagate, the present minimum wage of €8.65 per hour is not one of Europe's highest. Compared to other EU countries, it is twelfth highest when measured as a percentage of average monthly wage; ninth highest when measured in purchasing power parity; and sixth highest when measured by hourly wage rates. Even with this minimum wage rate, 116,000 workers (6.6 per cent of all workers) are below the poverty line, and the working poor make up 24 per cent of all those in poverty and 40 per cent of all households in poverty. Reducing the rate will deepen their poverty and draw more workers into poverty.

Work activation, the term used to describe a policy objective of moving people of working age from social welfare into paid employment, has been the cornerstone of Irish anti-poverty policy. However, there are positive and negative ways of approaching models of activation. Budget 2010 heralded a new sanction by which a claimant who fails to take an offer of employment, education, or training will have the full adult rate of €196 per week for Job Seeker's Allowance reduced by almost one quarter to €150. Younger adults, aged 19 to 24, will have their payments reduced by half to €100 per week. The recent policy decision to restructure the income support functions and employment support services into a new Department of Social Protection signalled a further shift towards conditionality in Irish social policy. Under the guise of activation, Budget 2011 will likely see two new policy initiatives: first, those on job seekers payments will be required to demonstrate more job seeking activity; and second, those on other income supports will be brought under similar conditionality and activation obligations. Lone parents who are recipients of One-Parent Family Payment and whose youngest child reaches the age of thirteen will be the first to have employment participation made obligatory. While in a civic republic there are always rights and obligations, it is not clear that Irish activation policy will be balanced in its approach. There are moral and ethical arguments about imposing work sanctions without guaranteeing relevant supports of a high quality. Civic republicans might ask whether the state's expectations of welfare claimants take due cognisance of the social and care obligations of claimants or of their social rights. It would be better for the state to focus on meeting its own obligation to its people to pursue a pro-job creation budgetary strategy, investing in training and educating people, and guaranteeing our young people the right to education, training, and employment.

Of course, there are those to whom the Irish Republic denies the right to work. Asylum seekers living in direct provision hostels experience the deepest form of exclusion in our civic republic. While living in state-provided hostel accommodation, they receive only €19.50 per week as a personal income allowance. This was once twenty per cent of the basic welfare payment but, because it has not increased in ten years, is now only ten per cent of the welfare payment. This inhumane system (which also applies to women victims of trafficking) has no place in a civic republic that values human rights, freedom, and equality. Other social welfare regulations require immigrants to be habitually resident for two years before they can access basic welfare assistance – little wonder that over fifty per cent of those sleeping rough in the capital are immigrants. A civic republic would surely make use of the over 300,000 empty homes in the state to guarantee the basic right to shelter and a home to all.

## Public Scrutiny and Public Control

A civic republic also requires a budgetary process that enables the public interest to be conducted under public scrutiny and public control, and in which the state is constrained through checks and balances that effectively separate powers and police those who have power to allocate resources. This requires that budgetary strategy be publicly debated through a fair process in which all citizens have the capacity to exercise their voices with influence. Clearly, this has not happened to date. The political failure to make the connection between the fiscal crisis and social outcomes means that the recession will impact greatly (and more than is necessary) on poverty, equality, and social inclusion. There will be greater precariousness in new forms of income poverty; the structural inequality in our economy and society will be starker; there will be increased homelessness; and gender equality will be off the national agenda. The biggest impact will be in structural long-term unemployment – many will be denied the right to earn their living.

There are tools available to the policy process that can bring greater public scrutiny and public control to the budgetary process. Poverty proofing is a process whereby government departments, local authorities, and state agencies assess all major policies and programmes at design and review stages to ensure that they either contribute to reducing poverty or, at least, do not increase poverty. Gender auditing or gender mainstreaming is a strategy for making women's as well as men's concerns and experiences an integral dimension of the design, implementation, monitoring, and evaluation of policies and programmes in all political, economic, and social spheres, so that women can benefit equally and inequality is not perpetuated. The ultimate goal is to achieve gender equality. While these concepts and processes are embedded as principles in both the National Anti-Poverty Strategy and the National Social Inclusion Strategy, they have not been used as active policy-making tools. Publishing such audits as appendices to the budget statement can enable a republic to be accountable and transparent to its citizens. It is a mechanism to offer proof that governments have lived up to their obligations to give every citizen what Dahl describes as intrinsic equality, that is, giving 'equal consideration to the good and interests of every person bound by [its] decisions.'

## Empowerment

Economic inequality fuels further inequalities. However, no group will ever get a fair share of resources unless it is fully engaged in the democratic system; but, as we know, there are real limits to political participation. Literacy, capacity to acquire the resources to participate, and status are real obstacles to the participation necessary for a functioning democracy and a functioning republic. We should be concerned when budget cutbacks impact negatively on either participatory or representative democracy. Recent budget decisions have reversed earlier progress in enabling and empowering equality of voice and an active civil society. Budgets have been cut for groups working in Ireland's poorest local communities and in communities of interest that mobilise specific groups facing structural disadvantage (immigrants, Travellers, lone parents, and others). Recent budgets have also reduced the budgets and capacity of the Human Rights Commission and Equality Authority; silenced the independent and critical voice of the Combat Poverty Agency; closed down the National Consultative Committee on Interculturalism and Racism; forced the independent community-managed Community Development Projects (CDPs) under the aegis of the Local Development Social Inclusion Partnership companies; and closed twenty of the one hundred and eighty CDPs. (Budget 2010 has made further cuts and changes in the community development sector.) Cuts in and caps on community and adult education budgets are very worrying in this regard. So, too, are short-sighted budget-led opposition party proposals to reform the basic political institutions of the Irish state: the political institutions of the Irish state require reform because they are failing to work effectively, not because reform will save money – a budget is not the place to reform political institutions.

Rather, the budget should fund initiatives to redress the negative relationship between economic inequality and democratic political engagement and restore budgets that enable civic participation. We are dangerously close to a scenario where economic inequality and inequality of power become so embedded that this is seen to be both natural and inevitable. When this happens, we will cease to be a civic republic. We are already at the point where a hegemonic common sense has internalised the 'inevitability' of both economic and power inequality. The recession is being used by those with power as a political opportunity to establish Ireland on a more neo-liberal social and economic model and as a more unequal society. It is a political choice to pursue an ideology of low taxation and low social expenditure – it is not inevitable. The next budget will be framed by political choices. Whose values and demands will inform those choices? Whose voice will have influence? In a civic republic, values of equality and freedom, empowerment and mutual protection should be guiding principles for budgetary policy. Citizens would recognise their interdependence. A more pluralist distribution of power would ensure that all had access to a voice with influence. A more participative political process would enable all to exercise that voice. It is high time for a Second Republic: a civic republic of equals.

## Notes

1. [www.thepoorcantpay.ie](http://www.thepoorcantpay.ie)

2. The gini coefficient measures the level of inequality in a given distribution of income. Relative poverty measures the extent to which incomes fall below an average level in an economy. Income quintiles measure the proportion and levels of income that each fifth of the population receives.

The Citizen magazine is published by **The Ireland Institute**, The Pearse  
Centre, 27 Pearse Street, Dublin 2, Ireland.  
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