‘Up Stairs, Down Stairs’ Whose Interests are Being Protected?

Peter McVerry SJ

The Parable

John and Jane are tenants in the same house. John lives in a flat on the top floor. At 8 o’clock in the morning he pulls the curtains; the sun shines in. He looks out the window at the mountains in the distance rolling down to the sea. The mountains are beautiful; sometimes in winter they are covered in snow; mostly, though, they are a luscious mixture of greens and browns. He sees the ships coming in and out of the harbour and the yachts on the sea. The sun shows the scene in all its beauty. He says: ‘It is a beautiful day. It is great to be alive’.

Jane lives in the basement flat of the same house. At 8 o’clock in the morning she pulls the curtains; nothing happens. The sun cannot get in. She looks out the window but she cannot see the mountains, or the sea or the yachts or the sun. All she sees is a stone wall, yards from the window. She hardly knows what sort of day it is.

Here you have two people, looking out of the same house, at the same time of day. But they have two totally different views. There is a view from the top and a view from the bottom. Both views are equally valid – although one is admittedly much nicer than the other!

The Reality

The View from the Top

Conor has a very good job in a large company. He has a substantial salary, generous pension entitlements, and though in recent times there are fewer bonuses than there used to be and the share options are not as attractive, his financial position is still secure. He works very hard, often having to travel abroad to attend meetings, and frequently working at home till late in the evening. He lives in a fine house in a very fashionable neighbourhood. His children went to the same fee-paying school as he did and have secured places in the college courses they wanted. His family are, of course, enrolled in private health insurance. Conor takes his family on holiday twice a year.

Conor’s view is the view from the top. For him, Ireland has been a good place in which to live:

- The educational system was very good to him; it gave him an excellent education, allowing him to compete with the best of his international competitors, and it is now doing the same for his children.
- The housing opportunities open to him were excellent; he now has a lovely house in a lovely area and when his children are grown-up and have moved out, he can sell the house and buy a nice little bungalow for himself and the wife in another nice area.
- The job market has always offered him good opportunities; with his excellent qualifications, he had a choice of several jobs when he started work and since then there have been many options for moving upwards in his career. At some point in the future, when the economy picks up again, he will probably seek a new challenge and, given his qualifications and experience, he doesn’t expect much difficulty in finding a suitably rewarding and satisfying position in another company.
- The health service is excellent. He and his family have never experienced anything but ready access to the family GP and to specialists, and when they have needed in-patient hospital treatment there has never been any significant delay.

All Conor’s neighbours and friends also have the view from the top. Those whom he invites for dinner, whose weddings he attends, whom he plays golf with, all share the same view. Their conversations about what is happening in the world, and all the decisions they make, which affect not only themselves but also many others, reflect this view from the top.

The View from the Bottom

Jim is unemployed. He had held an unskilled manual job, but with the growth of technology, and changes in the labour market, he was no longer needed. He was too old to retrain and now there are few manual jobs left for which he could apply. He lives in a flat in a local authority complex. His flat is beautiful, but the common stairwells and balconies are covered in grafitti and smell of urine. His neighbours are alcoholics and frequently have fierce drunken rows in the middle of the night which keep them all awake. Drug dealing goes on all day and most of the night and he can see it all happening from his window. He is scared that his children will end up taking drugs.

He would love to leave this area but he doesn't have enough points in the housing waiting list system to get a house of his own. His children left school when they were fifteen. They wanted the money they could make in the local supermarket, since their father was unable to give them much from his dole money. He couldn't persuade them to stay on in school. They told him that they would never get employment with good prospects as long as they were living in this estate so they might as well take whatever job they could get.

Jim has the view from the bottom:

- The educational system taught him to read and write, but otherwise it was of little benefit to him. Few children in his neighbourhood completed second-level education and nobody he knew ever went to college.
- The housing system is awful. He is stuck in a flat he doesn't want to live in but there is a dire shortage of local authority accommodation and long waiting lists.
- The job market for someone like him holds out few, if any, prospects; he hasn't worked for ten years and he has given up hope that he will one day work again. His children are stuck in dead-end jobs that will not last.
- The health service is at best patchy. He has access to GP services but if he or any of his family need to see a consultant they will wait a long time for an appointment and wait still more if a non-emergency admission to hospital is needed. Meanwhile, they worry that their symptoms may mean they have a serious illness, one which is getting progressively worse as they wait.

All Jim's friends have the view from the bottom. Those whose homes he visits, whose weddings he attends, whom he watches football with, all share the same view. Their conversations about what is happening in the world all reflect this view from the bottom. Jim is not in a position to make decisions that affect anyone outside his family.

Both Conor and Jim live in the same country, have gone through the same educational system, have sought employment in the same labour market. But they have two totally different views of Irish society; there is a view from the top and a view from the bottom.

All the decisions in our society are made by those with the view from the top – and they have no understanding of the views or experiences of those at the bottom. They *feel* they know the views and experiences of those at the bottom: they have read reports, have visited the places in which people at the bottom have to live, have a concept of what their experience is. But they have no understanding of that experience. These are two different worlds, side by side, but light years apart.

Commission on Taxation and An Bord Snip

Commission on Taxation

The Commission on Taxation was established in February 2008 and issued its report in early September 2009.[1]

The members of the Commission on Taxation were:

Frank Daly
Former Chairman of the Revenue Commissioners
Chairman

Tom Arnold
CEO, Concern

Julie Burke
Solicitor, JMB Tax Solicitors

Micheál Collins
Department of Economics
Trinity College Dublin

Frank Convery
Heritage Trust Professor of Environmental Policy
University College Dublin

Tom Donohue
Partner, Russell Brennan Keane
Chartered Accountants

Eoin Fahy
Chief Economist
KBC Asset Management

Brendan Hayes
Vice President, SIPTU

Colin Hunt
Managing Director
Macquarie Capital Group

Sinead Leech
Director, Integral Finance and Technology Ltd

Con Lucey
Former Chief Economist
The Irish Farmers' Association

Danny McCoy
Director General, IBEC

Feargal O'Rourke
Partner, PricewaterhouseCoopers

Mary O'Sullivan
Chartered Accountant (formerly Irish Banking Federation)

Mark Redmond
CEO, Irish Taxation Institute

Willie Soffe
Chairman, Dublin Transportation Office

Mary Walsh
Chartered Accountant

Deirdre Somers
CEO, Irish Stock Exchange (resigned September 2008)

An Bord Snip

The Special Group on Public Service Numbers and Expenditure Programmes (often irreverently called An Bord Snip Nua) was established in late 2008. Its report, which is generally referred to as The McCarthy Report, was issued in mid-July 2009.[2]

Its members were:

Colm McCarthy
School of Economics
University College Dublin
Chairman

Donal McNally
Second Secretary General,
Department of Finance

Pat McLoughlin
Chief Executive,
Irish Payment Services Organisation and former Deputy Chief Executive of the Health Service Executive

Maurice O'Connell
Former Governor of the Central Bank of Ireland and former senior official in the Department of Finance

William Slattery
Executive Vice-President
Head of European Offshore Domiciles
State Street Corporation

Mary Walsh
Member of the Commission on Taxation and former Partner, PricewaterhouseCoopers

The sort of society we build depends on the decisions that *some* people make. Those who make the decisions are almost always upper or middle-class, comfortably off and well-educated. They understand the culture from which they have come, or at least of which are they are now a part – the view from the top. Decision-makers have, inevitably, a stronger affinity with some groups than with others, and so the concerns of those groups will be much more easily felt and understood than the concerns of others. They are largely unaware of the problems, feelings and struggles of those at the bottom of society. Hence, the views of those at the bottom ought to be represented at the tables where decisions are made – decisions that will affect them. The onus is on decision-makers to reach out, to understand, to befriend, to listen to the views, feelings and concerns of those who are at the bottom.

It is significant that the only representative of workers on the Commission of Taxation, Brendan Hayes of SIPTU, refused to sign off on the report. In a letter to the Chairman of the Commission, Hayes expressed a profound disagreement with the premise on which the Commission had been asked to approach its work – that Ireland should remain a low-tax economy. He said that the application of this policy 'is fundamentally flawed and is inhibiting economic growth, exacerbating social and economic inequality, and inequitably distributing the tax burden'.[3]

Difficult Times, Difficult Decisions

2009 has been a difficult year for many people. 2010 promises to be even more difficult. A deficit of over €20 billion in the public finances is, to say the least, challenging!

As the Government tries to find ways of reducing the deficit, there has been little discussion of the values that should underpin the difficult decisions to be made. Indeed, the very suggestion that values should have anything to do with cutting expenditure seems foreign to many who will make the decisions.

What are the parameters that ought to influence the decisions to be made? The most important, the one which should be widely accepted, and the one which should be non-negotiable, is that the poorest and most vulnerable in our society should be insulated from any cuts that need to be imposed. During the Celtic Tiger years, the poorest and most vulnerable got the crumbs that fell from this rich nation's table. Some of the decisions already taken, and some of the proposals now being considered, will mean the whole loaf of bread being confiscated from some people.

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The poorest in our society are not just another interest group, alongside many other interest groups such as employers, farmers, third-level students, trade unions. They are *the* interest group of all interest groups. While other interest groups lobby to minimise the effects on their members of decisions being proposed, this sector of our population should be immunised, on ethical and moral grounds, against any further hardship.

Cutbacks Implemented

Some of the cutbacks already implemented are:

- The drastic curtailment of the school book grant: this has meant that the scheme is now available only to children attending schools in the Delivering Equality of Opportunity in Schools (DEIS) programme, even though most children from low-income families are in schools outside this programme. This change has pushed many families into the hands of money lenders;
- Reduction in Rent Supplement for those on social welfare who are living in private rented accommodation: the changes over the past year have significantly increased the sum which tenants must allocate to rent from their basic social welfare payment – for all such tenants, this amounts to at least €11 *extra* per week, but for many it means as much as €20 extra (this from a weekly basic social welfare payment of around €204).
- Abolition of the Christmas bonus for social welfare payments: this change will make Christmas a misery for many families as they face having to meet all their Christmas needs from their regular – inadequate – income.

Cutbacks Proposed

Among the cutbacks suggested by the McCarthy Report are:

- Further re-examination of the level of Rent Supplement payments and a limit on the time a person may receive this allowance: if implemented, this will result in some people becoming unable to pay their rent and ending up homeless;
- Reduction in social welfare payments of 5 per cent;
- Reduction in Child Benefit payments of 20 per cent;
- Restriction of Medical Card entitlement by lowering the income threshold for eligibility;
- Imposition of a charge of €5 when a Medical Card prescription is being filled in the pharmacy;
- Restrictions on eligibility for Exceptional Needs payments[4] under the Supplementary Welfare Allowance scheme.

Aside from the direct assault on the income of those who are poorest and the increased expenditures imposed on them which these proposals represent, many of the suggested cuts in funding for services would disproportionately affect people in this group. Among the cutbacks proposed by McCarthy are:

- Reduction in funding for Drug Task Force projects;
- Abolition of the Family Support Agency and most of its programmes;
- Reduction in capitation support for all primary and post-primary schools, which will

affect most heavily schools in disadvantaged areas;

- Reduction in funding for community and voluntary sector projects, which will have greatest impact on those living in disadvantaged communities;
- Reduction in funding for community services programmes, again disproportionately affecting disadvantaged communities;
- Discontinuation of the RAPID Scheme, which operates in the most disadvantaged communities;
- Reduction of 2,000 in the number of Special Needs Assistants in schools;
- Slowdown in the planned recruitment of additional psychologists in schools.

The Cumulative Impact

While any one of these reductions or cutbacks might be manageable, with difficulty, for those whom it will affect, the really serious issue is the cumulative impact of the cuts – the reality that it is the same individuals and families, people already in a precarious financial and social situation, who will experience multiple cutbacks across a range of income supports and social services.

For example, a single parent living in private rented accommodation may find their welfare payments reduced by 5 per cent; Child Benefit reduced by 20 per cent; some Exceptional Needs payments ended and their Christmas bonus abolished. At the same time, the demands on their income are increasing: they may be already paying an extra €20 towards their rent; paying for school books that were previously subsidised, and they may be faced with new charges, such as the €5 for a Medical Card prescription.

As well as all that, cutbacks in funding for community services which this family might use and find support from will add to their problems. Children will grow up in homes where money is desperately short, attend schools with significantly reduced resources, and go without the kind of supports they and their parents need.

Closing-off Routes out of Poverty

The absence of any recognition of this cumulative impact is disturbing. The fundamental option that appears to have been taken will bring severe hardship to many, resulting in some cases in family stresses or break-up, health deterioration and homelessness. While savings will be made in the short term, the financial costs to our society in terms of additional demands on housing, health, justice and social welfare systems will, in the medium and long-term, far outweigh the savings.

Many of the cutbacks in education will in practice target marginalised groups of children and young adults. Despite repeated promises to reduce class sizes (already amongst the largest in the EU), class sizes have increased and this will disproportionately affect academically weaker children; special teacher posts which provide support for disadvantaged pupils have been abolished in many schools; capitation funding for Traveller children in many schools has been withdrawn; language support teachers for many schools with a large immigrant enrolment have been drastically reduced; the implementation of the Education for People with Special Educational Needs Act, which gives a statutory right to a suitable education for young people with special needs, has been put on hold; 100 places have been cut in Senior Traveller Training Centres – the list goes on.

The really serious issue is the cumulative impact of the cuts – the reality that it is the same individuals and families who will experience multiple cutbacks.

Cuts have also occurred in the Back to Education Initiative, which helps those who left school early to return to education; in Adult and Further Education programmes which particularly benefit those with little formal education; in grants for Transition Year and Leaving Certificate Applied programmes which can benefit less academic students. Such cutbacks in supports within the education system, which so disproportionately affect poorer children and young people, will lessen and even close off the possibility that education can be a route out of poverty.

New Impoverishment

Many people who were living reasonably comfortable lives are having those lives turned upside down by unemployment. Some will never before have experienced life without work and the impact of what will possibly be long-term unemployment on their self-esteem and quality of life will be devastating. Unacceptably long delays in getting Jobseekers' Benefit from the Department of Social, Community and Family Affairs have already added to their distress. The reduction, announced in the Budget of October 2008, of the duration of Jobseekers' Benefit from fifteen to twelve months means that many are already facing the expiration of this payment and the reality of what means-testing means in practice, as they go through the process of applying for Jobseekers' Allowance.

Some families will lose their homes. Unable to pay the more than €1,000 per month required to meet mortgage repayments, they will experience their home being repossessed by a bank that was bailed out by billions of taxpayers' money, to which the family contributed while working. They will then have to seek accommodation in the private rented sector, where the rent, which is likely to be in excess of €1,000 per month, will have to be subsidised by Rent Allowance.

Most of the focus of political concern for several months has been on the banks and NAMA, with little discussion of the consequences for individuals and society of rising unemployment. There is no sense of urgency about trying to tackle the problem of unemployment which has grown so alarmingly that the rate is now twice what it was a year ago and is back to a level we last experienced in 1996. The Government continues to tell us that it is imperative that we restore the banks to credit, and €54 billion had to be found to do so, but no such imperative to tackle unemployment exists. (Admittedly, a €100 million fund was set up to protect jobs!)

No Hardships for Some

While many have seen the collapse of their incomes and prospects, some of those who were responsible for the mess we are in have sailed off into the sunset with golden handshakes and fat pensions. There was some public outrage at the time, but no decisions were taken to ensure that the taxpayer would recover this money. (In the US, when bankers refused to return their bonuses, after their banks had been bailed out by the taxpayer, President Obama brought in a bill, within days, specifically taxing those bonuses at 80 per cent.) Others who have made their money during the good times can now afford to pay lawyers to ensure that it is safeguarded from future decisions that might be made by the Government or courts.

Some who became very wealthy during the Celtic Tiger years may now be experiencing a drop in their income, and have seen a fall in the value of their shares and other assets. Essentially, though, the recession will not substantially affect their lifestyles.

Many continue to earn salaries that are astronomical, compared to the single parent above. Chief Executives at the banks have had their salaries capped at €500,000, still earning *in one week* almost as much as a single parent dependent on social welfare receives in a full year. There will be no hardship there during the recession.

One of many protests against cuts © *D. Speirs*

Only 50 per cent of judges have signed up for the voluntary scheme – introduced after it emerged that judges would be exempt from the public service pension levy announced in the October 2008 Budget – whereby they can give up a portion of their salary; none of university heads, all of whom are on salaries of over €200,000, has so far agreed to a reduction in salary.

In the area of public sector pay generally, proposals now being mooted to reduce the salaries of the top earners by 8 to 15 per cent represent a minimalist approach in the context of the current state of the public finances – reductions on this scale in relation to salaries of €150,000 or more are derisory.

The cutbacks that will affect so disproportionately the people who are poorest are being proposed by politicians who remain amongst the best-paid in the world and who enjoy lavish expense accounts.

Some of the proposals in the McCarthy report would make savings estimated at €100,000. We could add another proposal: reduce the Taoiseach's salary by €100,000 – he would still, at €157,000, be paid the same as the Swedish Prime Minister (€158,000), but a little less than the German Chancellor (€190,000) or the British Prime Minister (€221,000). TDs receive a salary of €2,000 per week, plus expenses, mostly unvouched, of €1,000 per week – amounting to a total that is the same as a single parent reliant on social welfare has to live on for three months.

There was an outcry from some TDs when it was announced in the April 2009 Supplementary Budget that their expenses would be reduced by 10 per cent! Some were outraged at the suggestion that they should have to provide receipts in order to recoup expenses, as everyone else in work must do. Most TDs who also receive pensions for previous Ministerial positions refused to give them up. There was resistance also to the suggestion that the number of Oireachtas committees should be reduced and the extra payments (on top of their salaries and expenses) for committee chairpersons, vice-chairpersons, whips and convenors should be reduced or abolished.

Indeed, the McCarthy Group made no recommendations on the pay and conditions of Oireachtas members, stating that 'pay and pension levels of Members of the Oireachtas are beyond its core remit'.[5] The McCarthy report did suggest a possible reduction in the number of TDs and/or the abolition of the Senate, but these are proposals that will only be implemented well into the future, if at all. As long as those who are demanding that the poorest should 'share the pain' display such reluctance to themselves take any pain, it is a demand that will rightly be resisted.

The Role of Taxation

The Government has made it clear that it sees the solution to the problems of our public finances in the cutting of expenditure. The possibility that increased taxation should have a role to play seems to be off-limits in the debate. The approach proposed is endorsed publicly by many influential voices – and has, no doubt, been advocated in quiet lobbying by powerful sectors intent on ensuring that different means of addressing the problem, which might affect their interests, are not pursued.

The fundamental approach to taxation of this Government and its predecessors over the boom years was reflected in the terms of reference given to Commission on Taxation. These required that the Commission should 'have regard to' the commitment of the *Programme for Government* of June 2007 'to keep the overall tax burden low'.[6] In the face of the drastic deterioration in the state of the public finances throughout 2008 and 2009, the Government did not see it necessary to go back to the Commission to ask it to consider the scope for increasing the tax take – even though it was starkly evident that the alternative was severe cuts in public services.

The Commission recommended that an annual property tax should be introduced (a recommendation made also by the OECD in its latest report on Ireland[7]). The Commission's proposal was the focus of considerable public attention in the immediate aftermath of the publication of its Report. However, the political reluctance to implement such a tax was soon evident and the proposal was quickly sidelined.

In examining the question of whether a wealth tax should be introduced, the Commission set out a series of reasons why the collection of such a tax would be difficult. However, it did not explore ways of overcoming these problems. It pointed out that the wealth tax that existed between 1975 and 1977 had yielded 'only' £16 million.[8] Strangely, it did not give a calculation of what that might amount to in today's money.

Even more interesting, the Commission made no reference to the evidence of the vast increase in wealth-holding that occurred in Ireland over the years of the Celtic Tiger. The 2006 report, *The Wealth of the Nation*, which referred to 2005 figures, suggested that net wealth had grown 350 per cent in ten years.[9] An update, published in 2007, giving figures for 2006 showed that over this one year net wealth had grown by €126 billion, giving a total net wealth of €804 billion.[10]

The report also showed that the asset base, *excluding residential property*, of the top 1 per cent of the population had grown from under €25 billion in 1995 to €100 billion in 2006, an annual average growth rate of 13.7 per cent.

Some might point out that some of the wealth that existed in 2006 has now disappeared, given the drop in property prices, but even with that Ireland remains vastly more wealthy than it was just over a decade ago.

(*The Wealth of the Nation Report* also showed the enormous inequality in the distribution of wealth in Ireland: in 2006, the top one per cent of the population held 20 per cent of the wealth; the top two per cent held 30 per cent and the top five per cent held 40 per cent. However, if wealth in the form of residential property were excluded, the top one per cent held a staggering 34 per cent of wealth.)

The Commission on Taxation's examination of the vast array of tax expenditures (i.e., provisions to reduce tax liability) identified more than 100 such measures. It noted the lack of transparency in relation to them, finding 'many instances where basic cost and benefit data were not available for tax expenditures'.[11] Its detailed analysis showed that a great number of the existing measures exemplified the acknowledged tendency of tax expenditures to redistribute resources upwards to the better-off. The Commission recommended the discontinuation of some tax expenditures and the modification of others but these proposals have so far received little or no attention, even though such action would help rectify problems in the public finances.

Conclusion

There is more than sufficient wealth in our society to solve the mess that we are in. Justice and fairness would demand that those who benefited so enormously from the Celtic Tiger years should, now that the good times have ended, dig deep into the pockets that those good times have lined.

However, the reality appears to be that the wealth, which is highly concentrated in the hands of a small sector of the population, is going to remain largely untouched. The argument is repeatedly made that increases in taxation on the wealthiest would raise only small sums, amounting to a fraction of what it needed – yet there is no hesitation is considering cuts in expenditure that may be only a small proportion of a government agency's overall budget but will have a devastating impact on those affected.

There is, then, a clear lack of political will to pursue those who could afford to make a major contribution to our revenue deficit. They are often friends and associates of those who make the political decisions in our society. Pursuing them may lead to questions being asked about the contribution being made by these decision-makers themselves.

Social solidarity is a term we hear a great deal about these days. Funny how we never heard it used during the years of the Celtic Tiger! Social solidarity is being used to suggest that it is reasonable that everyone should share the pain. But the meaning of social solidarity is *not* that everyone should share the pain – it is, rather, that those who can afford to make sacrifices should do so in order to protect those who cannot. Social solidarity was, in fact, almost destroyed by the Celtic Tiger; it is maybe too much to expect that it can now be resurrected.

Notes

1. Commission on Taxation, *Report 2009*, Dublin: Stationery Office, 2009.
2. *Report of the Special Group on Public Service Numbers and Expenditure Programmes*, Volume 1, Dublin: Stationery Office, 2009.
3. Commission on Taxation, *op. cit.*, p. 474.
4. These are additional payments made under the Supplementary Welfare Allowance Scheme to meet essential or urgent expenditures which cannot be met from a person's usual income.
5. *Report of the Special Group on Public Service Numbers and Expenditure Programmes*, *op.cit.*, p. 60.
6. Commission on Taxation, *op. cit.*, p. 36.
7 OECD, *OECD Economic Surveys: Ireland*, Paris: OECD, 2009.
8. Commission on Taxation, *op.cit.*, p. 130.
9. Bank of Ireland Private Banking Limited, *The Wealth of the Nation*, Dublin, 2006.
10. Bank of Ireland Private Banking Limited, *The Wealth of then Nation: 2007 Update*, Dublin, 2007.
11. Commission on Taxation, *op. cit.*, p. 240.

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