SIPTU

Services Industrial Professional & Technical Union

The Slowdown
Political Economy in a Low Growth Environment

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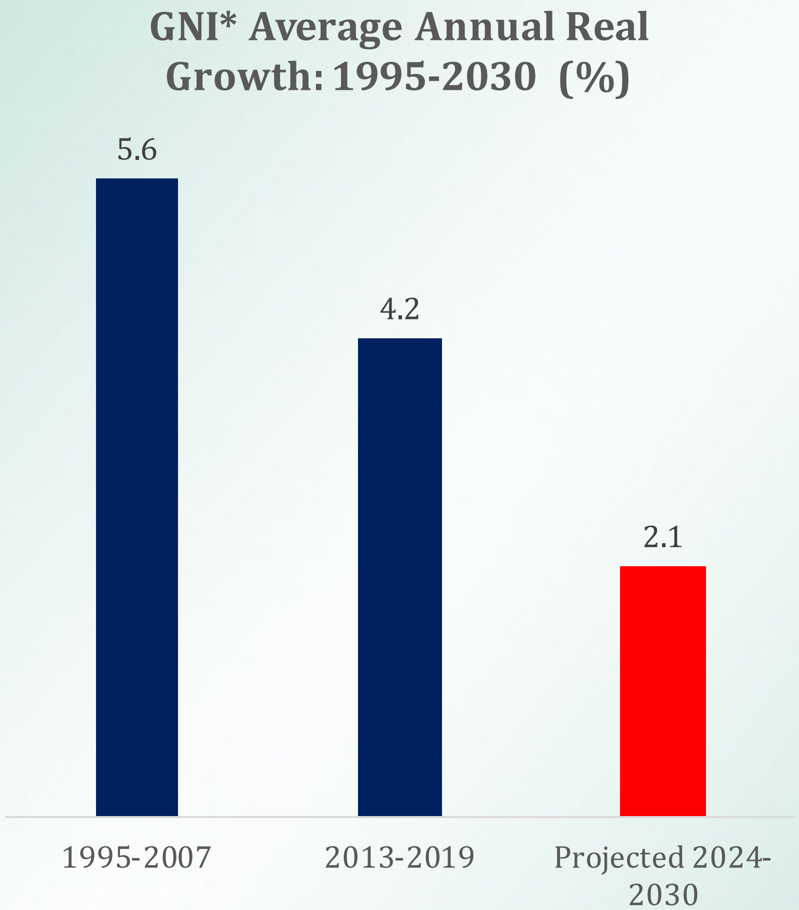
This is no Joke: It’s Just Common Sense

“Think of the economy as a car, and the rich man is the driver. If you don’t give the driver all the money, he’ll drive you over a cliff.

“It’s just common sense.”

- C. Montgomery Burns

The Slowing Down

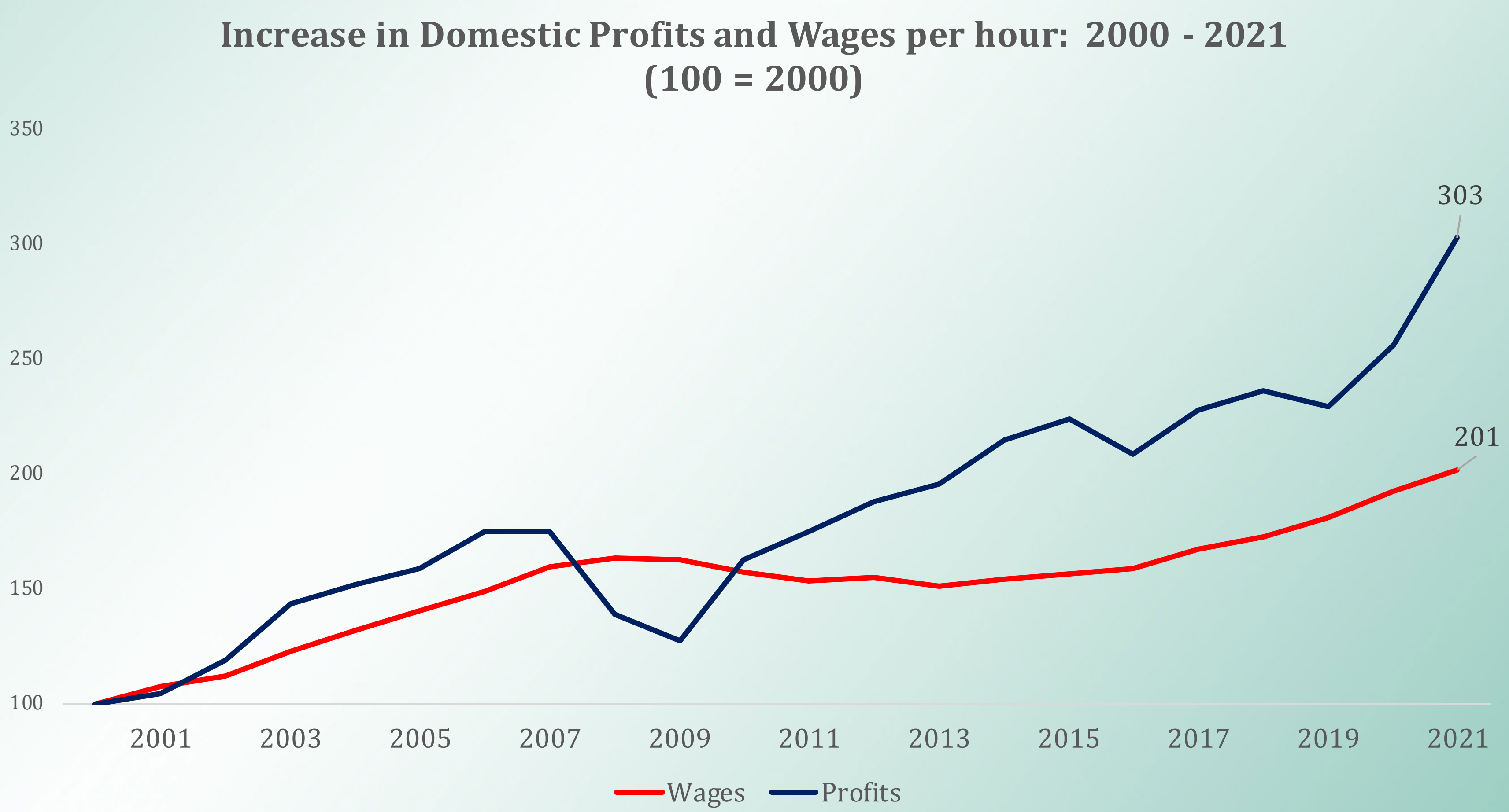


- Economic growth is slowing down. While real average annual growth was close to 6% during the Celtic Tiger phase, and 4.2% following recession, the Government is projecting average annual growth of 2.2% out to 2030.
- Some analysts project growth will fall towards 1% after 2030.
- This will put considerable pressure on revenue, spending and wages, resulting in increasing competition over economic resources.

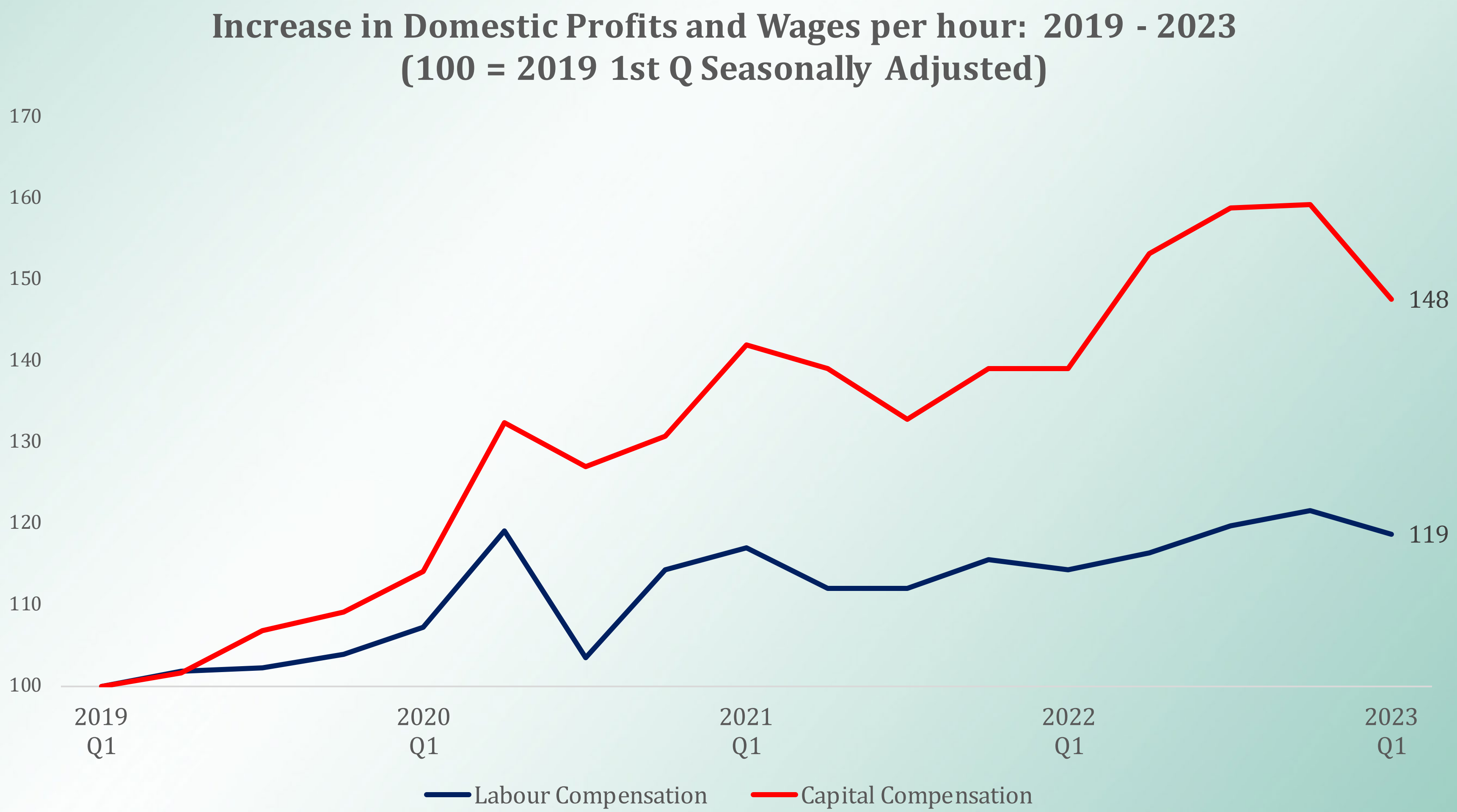
1. Ignoring the Elephant

- The 'economic' debate ignores a critical feature: the role of profits. The CSO has started producing robust data on profits while the Central Bank has started to integrate them (somewhat) in their economic commentary.
- But for the most part, commentators and politicians ignore this.
- Even though Ireland is a profit-fuelled economy.

Profits Increasing Faster Over the Long-Term

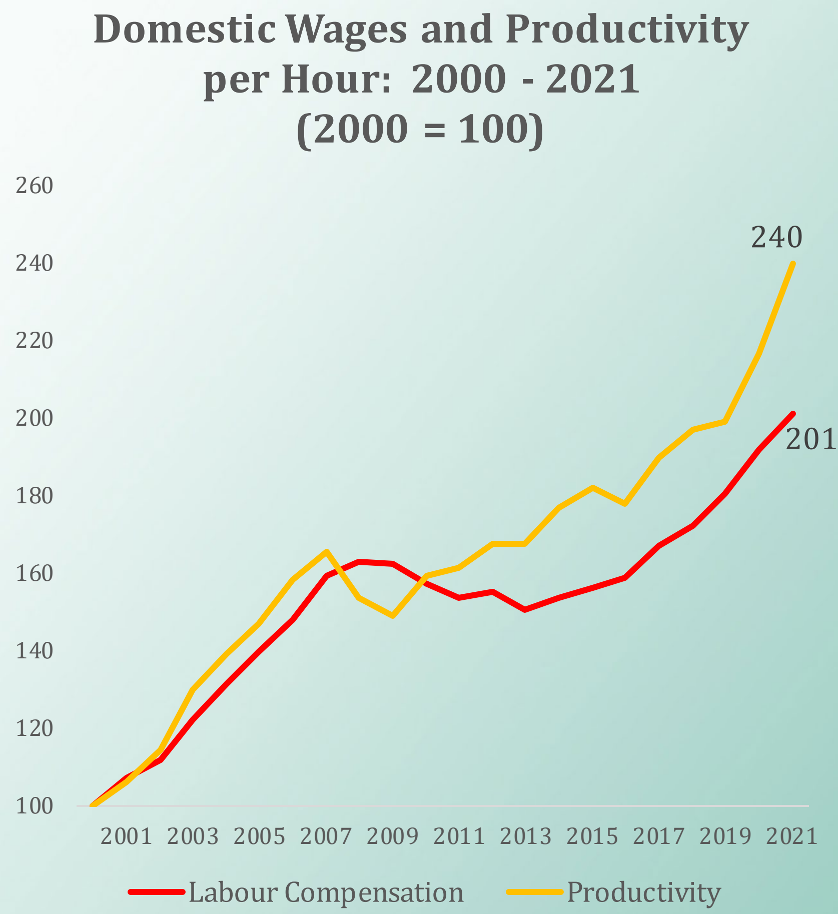


And over the Short-Term



Wages and Productivity

- Profits exceed wage growth in the long and short-term. This can be described as *structural*.
- First, it suppresses wages relative to productivity. Wages would have to rise by 19% to restore parity with productivity.
- Second, it drives up prices. The Central Bank stated that profits are responsible for most of the domestically-sourced inflation.
- Workers are hit by lowered wages and heighted prices due to our profit-fuelled economy.

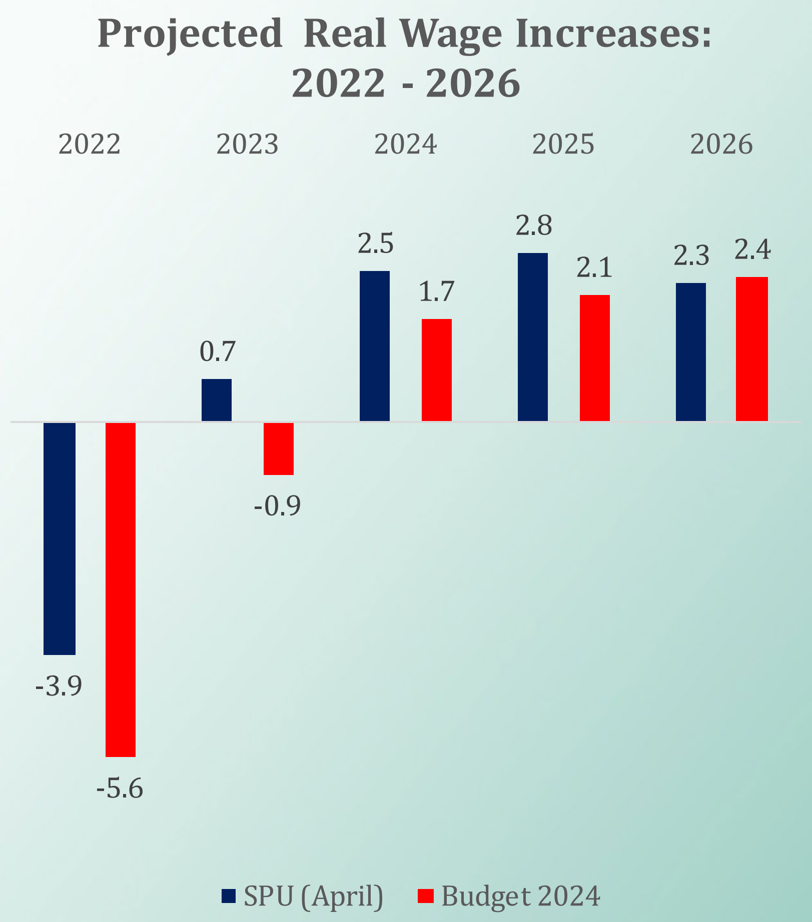


Investment in Manufacturing Sector

- There is one rationale for high profits: high investment. Data on investment in the domestic sector is patchy and lumpy. So care has to be taken.
- In the Irish domestic manufacturing sector, investment is low compared our peer group in the EU (other high-income economies). This is measured as investment as a % of value-added.
- This is evidence that there is little investment benefit from rising value-added profits.

Lower Real Wage Growth

- With relatively high growth, capital take a greater share of productivity, while labour can still obtain real increases.
- With lower growth we will have increased competition between capital and labour over shrinking resources (value).
- Real wage increases were revised downwards in Budget 2024. It will take until 2027 for labour to recover from the cost-of-living crisis.



Driving Over the Cliff: Wages & Bargaining

- Employers could respond to minimum wage increases by:

a) Sweating labour, or work intensification. Employees perform more work in the same or even fewer hours.

b) Bunching: employers pay for increases in statuary floor by suppressing wages just above that floor

c) Employing new staff at reduced pay.

- Depends on sectoral capacity and bargaining power.

- Survey of employers presented to the IRN-CIPD annual conference in 2023:

➢ Only 4% of non-union companies would consider engaging with a trade union for collective bargaining.

➢ Overall, only 16% of all respondents would consider non-union collective bargaining. This is despite the report from the High-Level Group on Collective Bargaining.

Driving over the Cliff: Childcare

- Childcare providers recently withdrew services, protesting over lack of money.
- A SIPTU analysis showed selected childcare chains had trebled their profits over the period of the lockdown. Many paid dividends while receiving TWSS+ subsidies.
- Some used public subsidies to buy up more creches and expand into real estate.
- **BUT**: give us more money or we will close services.

Driving Over the Cliff: Nursing Home

Relatives of nursing home residents threatened by closure, protesting outside Tánaiste's constituency office. They supported the nursing home's demand for more public money – not knowing it was going to pay for interest.

Subsidising Debt

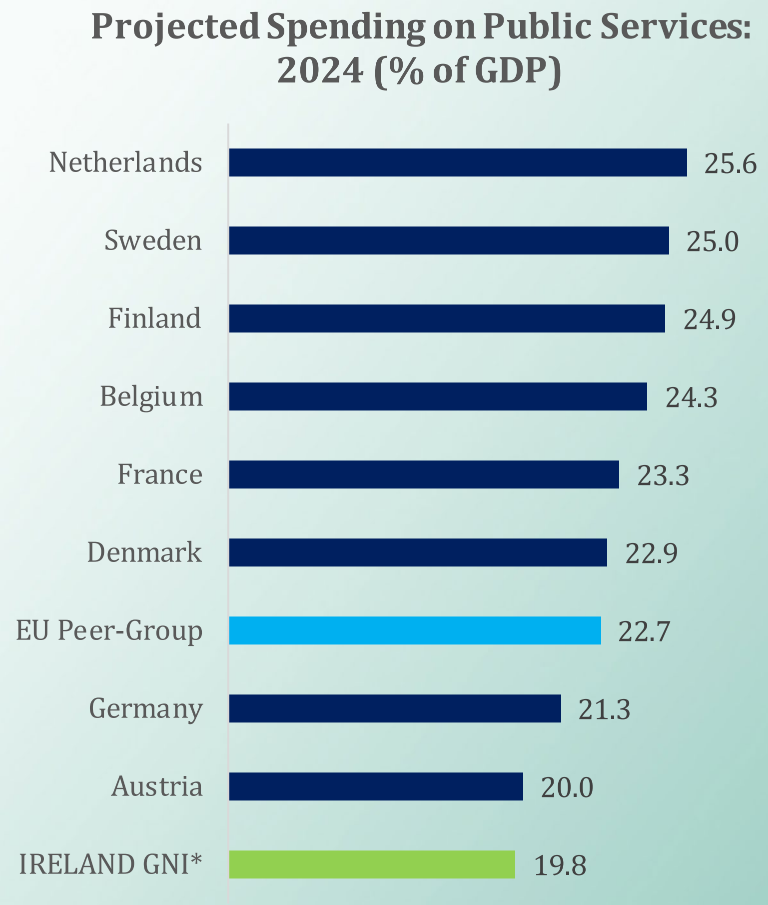
- A nursing home threatened to close unless the government increased its subsidy. It is owned by a French equity firm. It drove up its debt by acquiring nursing homes to build expand its portfolio. This resulted in greatly increased interest payments.
- It demanded more Fair Deal subsides not to fund the service but to fund its interest bill (rising from €2 million to €12 million in three years) while retaining the profit benefit of a growing chain of nursing homes.

2. Squeezing the Social State

- Lower growth has implications for the social state – public services and social protection. The lower the growth, the less revenue the economy generates. This means relying more on discretionary tax increases – at a time when the current government is determined to cut taxes.
- This dynamic can produce competition over resources – between public services, social protection and investment; between tax cuts and spending increases.
- This will be exacerbated by the emerging *polycrisis*: ageing demographics, climate change, technological disruption.
- And if capital continues to grab a larger share of productivity, this will further reduce tax revenue as labour is more tax-rich than capital.

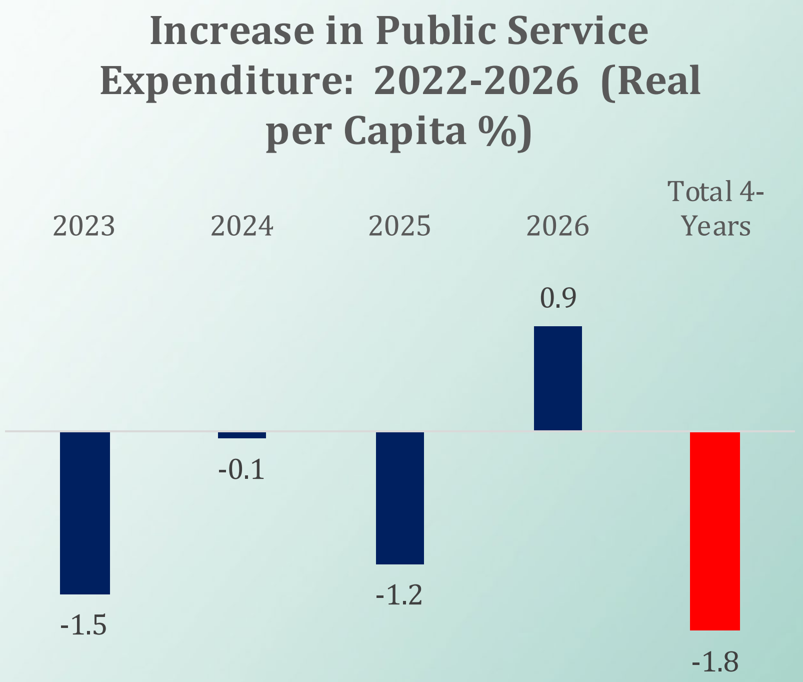
Public Services: Where We Rank

- Among our EU peer-group (other high income economies) we rank last in the level of public services expenditure as a % of national income.
- This flatters Ireland as in Bismarckian countries (e.g. Germany, Austria) most of health spending is not categorised as '*public consumption*'.
- We would need to spend an additional €8.8 billion to reach our peer group average.



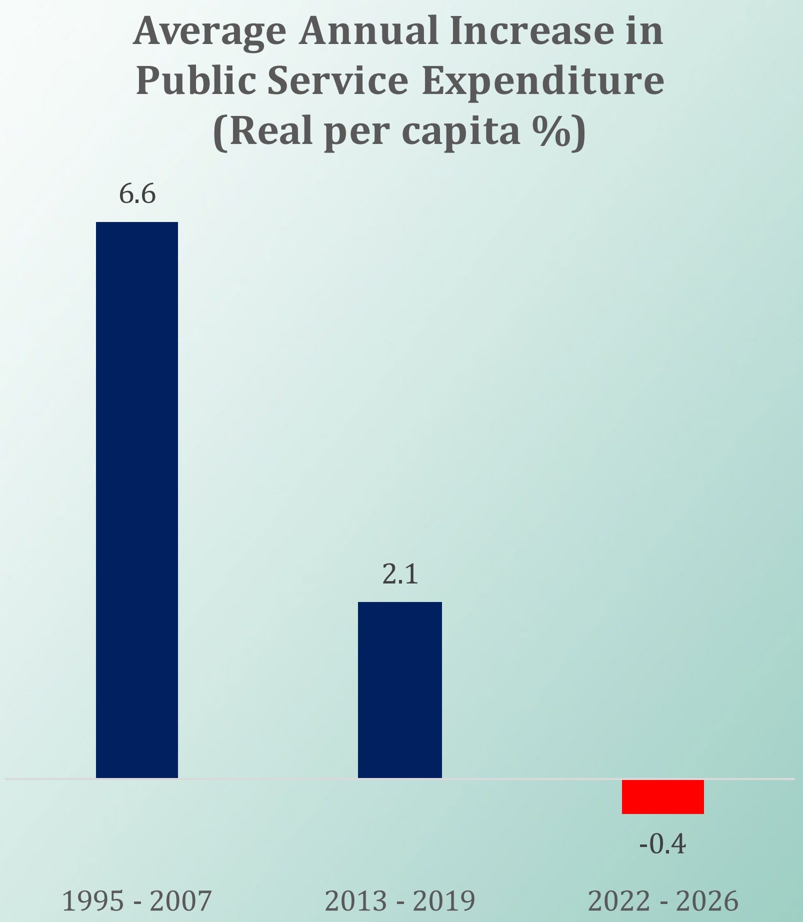
Projected Public Service Expenditure

- Budget 2024 projects public service expenditure will decline marginally between 2022 and 2026 –measured in real terms per capita.
- It is projected to fall by 0.4% each year on average, or close to 2% over the four years.
- This is on a no-policy-change basis (i.e. a baseline). Subsequent budgets can correct this. However, this is unchanged from the SPU earlier this year. Budget 2024 didn't start to correct this projected decline.



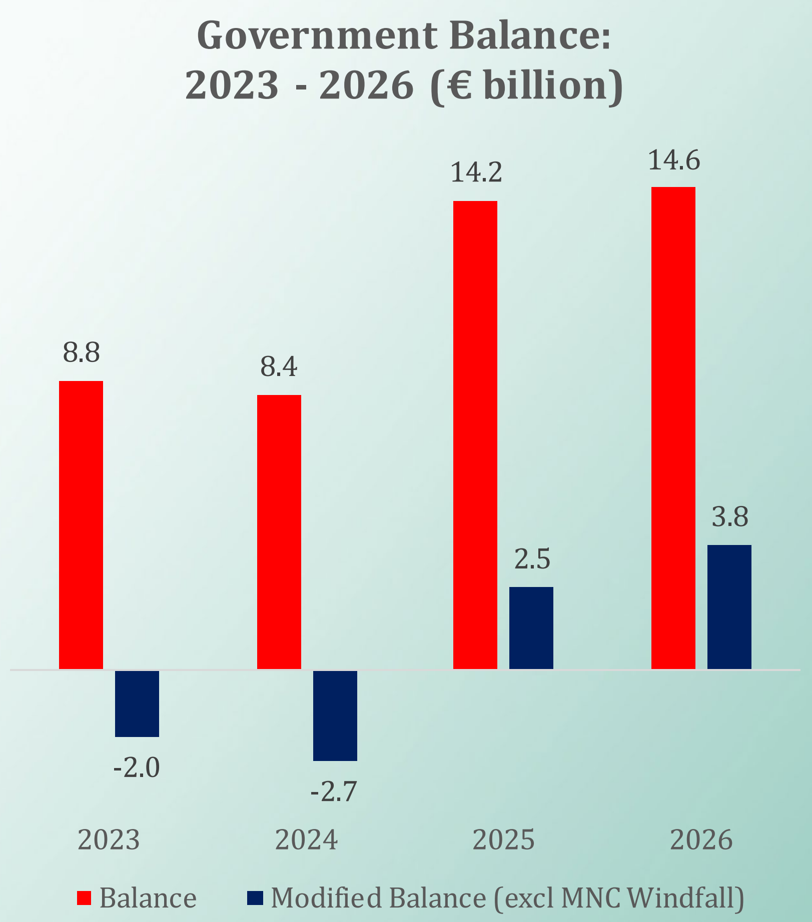
Shrinking the Social State

- Subsequent budgets can address this decline but it will be difficult in a low-growth environment, with a growing population and an ageing demographic while filling current infrastructural deficits.
- In the pre-crash period public services grew at an average annual rate of over 6%. In the recovery period it was 2%. The Budget 2024 baseline shows a marginal decline each year out to 2026.
- How much more difficult will it be if public services and social protection compete with tax cuts.



A Confused Fiscal Debate

- We have a confused debate. There is an assumption that we have massive surpluses. But strip out the money generated by MNC legal and accounting practices and the economy generates far less.
- Budget 2024 is highly expansionary, potentially driving close to the cliff. With the economy at near capacity, the government has increased its *'stimulus'* with over €2.5 billion in temporary and permanent tax cuts.



If We Don't Do It, Who Will?

- Trade unionists and progressives must take up the challenge of creating a new economic model – a framework that can not only confront the challenges ahead (ageing demographics, climate change, technological disruption); and promote inclusive and sustainable growth in an economy that is slowing down.
- This requires long-term policies that promote productive enterprises (*crowding-in* the productive and *crowding-out* the unproductive); employment quality; social and economic equality; Just Transition, and fiscal and price stabilisation.
- Budget 2024 makes no contribution to such a model, does not set the groundwork to begin constructing that model. The work will have to be done by us – or it won't get done.

SIPTU

Organising for Fairness at Work and Justice in Society

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