Irish Congress of Trade Unions

Growth is the Key

A Summary of Congress Budget Proposals

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A better, fairer way

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Irish Congress of Trade Unions

Introduction

We need a plan for growth. We need to invest, innovate and create jobs. Austerity is not saving the Irish economy, but suffocating it.

The most important deficit we face is the deficit in the demand for labour.

The most effective way to tackle the financial deficit is through policies which put people back to work, which develop innovative new services and products and strengthen communities.

The surge in unemployment – especially long-term – is the biggest threat to social cohesion and democracy in Europe.

Here, the crisis has impacted most severely on young people, as the domestic private economy stagnates and the public sector contracts.

The key to recovery is growth, not deeper austerity.

Invest, Employ & Grow

Unemployment damages individuals, families, communities and the wider economy. It can be tackled by halting the downward spiral that has gripped Ireland since late 2008.

Cutting welfare rates and raising taxes on low to middle income earners feeds this downward spiral by removing consumer spending from the economy. This is made worse by cuts in key services like health, education and transport.

This deflationary spiral is self defeating.

Studies by the ESRI and the IMF have found that economic 'shock therapy' – cutting incomes and shedding jobs - doesn't work.

The IMF study showed how austerity hits wages harder than profits: for every one percent cut in GDP, salaries fall by 0.9%, while profits fall by just 0.3%.

The priority for this budget must be to avoid measures that make the dole queues longer as that translates into lower tax revenue and a higher welfare bill.

So far, Government has focussed on cutting costs in order to grow exports and kickstart a recovery. There is no evidence this has halted the rise in unemployment.

While there has been an increase in training for the unemployed and greater numbers staying in education, there has been no increase in job opportunities.

The public service is often the first port of call for young people entering the job market, but this is being cut while demand for services increases.

Government has failed to fill the void left by the collapse in private investment and consumption. Domestic demand has already fallen by a staggering 25 percent, costing thousands of jobs.

It should now invest in targeted initiatives that will create jobs and boost competitiveness: water conservation, a national broadband scheme, retro-fitting of homes to cut energy bills.

We should heed the example of Denmark, where a new government has embarked on an ambitious programme of public investment to boost growth.

Reform the Tax System

In a time of unprecedented crisis, all sectors of society must contribute to addressing the gap between tax revenue and expenditure.

Our tax system contains a huge number of exemptions and incentives that narrow the tax base and limit tax take. They cost the taxpayer up to €11bn each year.

Targeting tax evasion and pursuing uncollected taxes will yield extra revenue.

Our system is over-reliant on taxes on income and consumption. Congress believes income from all sources – wages, capital, property, savings – should taxed in the same way.

We need to get an increased share from: *Local taxes; Social Insurance charges; Capital or property charges; Corporate taxes; Taxes on carbon consumption*.

A funded social insurance scheme would allow people to pool savings to pay for healthcare, pensions and sick pay. This would also save money through reduced subsidies for private healthcare.

In short, Ireland needs to align itself with EU norms of spending and revenue-raising, if we are to fund decent services for all.

Key Tax Proposals

The **Universal Social Charge** should be progressively restructured to reduce the rate paid by low earners. As women are concentrated in lower income jobs, the charge has had a disproportionate impact on them.

There should be a **new levy on wealth** above €2 million, with 'wealth' defined as current value of all assets. This could yield up to €500 million.

The **minimum tax for high earners** should be 35% with the threshold cut to €100,000.

A temporary **'solidarity levy'** should be placed on incomes over €100,000.

The incomes of working people have been levied, but **Corporation Tax** is unchanged. There is an overwhelming case for a **temporary levy of 2.5%** to be placed on corporate profits.

Citizenship is a two-way obligation. The 183-day requirement **for tax residency** must to be halved to at least 90 days - as in the UK - and 'tax fugitives' must pay more.

There should be a new **12.5% oil and gas royalty tax**, on production. Higher taxes should be considered for larger oil and gas finds.

It seems inevitable that Government will introduce a **property tax** in some form. It is essential this is not a flat tax, but is linked to ability to pay.

Congress would back a shift towards **taxing consumption** with a high carbon content, but with built-in protections for low-income households.

Property-based Capital Allowances should be discontinued, along with interest relief against rental incomes for individuals and companies.

Yields from **Capital Acquisition Tax** remain low and existing thresholds could be lowered. Business and agricultural reliefs should be restricted to the first €4 million of business assets.

Raise **Capital Gains Tax** from 25% to 30% and apply the Universal Social Charge. A proportion of gains on private dwellings worth over €1 million should be subject to CGT.

Remove the **property-based tax reliefs** that cost the state more than half a billion euro in lost revenue. Tax breaks for high earners and investors should also be progressively removed.

Taxation on saving should be increased from 27% to 30%.

Pension provision in Ireland is patchy and many people have no adequate contributory or occupational pension. There is a strong case for the introduction of an **additional state pension** into which savers can invest. This would give Government a new source of immediate capital, while offering savers lower charges and a secure place to invest.

Congress is opposed to plans to reduce tax relief on pensions to 20%, given the lack of an adequate universal state pension. There is the added risk that this would hit contributions to existing schemes and undermine future pension provision.

Congress is opposed to the **temporary stamp duty** on the value of pension fund assets. As 75% of defined benefit pension schemes are in deficit, the cost of this levy will mean higher contributions for members, a reduction in benefits - or both.

Pension funds which increase investments in the domestic economy by 5% of asset value should be exempted from this levy. But the investments should be in approved activities that contribute to job creation.

Invest in Jobs

We must extend the 'period of adjustment' from 2015 to 2017. It is worth noting that the target date has already been moved twice.

The entire process of adjustment must focus on growing domestic investment and avoiding further cuts in demand.

The entity formerly known as Anglo-Irish Bank/ INBS continues to be a severe drain on public resources: from the billions Government plans to pay out to unsecured, unguaranteed bondholders, to the enormous liabilities that will result from the issuance of Promissory Notes. This could see us pay out over €4.2 billion every year for the next 14 years.

There is an option in the deal with the 'bailout troika' to review and amend this arrangement and make real savings. Not to do so would be reckless.

Capital investment should be a priority and good quality public services must be maintained to deal with the needs of a rising population.

Major savings will continue to be made as a result of the Croke Park Agreement. This is in addition to savings from cuts in the interest rate on our borrowing. These savings should be ploughed back into public services and bolstering social protection.

This will promote domestic demand and boost employment.

For every €1 million invested in infrastructure, up to 12 direct jobs are created. Congress has identified various sources of funding for growth. These include:

- €2bn from the National Pension Reserve Fund over the next three years, invested in job creation;
- Private pension funds should be encouraged to increase their investment in the Irish economy by 5%, raising an extra €4bn a year;
- Encourage investment in Solidarity Bonds by pension schemes, as agreed by Congress, IBEC and the IAPF;
- The State Holding Company should be set up in such a way as to attract pension funds;

- A new state pension scheme would give a substantial flow of funds to the Exchequer and we should encourage PRSAs to invest in scheme. This could raise €1bn over the next year;
- Multinationals could defer repatriation of some of their profits and set up a commercial fund to invest here.

The Role of State Companies

State companies can spearhead a drive to create jobs, acting as engines of the recovery. Giving the State Holding Company access to private capital for expansion and re-investment is a better way of raising funds than privatisation. History shows that partial sales become full privatisations and – as Eircom showed – this means control of key assets is transferred outside Ireland. Investment in infrastructure would boost our competitiveness:

- A state-of-the-art water and waste network: this could create up to 12,000 permanent jobs.
- Retro-fitting energy inefficient buildings: developing a new €8bn industry to upgrade Ireland's 700,000 energy-inefficient homes.
- Investment in public transport will save money in the long run.
- Investment in Education generates an excellent return.
- Funds must be allocated to health to ensure full use of all available beds. There should be a cost-benefit analysis of the continuing jobs moratorium and its impact on people's health. We need a capital investment programme to deal with Ireland's ageing population.

Social Protection

Government must act in a fair and balanced way to help householders in **mortgage arrears**. Family homes and living standards must be protected and realistic ways found to help people out of indebtedness.

There should be no further cuts to social welfare and strategies are needed to help the working poor and safeguard income supports for people with disabilities. More flexibility should be shown around part-time work when assessing benefits or allowances for people out of work.

Community projects that protect and boost employment should be safeguarded and supports which help people take up work - affordable childcare – must be maintained.