09 June 2020

Aileen Fallon
Clerk to the Committee
Special Committee on Covid-19 Response
Houses of the Oireachtas
Kildare House
Dublin 2

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CC: covid19@oireachtas.ie

Dear Ms Fallon

Thank you for extending the request of the Special Committee on Covid-19 Response to make a written submission to the Committee on Fiscal Developments – expenditure and budgetary position. The Irish Congress of Trade Unions (ICTU) welcomes the opportunity to outline our views.

In the attached document we focus on a limited number of priorities for the ICTU on expenditure and budgetary position, as the tight timeframe as requested does not allow us to give a comprehensive response.

We hope that this helps to inform the members of the Committee and would be happy to address any additional queries that may arise following our submission.

Yours sincerely

Patricia King
General Secretary

Irish Congress of Trade Unions Submission to the Special Committee on Covid-19 Response on Fiscal Developments – expenditure and budgetary position

1. The covid-19 pandemic has caused immense disruption to our economy and to our public finances.

2. The ICTU and the trade union movement, representing some 700,000 workers in every sector across the island, has already made a substantial contribution towards shaping many of the fiscal measures introduced to date.

3. The public finances will go sharply into deficit in 2020 with deficits likely to continue until at least the middle of the decade. A deficit of €30 billion is highly plausible this year and the deficit will be even higher if there is a second wave of infections in the population.

4. Even so, this deficit should be understood as a necessary investment in maintaining the productive capacity of the Irish economy. Governments must do whatever it takes to protect this productive capacity.

5. An additional period of economic shut-down will have an enormous fiscal cost and will necessitate the continuation or introduction of the pandemic unemployment payment and temporary wage subsidy scheme, as well as the implementation of further business supports, all in the context of further declines in government revenue.

6. This suggests the need for extreme caution in relation to the speed at which the economy re-opens and should inform the debate about whether it is prudent to reduce the level of physical distancing to one metre. A second shutdown would be psychologically destructive and would likely precipitate a deep and prolonged recession. We must be careful not to re-open too quickly.

7. Ireland's cost of borrowing on new debt is below 1% and ICTU's firm view is that bond markets will continue to be highly favourable over the next few years. Ireland's fiscal

predicament is replicated throughout the world and the current situation is wholly different to the crisis of 2008-2012.

8. Unlike the last crisis we have a Central Bank in the Euro zone that is behaving like a Central Bank, in so far as it is behaving as a lender of last resort by underpinning sovereign bond markets to the tune of €1.35 trillion euro. This means that sovereign bond yields are very unlikely to come under pressure in the short-to-medium-term. Public finances will be further buttressed by the establishment of the EU Commission's proposed €750 billion recovery instrument which will ensure minimal prospect of contagion effects taking hold in Eurozone bond markets.

9. ICTU's view is that fiscal policy should transition from its current support phase to a multi-billion fiscal stimulus once the virus goes into abeyance. This stimulus should be based on public investment, expansion of universal basic services, and a just transition to a green economy and digital transformation in Ireland.

10. Ireland spends less per person on public spending than almost every other Western European country with a commensurately low level of per person taxes and social security contributions. As such, our view is that there are indeed 'low hanging fruit' that could increase revenue without compromising economic growth. Obvious examples include greater taxation of capital stocks i.e. property and wealth, as well as an overhaul of the system of tax expenditures. Under no circumstances should income tax or the USC be reduced. In addition, levels of social security contributions from employers are totally out of line with norms in the rest of Western Europe and it is deeply unfair that one group should fail to adequately contribute to the revenue base of the state.

11. The Government should not seek to engage in austerity policies post-2022. Instead, we should move to increase the social wage of workers via year-on-year increases in social insurance contributions. In addition, we should increase our annual investments in public services as part of the transition towards a more sustainable and more inclusive economy.