

Irish Congress of Trade Unions

Summary of Congress Proposals for Budget 2011

**Fairness is not
only morally
better, it is
economically
superior as well**

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Irish Congress of Trade Unions



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Extend the Adjustment Period, Focus on Growth

From early 2009 Congress warned that the economic choices made by this Government – austerity as opposed to stimulus – were a recipe for disaster. We said they would depress demand, cause job losses and retard prospects for growth.

To date, we have seen three deflationary budgets that have taken some €14.5 billion from the economy. Yet our budget deficit is now higher than when the austerity programme began and we have mass unemployment. That is not a sign of success, by any standard.

It is now clear that we will not meet the target of reducing our budget deficit to 3% of GDP, by 2014. That target is arbitrary and artificial. If Government persists in trying to reach it, it will likely cause deep and lasting damage to our economy and society. It will devastate lives and communities.

The key to success is a credible plan which demonstrates how we will grow our economy into a sustainable recovery. This would carry far more weight with the investors in the international bond markets than experimenting with unprecedentedly dangerous austerity plans.

Congress believes that we should extend the adjustment period to 2017, thereby allowing growth a chance to take hold. The key to that growth is investment and we have set out a number of proposals on this, in our submission. Deficit reduction can be achieved through the taxation of latent sources of revenue and by achieving savings by means that do not entail taking large amounts of money out of the economy.

Ultimately, the key is job creation and growth. Austerity is not a credible plan for economic growth.

The liberal economic model has failed. Yet, by pursuing austerity, our Government appears to be still in thrall to it. As Keynes said: “Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.”

Economic Impact of Congress Proposals

The economic impact of the proposals in our submission would be to provide a small stimulus overall to the economy. In contrast, the Government's proposed cuts will deflate it substantially further. If their measures are in the order of €4bn they will deflate the economy by an additional 3%. A precise figure depends on where the cuts and taxes are imposed.

Our submission contains a broad menu of proposals and alternative options, so it is not possible to determine their precise impact on the economy. Congress would almost certainly prioritise some tax rises over others, in ways which would be far less deflationary. Appendix I of our main submission contains a menu of areas where revenue of up to €2.1 billion could be raised.

Job Creation & Protection

We need new initiatives and greater urgency on job protection and creation. A sum of at least €2bn per annum for three years should be invested immediately in suitable projects to promote growth and leverage investment thereby facilitating job creation, job retention and upskilling. This can be done in a manner that meets Eurostat criteria. Some immediate job creation ideas suggest themselves:

- **New Water & Waste Network** Efficient use of water will generate considerable long-term environmental savings and could create over 30,000 jobs during delivery stage and some 12,000 permanent jobs.
- **Retrofit Energy Inefficient Buildings** Comhar estimates the number of energy inefficient homes at 700,000. This work is labour-intensive and has major downstream benefits (materials, manufacturers, suppliers etc).
- **Next Generation Broadband (NGB)** The Telecommunications & Internet Federation say €2.5 billion would bring a modern NGB network to 90% of all homes and buildings. The benefits for employment and future competitiveness are clear.
- **Education** Third level institutions require investment to accommodate the surge in student numbers - new buildings, facilities, refurbishment etc.

There is also great scope for investment in: national and secondary roads, green energy, electricity grid upgrade, development of natural resources (peat, forestry), conservation technologies, reskilling and upskilling our labour force, return to education, public transport, urban regeneration and flood defences.

NPRF monies could also be used to incentivise the development of new enterprises (or the extension of existing ones) through risk sharing with private investors.

Government should adopt - as a matter of urgency - the model of 'job protection' so successfully implemented across the EU. This provides state support to viable jobs threatened by the downturn and makes solid social and financial sense.

New Ideas on Public Investment

- Money from the **National Pension Reserve Fund** should be utilised to invest in addressing our infrastructural deficit and jobs crisis. Over time, this could rise to €6 billion that would be invested in Ireland's future, rather than in bank subsidies or foreign equities.
- Start **auto-enrollment in the state pension fund** immediately, which will result in substantial flows of funds to the Exchequer.
- Introduce amending legislation to provide for **investment in Sovereign Bonds by Pension schemes** as called for by Congress, IBEC, IAPF and others.
- Encourage **PRSAs to invest in the state pension scheme**. If 20% invested next year, this would provide around €1 billion.
- Increase the interest on the **National Solidarity Bond** (an idea originated by Congress) and hypothecate the investment into designated projects and market it as such.
- The key role of state enterprises in our recovery must include the establishment of a State Holding company as a new, commercially-focused structure.

Contribution from the Corporate Sector

We should extend the **income levy to corporate profits**, in this time of national crisis, until the 3% budget deficit target is reached. Only companies making a profit would pay.

Multinationals could also **defer repatriation of a portion of their profits** and set up a fund to invest in new or existing Irish-based enterprises and infrastructure. Such a fund could amount to billions of euro and could make a significant contribution towards economic renewal and development.

Banks & Bondholders

Government must act in the interests of its people, not the markets. It must force down the value of all bondholders' holdings - which they risked in recklessly-

run, private banks - to 10% of their nominal value. This could see a saving of up to €24 billion for taxpayers.

Tax Measures

The tax system is **rife with exemptions and reliefs**. Their combined impact narrows the tax base. Unless there is a proven benefit to the taxpayer, they must be closed.

A rise in the general **rate of DIRT to 30%** would raise an additional €75million.

The **minimum tax for high earners** - using avoidance schemes - should be increased to 35% and the threshold reduced to €100,000. There should be a limit on earnings for pension purposes of €100,000.

The beneficiaries of **capital gains** are better placed to meet tax liabilities than those on minimum wage. In the U.S., capital gains are taxed as income with lower discounted rates on long-term gains. We should do likewise.

The current **threshold for inheritance** from parents (€414,799) is far too high and should be reduced. Specific protections might be required in cases of people living in inherited property, where these beneficiaries are on low incomes.

Place a **(temporary) wealth tax** on wealth above €2 million, wealth being defined as current value of all assets, including the excess of €1m in the value of private houses.

Reduce the 183 day test for **tax residency purposes** to at least 90 days, as obtains in the UK. Where a **tax exile's** main centre of vital interest is here or if they are assessed on a permanent home test, they should pay tax here.

If it is intended to merge the **income and health levies** it is vital this is done in a way that ensures equity.

The **minimum funding standard** must be eased to help occupational pension schemes which are under great stress, with most defined benefit schemes in deficit.

Congress believes a **12.5% oil and gas royalty tax** - on production and profits - should be reintroduced.

Social Welfare

No **further cuts** to social welfare rates. Welfare recipients will be badly affected by the recent 5% increase in electricity prices. The price of liquid fuel has

also increased (by 26.8%), placing struggling households under further pressure.

We should **reform social welfare rules** which discourage employment: allow people who work reduced hours more than three days in the week to be able to claim jobseekers benefit for the time they are not working.

Tackle **poverty traps**, such as the loss of medical card entitlement for low-income earners which discourage people from taking up work.

Introduce compensation to help mitigate the problem of **fuel poverty** and broaden fuel allowance coverage to households in receipt of Family Income Supplement.

We remain opposed to means testing of **child benefit** in the absence of an adequate state supported child care system.

Congress supports the Nordic '**flexisecurity**' model of robust social protection and strong active labour market policies to promote employment.

Privatisation

Privatising valuable state assets for short-term gain would be a grave mistake, especially when asset prices are very low. The record is not good. The

Eircom debacle greatly delayed the roll out of fast universal broadband.

Corporate Governance

Company laws must be radically reformed with a shift from the narrow interests of shareholders to the broader stakeholder model.

Community Employment

Congress supports the campaign of SIPTU, OPEN, Mental Health Ireland, the Irish National Organisation of the Unemployed and Inclusion Ireland to protect the conditions of people with disabilities and lone parents on Community Employment (CE) schemes.

International

Congress recognises the critical role played by **Overseas Development Assistance** in driving towards the realisation of the Millennium Development Goals and as a stable source of funding for poorer countries. We support the introduction of a **Financial Transaction Tax (FTT)** which could raise between €160 and €700 billion (more than 3 times the current levels of international aid). It would also tackle corporate tax evasion and ensure more effective regulation of banks.

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