Investing for the many, not just the few

Congress Pre-Budget Submission

Budget 2018

STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions

Contents

Foreword

Budget 2018 should prioritise investment for the many and not just the few.

People deserve to see an inclusive and equality-proofed budget that places the welfare and betterment of the majority at its very core. We have a responsibility to make Budget 2018 the first in a series of transformative budgets that will prioritise higher living standards and quality of life underpinned by a programme of investment in infrastructure and services.

A housing emergency impacts on hundreds of thousands. As workers paid the price in lost income and jobs due to catastrophic policy failures in the lead up to the bank bailouts of 2008-2010, the recovery in economic activity since 2012 has not been even or fair across all groups, sectors or regions. Some groups have leaped forward thanks to a recovery in property prices, corporate profits and equity returns while others have barely seen any improvement in living standards. Fiscal policy and fiscal stance remains inappropriate relative to what is needed by way of new investment and repair of front-line public services.

The pressures of a growing and ageing population along with the uncertainties arising from Brexit as well as the impact of new technology is placing enormous pressures on workers as well as on public services. Congress strongly urges a quantum leap in public investment to begin to match the scale of the challenge. Budget 2018 should be the first in a series of budgets designed to shift the direction of fiscal policy towards a more dynamic economy and fairer society. A different Ireland is possible – based on a fairer distribution of income, an efficient public service and a dynamic enterprise economy.

Budgetary policy should give priority to housing, health, education and childcare. These are investments for the future as well as for the present and should be treated as such when it comes to interpreting fiscal rules and planning over the coming decade.

Further income or capital gains tax cuts will only slow progress towards sound and sustainable public finances to meet the needs of 21st century Ireland. Over €2 billion of the government's 2018-2021 limited budgetary space[1] is currently allocated to tax cuts. This is not affordable. Ireland has massive infrastructure deficits in housing, transport, broadband, renewable energy and water treatment that require immediate attention. These investments will enable the economy to develop sustainably and will improve living standards through productivity-lead growth. Workers deserve a much improved 'social wage' paid for through general taxation or social insurance.

The trade union movement stands in solidarity with the most vulnerable in society including pensioners, young people and others dependent on public services and income support. Social payments should be restored by more than the expected cost of living increases in 2018.

...investment for the many and not just the few.

1 "Fiscal Space" is the amount of money available over and above current public spending in forthcoming budgets taking into account rules surrounding expenditure etc.

1

Macroeconomic context

The Nevin Economic Research Institute projects that the Irish economy will grow by over 4% in 2017 and then by over 3% in 2018 with continued improvements in the labour market. The growth is expected to be based on increased domestic demand including higher levels of private consumption and strong growth in underlying real investment.

The ongoing fall in the numbers of unemployed will lead to reduced expenditure on income supports, while a growing number of persons in employment as well as rising average disposable incomes will generate additional revenue flows for government. The NERI project that the government's general budget deficit will be no worse than minus 0.5% of GDP in 2017 and only marginally in deficit in 2018.

Budget 2018 will be put forward in the context of a very small deficit in the public finances and a medium-to-high (albeit declining) debt to GDP ratio. The NERI notes that, as of mid-June 2017, and based on European Commission methodologies which are highly questionable, there is unused 'net fiscal space'[2] of about €350 million[3] available for use in Budget 2018. Congress proposes that this amount should be supplemented by discretionary measures to raise revenue by €1.65 billion, giving us total available resources of €2 billion. This additional amount – which is only around 2.5% of current total government spending should be used to rebuild our economic and social infrastructure and boost the 'social wage' going to workers in the form of collective education, health, transport and housing services.

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2 That is, monies available after taking account of movement towards a balanced budget, allowing for the carry-over effects of previous budgets and adjusting for whether the economy is 'over-heating' or 'under-heating'. The European Commission claims that the Irish economy is currently 'over-heating' – a claim that is not supported by the Department of Finance, the Irish Fiscal Council or by the Nevin Economic Research Institute.

3 After adjusting for the cost of the proposed public sector pay deal which has not yet been agreed.

On a no policy change basis Ireland is scheduled to have the lowest public spending-to-GDP ratio in the entire EU by 2021, and a historically low spending ratio by modern Irish standards. The International Monetary Fund projects that Ireland will have a public spending-to-GDP ratio of 25.8% in 2021 compared to 46.6% in the euro area and even 36.0% in the 'low-spending' United States[4].

Such a low level of spending has significant negative implications for the future provision and quality of public services and infrastructure, and has implications for the future sufficiency of welfare payments. Under current government plans, spending on public services relative to the size of the economy will be substantially lower in 2021 than it was in 2015.

4 GDP based comparisons involving Ireland are problematic given the distorting effect of multinational activity on the Irish national accounts.

Table 1: Per capita public spending excluding interest payments in 2016 (€bn)

		Population (thousands)	Public spending	Per capita spending, €
1	Luxembourg	583.6	22.1	37,869
2	Denmark	5,729.0	144.7	25,257
3	Sweden	9,923.1	229.4	23,118
4	Finland	5,494.6	117.9	21,452
5	Austria	8,739.1	171.2	19,586
6	Belgium	11,271.0	213.0	18,902
7	France	66,671.0	1,215.2	18,227
8	Netherlands	17,030.0	296.5	17,412
9	Germany	82,484.8	1,344.3	16,297
10	Ireland	4,716.5	68.4	14,497
11	United Kingdom	65,572.0	938.1	14,306
	Weighted average excluding Ireland			17,157
	Gap per person (€)			2,660
	Gap scaled to Irish population (€ billions)			12.6

Sources: Data are from European Commission (2017) AMECO database: Total Population, AMECO database: Total expenditure excluding interest – ESA 2010; Calculations are from a recent NERI Working Paper.

Table 1, which is taken from a recent NERI Working Paper, shows per person public spending excluding interest payments in 2016 for the 11 richest EU countries. Ireland had the second lowest per person spend in 2016. Ireland's per person spending was over 15% less than the peer country average. The difference is €2,660 per person, equivalent to €12.6 billion when scaled over the Irish population. The NERI analysis further shows that spending has been particularly low on a per capita basis for infrastructure and on a per student basis for education. Infrastructure and education spending are both crucial for long-run economic prosperity. As part of a medium-term plan, funding for education should be increased to at least 7% of economic output.

Infrastructure and education spending are both crucial for long-run economic prosperity

2

Brexit-proofing Budget 2018

The likelihood of British exit from the European Union carries huge risks to the Irish economy and particular regions and sectors in particular. The best way to prepare for Brexit, especially if it involves a UK departure from the Customs Union and/or Single Market, is to invest, invest, invest:

- **Invest in skills** to retrain and upskill workers especially in sectors most vulnerable to Brexit.
- **Invest in infrastructure** such as public and other transport hubs to meet the challenge of diversified trade flows.
- **Invest in research, innovation, marketing and organisational capacity** to develop new products and services as well as locate new markets and alliances.
- **Invest in core economic and social infrastructure** from 'cradle to grave' and, thereby, help make Ireland a country of high well-being, equality and economic efficiency.

Public capital spending should be increased from its current low level of 2% of national income to 4% within 3 years. This should be funded through a combination of flexible borrowing within medium-term fiscal adjustment goals, joint ventures with the European Investment Bank to equip regions, sectors and firms to go beyond the challenges of Brexit and through carefully designed taxes on speculative wealth and capital gains.

The proposed 'Rainy Day Fund' should be used now rather than later to address vital areas of infrastructural deficit. Ireland has a young and growing population meaning bottlenecks will only get worse if we fail to invest now. Ireland has an extremely low level of spending on infrastructure and ranks poorly in cross-country comparisons for the quality and sufficiency of infrastructure. Infrastructure should be seen as an investment not a cost and it would be a false economy not to invest in the economy's future productive capacity.

A Brexit Regional Adjustment Fund should be put in place to equip the regions to cope with new trade routes as well as upgrade existing links. By way of example, the existing A5 road linking the North-West and the East of the island should be upgraded while links to the Rosslare port should be improved by means of investment in faster trains linking towns on the Eastern coast. Work should start as soon as possible on the Cork-to-Limerick motorway and on the upgrade to the Rosslare-to-Dublin roadway. These projects will link the ports to the West and East of the country. The Cork-Limerick motorway will also help develop the south and west of the country as alternative hubs to the Greater Dublin area.

Brexit will pose significant challenges for workers in a number of sectors. It is proposed that the government activate the Structural Reform Clause under the fiscal rules. This would provide government with additional fiscal space of 0.5% of GDP to support the parts of the country worst affected by Brexit

Social repair requires greater investment in both public and social infrastructure, currently at an historical low point. If we continue on the current path, Ireland will have the lowest public spending ratio in the European Union by 2021.

Invest in skills to retrain and upskill workers especially in sectors most vulnerable to Brexit.

Key areas of public investment should include the following:

Tackling the housing crisis: time for a game changer...

The developer-led model of housing currently being pursued by Government is failing. A housing emergency needs to be addressed by a serious plan to deliver quality accommodation at affordable prices or rental levels. Congress calls for a major, local authority led social housing programme which could work in tandem with the gradual introduction of a European cost rental model providing stable affordable tenure to all who need it. Failure to invest in housing as well as other key areas of infrastructure will cost the State in terms of social cohesion, long-term public spending liabilities and attractiveness to external investment.

Social housing policy must address the twin goals of making affordable and secure rental accommodation available to a significant share of the population, while increasing the stock of homes in well-designed, sustainable neighbourhoods available to those on lower incomes.

Land and vacant houses should be acquired through Compulsory Purchase Order, and a Vacant Site Levy brought forward immediately and pitched at a rate of 6% instead of 3%. Revenue from this levy should be ring-fenced for homelessness.

Congress proposes that the proceeds from the sale of shares in AIB should go towards solving Ireland's housing and homelessness emergency by diverting these funds into a new social housing programme, which can provide homes for hundreds of thousands of people in housing need. A sum of at least €1 billion extra funding should be available for the public provision of housing by the end of 2018. This should scale up to €2 billion by 2019 using 2019 fiscal space if needed. Funding should go towards adaptation of existing dwellings as well as towards new builds.

Creating a health system that delivers and that is fair…

Our Health Service will only be fixed by moving to an adequately funded, publicly controlled and universally accessible single-tier national health service. Given demographic and technological pressures an indicative target for public spending of 10% of national income should be agreed. A central challenge will be to keep people out of hospitals and long-term care, where possible, by investing in quality community health care as well as health education and early diagnosis. The Oireachtas 'Sláinte' Report is a very welcome development even if much further work is needed in identifying how expenditure can be increased. Health will require very major additional investment to cope with an ageing population as well as deliver a single-tier efficient and effective health service. Congress believes that a long-term target of 10% of GDP should be set for health spending.

Health will require very major additional investment to cope with an ageing population

Equipping people for the learning society...

Education spending falls short of what is needed to equip children, students and workers with the skills to work and live in a fast-changing world. Investment in an accessible, inclusive education system is a prerequisite for an equal society and a thriving economy.

According to the latest OECD statistics, average expenditure per student across all levels of education relative to GDP per capita has been, in past years, amongst the lowest among OECD countries. Key areas from mental health services for young people to investment in the psychological service and speech language interventions continue to be severely under-funded. The State will pay a high price through lack of investment in key services of diagnosis, follow-up and continuing support.

Per student/pupil funding should increase in real terms over the next four years to at least the average of other high-income Western European EU countries. This implies an increased spend of €2 billion per annum. A target of 7% of national income should be agreed for the medium-term.

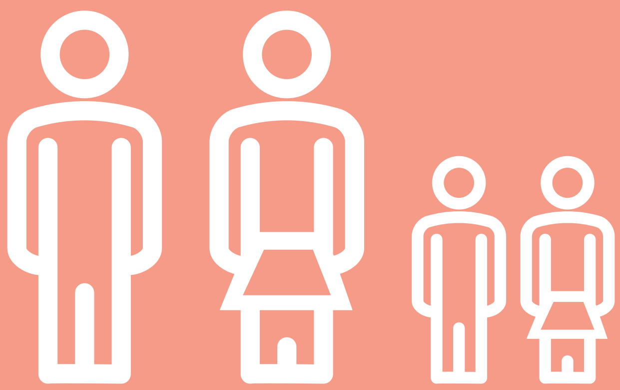
Student service charges for apprentices range from close to €1000 a year to just under €3,000. The charge is paid by apprentices attending off-the-job technical training in Institutes of Technology. These charges, which were dramatically increased following Budget 2014, have imposed considerable hardship on apprentices. The income flow is estimated to be no more than €2 million per annum. Budget 2018 should re-establish these payments at the level set prior to the changes announced in Budget 2014.

Investment in children…

Policy failure in the area of Childcare can be remedied by raising investment to European levels. The very high cost of childcare in this country is a major barrier to labour market entry and significantly contributes to the loss of high quality skills, experience and knowledge within the workforce.

Congress proposes additional funding in Budget 2018 to expand on the public provision of suitable, publicly provided and subsidised childcare. Ireland's annual childcare public spend is among the lowest in the EU as a percentage of output and the average Irish family spends 34% of their household income on childcare, which is double the European average. Given that employers will benefit from reduced childcare costs and higher labour force participation, their rate of Pay-Related Social Insurance should rise to help fund an increase in state spending on childcare.

The average Irish family spends 34% of household income on childcare… double the European average



Protecting the most vulnerable in society…

Many of the austerity cuts can and should be reversed, including those to young people, pensioners and lone parents. Congress proposes that all welfare payment rates be increased in Budget 2018 by a higher percentage than projected price increases in 2018. This will help insulate the most vulnerable groups in Irish society from worsening deprivation and poverty.

The discriminatory cuts to Jobseekers' Allowances payable to new entrants to the live register under the age of 26 must be reversed. In addition, the full Christmas bonus should be restored and money should be set aside to compensate those adversely affected by the changes to the One Parent Family Payment.

Finally, Congress has consistently campaigned to achieve a living wage as a minimum for all workers. The hourly rate of the minimum wage (€9.25) should be increased to the rate of the Living Wage (€11.50). Employers in the Hospitality sector have consistently refused to participate in the Joint Labour Committees.

Budget 2018 should address this income reduction for workers entering retirement. Given the relatively small number of people impacted by this anomaly at present the cost of this reform is small. An Interdepartmental Committee has examined this issue and indicated a cost of €5m to increase Job Seekers Benefit at age 65 by an amount sufficient to offset the loss of the Transitional Pension. The cost would be €24m if it was applied to all social welfare recipients.

Data from the OECD, the IMF and Eurostat, make abundantly clear that Ireland is not a high-tax or a high-spend economy by Western European standards. In fact, Ireland stands out in having a very low overall rate of social insurance contributions, in particular, from employers (see Chart 1).

Many of the austerity cuts can and should be reversed, including those to young people, pensioners and lone parents...

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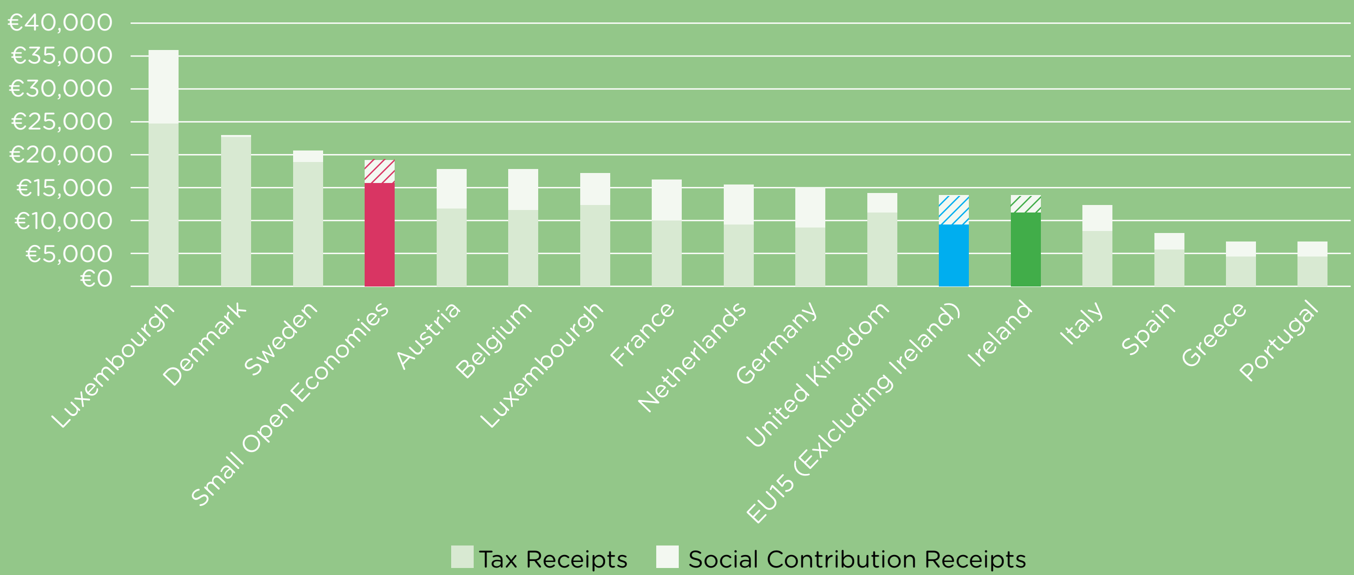
Moving towards European levels of public service

Chart 1: Total per capita receipts from taxes and social contributions, 2015



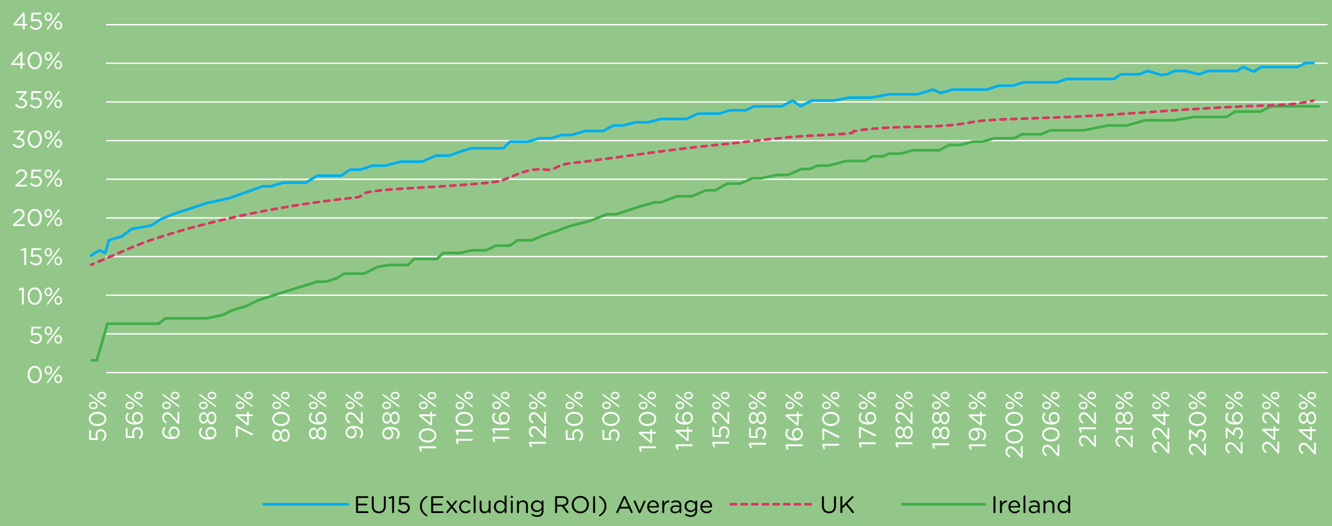
Sources: Eurostat (2017): Main national accounts for tax aggregates; Eurostat (2017) Population on 1st January by age and sex.

We cannot have European-standard public services without the revenue base to support them. Now is the time to move Ireland towards EU norms in terms of personal taxation, social insurance and universal public services. Government revenue will need to be increased over time to pay for a growing and ageing population as well as to meet new challenges and risks. It will be necessary to reform and simplify the tax code so that every group pays its fair share of taxation.

In line with Congress' support for a just transition to a zero or low-carbon economy, Congress accepts that such a transition will have consequences for workers in the energy sector. We, therefore, propose the creation of a retraining and upskilling fund that will be used to provide workers with the skills necessary to thrive in the changed industrial context.

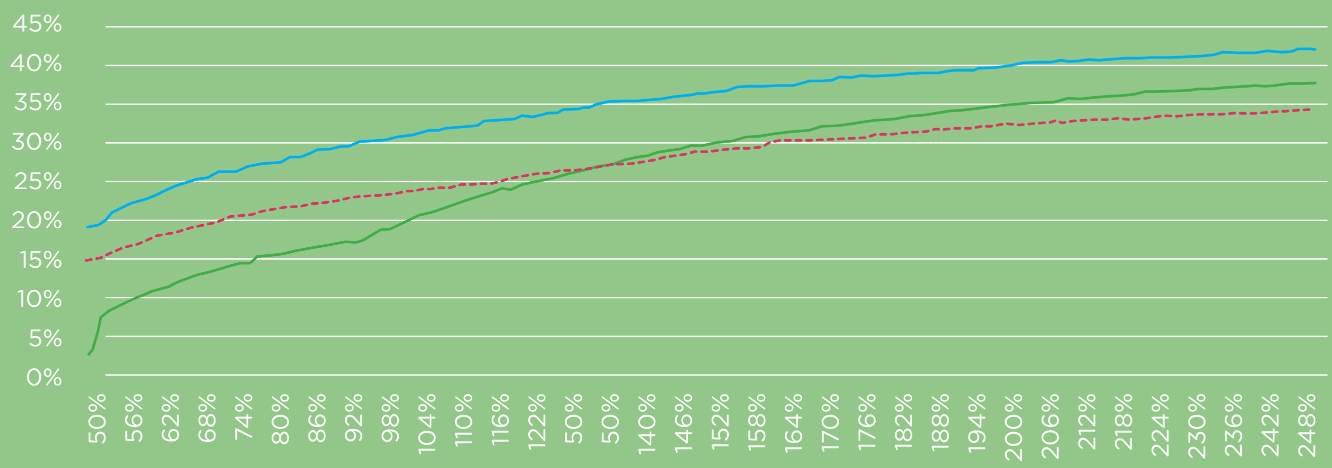
Charts 2 and 3 show that personal taxes are already very low in Ireland.

Chart 2: Personal tax rate, one earner married, horizontal axis represents percentage of average earnings, 2016



Source: OECD (2017) Taxing Wages 2015-2016

Chart 3: Personal tax rate, single earner, horizontal axis represents percentage of average earnings, 2016



Source: OECD (2017) Taxing Wages 2015-2016

Our society cannot flourish without a sustainable, sufficient and progressive tax system.

Meeting the challenge of an expanding population

Our economy and society cannot flourish without a sustainable, sufficient and progressive tax system. While the wealthy and high-income households will need to contribute more in the future it is important that we avoid the mistakes of the past by resisting calls to undermine the tax base. The overall take in taxation will have to be increased over time in order to pay for a growing and ageing population, to eliminate the existing under-spends in various areas of public spending (e.g. education and infrastructure), as well as to meet new challenges and risks.

New Tax Measures

Congress proposes the following series of tax measures for Budget 2018:

Capital taxes

A minimum of €180 million should be raised through the reform of capital taxes and tax expenditures, with particular attention paid to those reliefs available at the marginal rate and the suite of reliefs related to the inheritance and gifts tax (CAT).

A small and recurring net wealth tax should be introduced. The tax should be focused on those households with net assets in excess of €1 million and it should aim to collect €275 million in net additional revenue during 2018.

Social insurance

The social wage is part of an employee's compensation package. In other European countries, with much higher social wages, this delivers substantial benefits to workers such as:

- Pay-related unemployment, sickness and maternity benefit.
- Access to free or below-market cost service – notably health, including GP care and prescription medicine.

The social wage is the driving force in people's living standards and social certainty. In Ireland, the social wage is low. It would have to more than double to reach the average EU level of social wage and in some cases treble to reach some European countries. Ireland's extremely low take from social contributions is wholly unsustainable in the long-term. We do not collect the necessary money through social insurance and general taxation to support individuals, families and communities affected by sickness, unemployment and shortfalls in training and other key services that many of our EU counterparts take for granted.

At least €150 million should be raised by increasing the employer PRSI rate to 13.75% on incomes in excess of €100,000. Targeting employer PRSI contributions on just the portion of salaries above €100,000 will affect relatively few employments (less than 50,000) and would not affect the marginal tax rate on employee salaries. The yield from this measure would boost workers 'social wage' and should go towards childcare infrastructure.

Income taxes

Congress proposes that Budget 2018 should introduce an income taxation reform so that the personal tax credit is gradually withdrawn from high income earners and entirely eliminated for those with incomes in excess of €100,000. A NERI research paper claimed that this reform would avoid labour market disincentive effects and raise an additional €120 million in tax revenue from the top of the earnings distribution.

Value-Added Tax

Congress believes that Government should remove the temporary VAT reduction for the hospitality sector. The reduction was estimated to cost €2.1 billion over four years up to the end of 2015. A conservative estimate of annual revenue loss in 2017 is likely to be well in excess of €700million. Given the significant recovery in tourism numbers and activity in this sector since 2011, the case for retaining this tax cut is very weak. Recent times have seen a substantial increase in profits in many areas of the Accommodation and Food Services Sector. Even still, according to the latest available CSO statistics, three out of four workers in that sector earned less than €400 per week in 2014.

Other tax reforms

The income tax rebate incentive 'Help to Buy' introduced in Budget 2017 for first time buyers should be abolished at a yield of €50 million. While it is welcome that the government is trying innovative solutions to the housing crisis the 'Help to Buy' scheme is a wasteful use of public money that will only increase house prices to the benefit of the seller. The money should be given instead to Local Authorities and used to expand housing supply and, thereby reduce price increases for first-time buyers.

Resources should be further increased to tackle non-compliance at a yield of €50 million.

Budget 2018 should amend the Vacant Site Levy so that the rate increases from 3% to 6% for land left vacant for a number of years.

The importance of Trade Unions for the protection of workers' rights should be explicitly acknowledged in Budget 2018 via the reintroduction of the tax break for trade union subscriptions.

Congress proposes a broadening of the tax base through an increase in the online betting tax sufficient to yield €75 million and an increase in the excise on tobacco and tobacco products sufficient to yield €60 million.

Table 2*: Congress Proposals for Budget 2018 – New Measures, (€ millions) **

New Revenue	(€)	New Expenditure	(€)
Total	1,650	Total	2,000
Reforms to Capital Acquisitions Tax and to the system of tax expenditures	180 (net)	Capital spending (e.g. rural broadband, renewable energy, water, school buildings, public transport, motor network, social housing)	465
Introduce a Net Wealth Tax	275	Brexit Adjustment Fund	200
Increase Employers' PRSI on incomes in excess of €100,000 as a ring-fenced childcare levy	150	Increased funding for community health services, education and training and R&D	200
		Increase social welfare payments, including reform of eligibility thresholds for Family Income Supplement.	350
Abolish 'Help to Buy' scheme	50	Overseas Development Aid spending	100
Abolish personal tax credit for the highest earners (incomes in excess of €100,000)	120	Introduce a retraining and upskilling fund for workers allowing them to adapt to the just transition carbon-neutral economy.	10
Improve tax compliance	50	Offsetting the loss of the transitional pension	25
Increase on-line betting tax	75		
Increase Excise on tobacco products	60		
Other reforms (e.g. site levy)	40		
Abolish reduced VAT rate for hospitality sector	650	Increase public expenditure on childcare infrastructure including subsidies to parents	650

*Details of the June 2017 public sector pay deal are not included in this Table but the cost of that deal has been factored into these proposals by way of working assumption and explains the usage of €350 million of net fiscal space.

**In addition to these measures Congress proposes to use the proceeds from the sale of shares in AIB to fund the establishment of a housing semi-state company. It is estimated the proceeds from the sale of shares will raise €2.5 to €3 billion and it is proposed that the 'Housing Company of Ireland' would begin its programme of homebuilding by 2018 at the latest.

Budget 2018 should be a budget for the majority not the wealthy.

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