Irish Congress of Trade Unions

Growth is the Key

Pre-Budget Submission

October 2011

A better, fairer way

STRONGER TOGETHER

CONGRESS

Irish Congress of Trade Unions

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Executive Summary

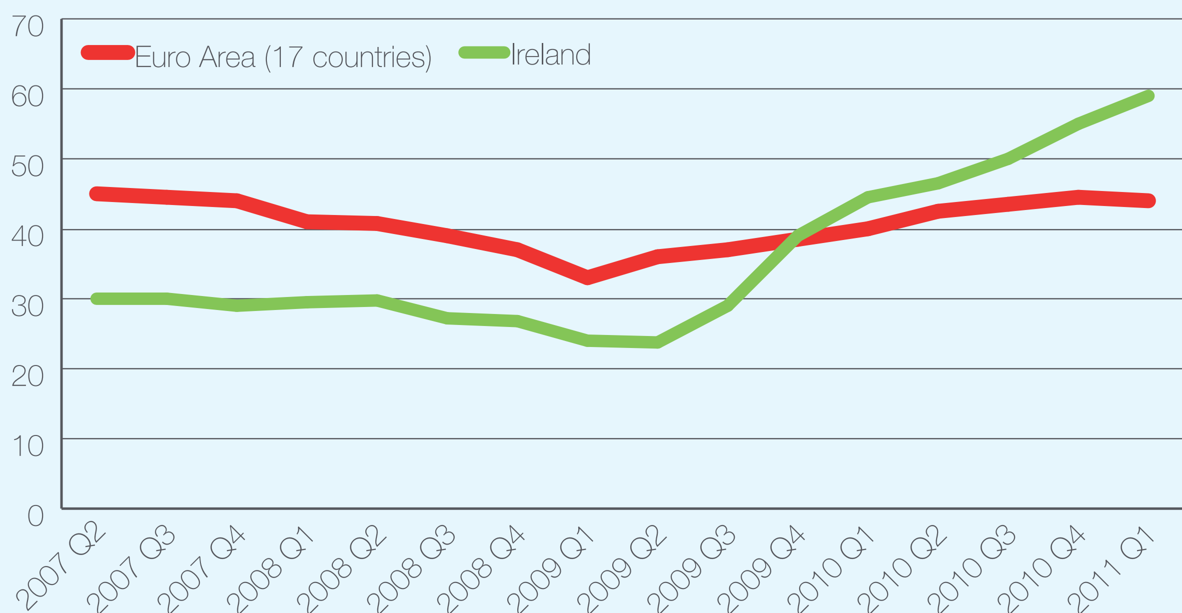
The deficit in demand for labour is the first deficit that must be tackled.

The most effective way to tackle *the financial deficit* is through policies and choices that *will put people first and get them back to work*, that will develop new services and products and increase community solidarity.

The surge in unemployment – especially long-term – is the biggest crisis facing social cohesion and democracy in Europe. In Ireland the crisis has impacted most severely on young people, as the domestic private economy stagnates and public sector employment contracts. At present, the majority of Ireland's unemployed have been unemployed for a year or more (see graph below).

In this submission, the Irish Congress of Trade Unions calls for a prudent approach to repairing the public finances, through timely and appropriate adjustments to expenditure and revenue in such a way as to:

- generate employment;
- invest in infrastructure to facilitate sustainable growth;
- protect the income of the most vulnerable in our society;
- maintain and improve the quality of public services and thereby enhance competitiveness;
- reduce the public sector deficit over time by increasing revenue through economic growth and a gradual increase in taxes, starting with those on the highest income; and
- move towards European average norms of taxation and public expenditure.



Our key argument is:

- The pursuit of fiscal austerity has caused deep and lasting damage to our economy and society. It is taking a serious toll on peoples' lives and on many communities.
- The low revenue model has not served us well and the onset of recession in 2008 exposed the vulnerability of this model, as revenues fell sharply and expenditure on social welfare rose in response to growing unemployment and a fall in wage income.
- There are alternatives. A short-term, 'book-keeping' approach based on further cuts to public spending is reckless and is not working. Equitable tax policies can deliver the reduction in debt and economic recovery that many claim or assume will happen.
- A new approach based on fiscal prudence and realism allied to social solidarity is urgently required to stop the corrosive effect of long-term unemployment among young and old.
- Global instability, the deepening crisis in Europe, the rising price of Irish bonds and the lack of economic growth in Ireland allied - with the low growth projections for much of the world - provide good reasons to extend the adjustment period to 2017.

The key to economic recovery is to increase, not reduce, investment in productive, job-intensive, environmentally-friendly activities.

Public investment has to lead this recovery, generating confidence in private firms and with international investors. Ireland will continue to rely on foreign direct investment. However, there is a need to diversify our strategy by developing new products and services produced by innovative indigenous firms for the home and export markets.

The Current Crisis

1

Austerity is not working. Every projection of GDP and the public sector deficit has been off-target over the last three years[1]. Congress has been something of a lone voice in arguing that these levels of austerity will kill off growth.

The 2012 budget will directly impact on economic activity, public services and the lives of many people. In recent years, over one third of GDP has been collected by Government through taxes and other charges.

Currently, it is estimated that just over 45% of a much lower GDP is spent by Government on a wide range of services from education to health, social protection, capital investment and other vital areas of public good[2]. The recession of 2008 and its prolongation has led to a sharp increase in unemployment, a marked slowdown in the domestic economy and a disruption of normal banking activity. While this has been part of a global crisis affecting most industrialised economies its impact has been particularly severe here.

From a position of low public debt, positive budget surplus and booming tax receipts in the last decade, Ireland's fiscal position has been rapidly transformed into one of escalating public debt, large continuing deficits alongside sharp discretionary cutbacks in capital and current spending.

1 Appendix 1 provides an overview of recent projections and indicates the extent to which they have been shifted while the actual public sector deficit as a proportion of GDP remains stuck on a double-digit level.

2 The estimate of General Government Total Expenditure in 2010 was 46.4%. This figure excludes sums transferred or accounted for under bank recapitalisation and bank promissory notes.

To date, more than €12 billion has been cut from public expenditure in discretionary changes. Yet, public expenditure continues to remain higher than a decade ago due to a combination of demographic and cyclical factors, as well as the impact of bank recapitalisation and the redemption of bank bonds.

The impact of sustained and contradictory Government policy over 2009-2011 has been to depress consumer demand, add to the slump in gross capital formation and to increased unemployment.

Unemployment now stands at over 14% of the labour force. When account is taken of the fall in hours worked and increased discouragement of persons to seek work, the true extent of under-employment is as large as one quarter of the labour force[3].

The socialisation of private banking debt by means of bank nationalisation and the generous under-writing of various liabilities after the 2008 bank guarantee must be changed. The level and timing of total public debt including transfers from the private sector is unfair, damaging and unsustainable. There must be significant restructuring of this debt.

Prior to the EU-IMF 'bailout' of November 2010, it was an established aim of Government since the onset of recession to reduce the General Government Deficit to 3% of GDP by 2013. As previously optimistic growth forecasts are continually revised downwards, domestic economic activity remains in a slump and it proves

3 The estimated rate of unemployment was 14.3% in the secondary quarter of 2011. However, when account is taken of underemployment (referred to as S3 by the Central Statistics Office) the true rate of under-employment including unemployment was 24% in the second quarter of 2011.

Austerity has not worked to date, especially in the absence of any significant recovery in private sector investment and consumption.

increasingly difficult to get ahead of the recessionary curve by stimulating revenues.

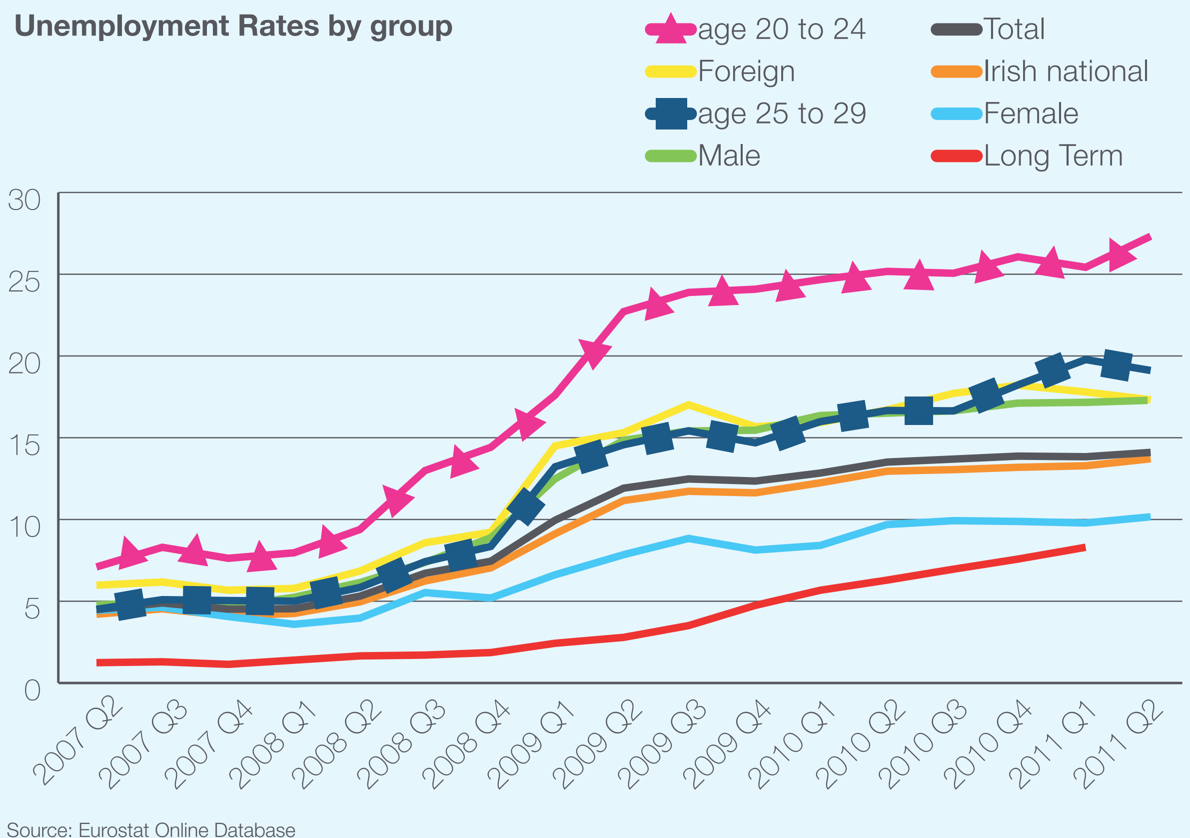
Instead, for every job lost and for every cut in living standards, tax receipts fall, mortgage and business loan defaults rise and expenditure automatically rises as a result of growing health and social welfare entitlements.

Austerity has not worked to date, especially in the absence of any significant recovery in private sector investment and consumption. The evidence indicates that cuts have eroded or depressed revenues and indirectly added to spending as a result of more people losing jobs or income.

The recovery in exports in 2010 on foot of an international recovery in trade - which looks temporary - has not made any noticeable impact on the overall level of employment here. Were it not for increased outward migration the level of unemployment would be much higher.

Headline estimates of unemployment do not take account of significant under-employment, increased part-time working and 'discouraged' job seekers who drop out of the labour force entirely. These trends have impacted particularly severely on the following groups (see graph below):

- Young people
- Men
- Migrants



When private sector investment collapses and consumer spending remains depressed - due to falling living standards and rising unemployment - the best stance of Government should be to reduce the deficit gradually while targeting expenditure on stimulating economic activity and protecting those who have the highest marginal propensity to consume in the domestic economy.

Such a realistic approach involves conserving public services while, at the same time, gradually increasing revenues to reduce the size of the deficit as a proportion of national income. Even before the current recession, the distribution of both income and wealth in Ireland was neither fair, nor economically efficient and the cuts have aggravated this inequality.

The programme of accelerated fiscal correction involves further damage to economic activity and further attacks on the living standards and economic well-being of those who are least able to bear it.

Some may argue that the private sector steps into the gap left by a reduced public sector and that this occurred in the late 1980s. This ignores the vastly different international, EU and domestic contexts in which fiscal adjustments were made at that time. The following context does not apply today:

- between 1986-89, government voted current spending was not reduced;
- Ireland benefited from an effective ‘stimulus package’ through European Community development funds; and
- trade expanded on global markets.

As the world has become more highly inter-connected and the financial markets less subject to cross-border control and as vast sums of financial wealth are transferred or re-valued in a matter of seconds, the prospects for nation states or inter-governmental agencies - in addition to the EU - to effectively regulate, or direct economic activity remain very limited.

The prospect of prolonged instability and a continuing slump remains very real. It is not impossible that many countries including Ireland, could continue to experience little or no increase in total economic activity, continuing high-levels of unemployment, poverty and social exclusion and high levels of personal and public sector indebtedness (with or without some write-down in the value of debt).

Policy-makers ignore the political and social impacts of short-term fiscal policies at *our* peril. The transfer of vast amounts of bank debt to the balance sheet of the citizens of Ireland represents a huge shift in liability and will continue to drag down public finances for many years, unless some significant re-scheduling of debt occurs.

This Budget submission is written within the constraints imposed by:

a) the Memorandum of Understanding agreed by the last Government with the Troika of the IMF, ECB and European Union;
b) a deep fiscal crisis following the collapse of all Irish banks and the socialisation of their losses and lenders’ debts;
c) the great uncertainty in Europe; and
d) low economic growth in many other countries.

Do No Further Harm: Invest, Employ and Grow

2

Involuntary unemployment constitutes a waste of human potential. It is the ultimate personal, family and community nightmare. The key to tackling unemployment is to stop compounding the deflationary spiral that has afflicted Ireland since the Autumn of 2008. By continuing to reduce payments to social welfare recipients, raising taxes on low to middle-income earners and cutting back on health, housing, environmental, transport and education programmes, the Government is undermining key social assets.

The impact of fiscal adjustment is limited to the extent that every tax increase or spending cut feeds through the economy by way of 'multiplier' effects. To see this it is useful to draw on empirical data from the Economic and Social Research Institute (ESRI).

The Institute has modelled macro-economic activity over a long period of time to examine the impact on national income, public sector debt and employment of various 'shocks' or adjustments to the economy, including tax increases and cuts in public sector employment or expenditure (allowing each variable to change while all else remains the same except the outcomes being measured).

These are, possibly, conservative estimates based on historical data when the economy was growing strongly and estimated (positive) multiplier impacts of changing taxes or public spending were lower than they are now, when there are under-utilised resources. The figure for the effect of a cut in investment must be treated with extreme caution however, as the pay-off from such an investment is ignored.

It is often assumed, or claimed, that public spending cuts are preferable to tax increases as a means of fiscal consolidation. The evidence for Ireland, limited as it is, suggests otherwise.

Impact (as % of GDP) after 7 years of an increase of €3 billion (or 1.8% of GDP) in various taxes in 2009

	GDP	GNP	Employment	Deficit
Income Tax	-0.5	-0.5	-0.4	-0.4
Carbon Tax	-0.5	-0.1	-0.2	-0.4
Property Tax	-0.3	-0.4	-0.1	-0.5
TOTAL	**-1.3**	**-1.0**	**-0.7**	**-1.3**

Impact (as % of GDP) after 7 years of a cut of €3 billion in various categories of public expenditure in 2009

Pub. Sector Wages	-0.3	-0.5	-0.2	-0.2
P.S. Employment	-0.6	-0.9	-0.8	-0.3
Public Investment *	-0.1	-0.2	-0.2	-0.5
TOTAL	**-1.0**	**-1.6**	**-1.2**	**-1.0**

Source: Bergin et al. (2010)

* **Note:** *These results only take account of the 'demand side' impact of the change in investment. They take no account of the longer-term 'supply side' impact, reducing national output and productivity as a result of the reduced stock of infrastructure. Previous research (FitzGerald and Morgenroth, 2006) has emphasised the importance of this omitted supply side channel on national output. Thus the longer-term impact of this cut on output and employment would be substantially greater than shown here.*

ESRI estimates (Bergin *et al.* 2010) suggest that tax increases are more effective at reducing the deficit than reductions in public sector wages or employment.

Further a new study by Laurence Ball of John Hopkins University and two IMF staff members warned that "slamming on the brakes too quickly will hurt income and jobs." (Ball, et al, 2011)

They argued for the need to restore fiscal sustainability, but said it must be balanced.

The IMF model found that in countries without their own central bank (such as in the Euro area), austerity leads to cuts in incomes that were twice as large as previously thought. It found flaws in the argument that 'cuts are better than tax rises' argument in a monetary union, and it found that the pain is not shared equally. Instead, wage earners were hurt most: wages fall by 0.9% with each 1% cut in GDP, whereas profits/rents fall by only 0.3% and they recover faster!

The priority in this budget should be to avoid measures which increase unemployment further and undermine fiscal consolidation, through falling tax receipts and increases in spending associated with unemployment. A policy to create employment has three components:

- Raising demand for employment through improvements in cost competitiveness, market share, profitability and better organisation of work.
- Improving the quality and supply of skill through education, training and active labour market interventions so as to better match demand and supply.
- Raising demand for employment through higher aggregate demand, including public sector led investment policies and better access to credit.

Public policy, to date, has relied heavily on the first of the above approaches. In the hope of generating higher demand for labour, policy has spoken to the need for export growth, cost reduction, lower taxes and lower wages in key sectors.

There is an absence of evidence that any of these approaches have arrested the rise in unemployment or led to new jobs.

The response of the education and training sector has been to provide more short-term training to the unemployed. There has been a large increase in the numbers staying on in school as well as in the numbers entering further and higher education. However, placement rates for those leaving full-time education are disappointing. The public service – which traditionally provided an important route into the labour market for young people – is being reduced, as demand for public services rises and the population grows.

On the third approach to creating employment – investing in new products, services and infrastructure – there has been a failure on the part of public policy to step in to the void left by the collapse in domestic investment and consumption.

Where construction, retail, finance and other sectors contracted there should have been a major programme of investment to transform Ireland's inadequate infrastructure in areas such as water conservation, energy, broadband, retro-fitting of buildings and early childhood provision.

Targeted investments in key areas could make a huge contribution to giving people meaningful work, skills and purpose while improving national infrastructure at a time when our dependence on imported fossil fuels and our capacity to compete on world markets is a constraint on future growth potential.

The level of structural unemployment is so serious that bold and imaginative initiatives are required to help people to keep in touch with the labour market. In this regard, the paper by Social Justice Ireland merits serious consideration. Congress believes that there is scope for the community and voluntary sector, together with the local authorities, to pursue this proposal under the aegis of government.

We should note that Denmark's new centre-left government has opted to spend and work its way out of the economic crisis, in sharp contrast to the austerity approach in many other European countries.

Their government is to kick-start Denmark's sluggish economy by investing in the upgrading of roads, railways and bicycle paths. This war chest will also fund renovations of council housing blocks and environmentally friendly upgrades to private homes.

The call for increased austerity from the Fiscal Advisory Council is remarkable when it so clear that austerity is failing. The Council's preoccupation with debt reduction ignores the impact of the €21bn adjustment to date. It is interesting that both employers and trade unions, - who work in the real economy – are urging caution on the level of adjustment.

Meanwhile, academics in ivory towers and tax subsidised institutes and banks recklessly pursue some idealised level of deficit reduction without care for the consequences.

Taxation Proposals

3

The Irish tax system is very opaque. It contains a wide and complex array of exemptions and reliefs. Their combined impact narrows the tax base. There is a lack of transparency about who pays what and the true levels of wealth and income across society. An important principle of taxation is that income from all sources – earnings, capital and other – should be taxed in the same way. Targeting tax evasion and pursuing uncollected taxes more effectively could yield significant additional revenue at this time.

Our regime of low corporate tax rates, combined with an unwillingness to treat capital gains as income and a continued refusal to treat much property or wealth as tax sources, have resulted in an over-dependence on income tax, (31% of tax income), and consumption taxes, (VAT is 23% of tax income while Excise duties make up 10%).

Yet tax based incentives- estimated to cost in excess of €11 billion per annum - have greatly narrowed the income tax base though many, like tax credits, are essential for equity (Collins and Walsh, 2010).

It is likely that disposable incomes will be squeezed for the next few years as a result of changes in wages, prices and taxes.

In the April Stability Programme Update it is assumed that real wage growth will not resume until 2015 – and even then, it will be less than 1% per annum. Given the level of deleveraging in households, extra taxation on low-average incomes will continue to be a drag on domestic demand.

Estimated Taxation Revenue for 2011

	€m	%
Income tax	14,125	31.3
VAT	10,230	22.6
Social insurance*	7,550	16.7
Excise duties	4,675	10.3
Corporation tax	4,020	8.9
Local Government tax/charges	2,750	6.1
Stamp duties	955	2.1
Capital Gains Tax	410	0.9
Capital Acquisitions Tax	250	0.6
Customs	235	0.5
Total	**45,200**	**100**

Source: Collins (2011:91)

* not a tax but a social contribution.

It should also be noted that the likely revisions downward in the upcoming four year plan will impact negatively on wage growth.

Interestingly, for all workers, CSO data shows no decline in earnings between the first quarter of 2008 and the second quarter of 2011, but with a small rise in real terms in the period for hourly earnings.

In manufacturing, which is overwhelmingly private sector, there was a rise in weekly earnings in this period of 4.5%. Had the 'internal deflation' attempted by the last government worked, the fall in domestic demand would have been catastrophic.

There must be a 'root and branch' evaluation of tax reliefs for the self-employed to ensure they pay their fair share. It also requires specific measures - such as an increase to 35% in the minimum tax to be paid by the rich and a reduction to €100,000 of the threshold at which this rate would apply.

Alongside the cutting of the tax credits, the introduction of the USC in Budget 2011 meant that those earning between €16,016 and €25,999 were particularly badly hit as they were previously exempt from the health levy, whereas those earning between €26,000 and €75,036 faced the same rate of USC. The ICTU calls for the USC to be progressively restructured with a reduced rate for low earners in the €16,016 and €25,999 income range and higher rates for higher bands of income.

An examination by TASC of the impact of the Universal Social Charge (USC) suggests that the introduction of USC may have impacted differently on men and women due to the distribution of earnings between men and women. The big winners were earners over approximately €75,000, whose income increased as a result of the change.

Significantly more men are concentrated in the higher income deciles, which means they benefited disproportionately by this measure.

In contrast, as women are concentrated in the lower income deciles the introduction of the USC had a disproportionately negative impact them. The cumulative effect of cuts in income (due to tax changes) and cuts to benefits (child benefit) exacerbates the negative impacts on women.

Such findings point to the need for an equality statement with each budget, which would note the distributional impact of measures across gender and other grounds, including people with disabilities. .

The structure of taxes needs to be changed to increase the share of:

- Local taxes
- Social insurance charges
- Capital or property taxes
- Corporate taxes
- Taxes on carbon consumption

A funded social insurance scheme should allow citizens to pool some of their savings out of current income to pay for healthcare, pensions and periods of sickness or disability.

In this way, wasteful tax expenditures and public subsidies for private health can be reduced. Taxes at the local level which are seen to go towards local public services should be more acceptable than a generalised increase in all taxes at a centralised level, with little obvious ownership or control at the local level.

The fiscal crisis in Ireland points to the need for a new departure in spending and revenue collection:

- Ireland needs to align with European Union norms of spending and revenue-raising.
- The structure of taxation needs to change towards higher taxes on immobile property, capital income and high-energy consumption

Those who avail of residency rules to avoid paying tax should be brought into the tax net.

i. Wealth taxes

At a time of unprecedented economic crisis, all should play a part in addressing the shortfall between expenditure and revenue. All forms of income and wealth should be liable for tax on the basis of ability to pay.

Congress proposes a 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. In the absence of a comprehensive audit of wealth it is not certain how much such a tax would raise. However, if it were levied at an annual rate of 1% on the net market value of the taxable wealth of ordinarily domiciled individuals, discretionary trusts and private non-trading companies, it could yield €500m on the basis of €50bn in taxable wealth.

It should be possible to exclude some categories of wealth such as that of the principal residence or land attached to that residence up to an acre, as well as furniture and household effects.

ii. Taxing and supporting all our citizens

Citizenship is a two-way obligation. Those who avail of residency rules to avoid paying tax should be brought into the tax net. The 183-day requirement for tax residency should be cut to at least 90 days, as obtains in the United Kingdom. The payment levied on 'tax fugitives' should also be increased.

iii. Offshore & Onshore Resources

It is only prudent that the state take steps to ensure that the Irish people are not short changed if there is a major oil or gas find in our jurisdiction. The increase in the nominal rates of Corporation Tax for exploration/ production companies up to 40% for very large finds, is welcome. However, there is too much room for tax avoidance under the present regime where taxes are levied on declared profits only and there are huge write-offs allowed.

Further, no payment is made for the resources extracted. These resources belong to all the people and the exploration company should be made pay us something for them. This is normally done by payment of a small royalty. A 12.5% oil and gas royalty tax - on production - should be reintroduced. This should be levied above a reasonable threshold, which would allow for all of the initial costs of exploration – up to a point- to be written off before any royalty is paid. Congress further urges the Government to consider introducing even higher royalties and taxes on profits if large finds are made, as part of any new set of terms agreed in the future.

iv. Taxing high incomes

The minimum tax for high earners (using avoidance schemes) should be increased to 35% and the threshold should be reduced to €100,000. Further, there should be a limit on earnings for pension purposes of €100,000. The combined value of such changes could be in the region of €100m. There is a case for increasing the Universal Social Charge and/or tax rate for earners above €100,000 per annum. Congress proposes moving towards a single and more transparent tax rate on earnings above €100,000 per annum with a temporary 'Solidarity Levy' on an escalating scale on incomes in excess of €100,000 per annum.

A property tax – are there options?

v. Carbon taxes

While welcoming a re-orientation of taxes from income to consumption which has high carbon content, it is necessary to balance any increases with compensating increases for households on low income. As electricity and gas prices escalate this Autumn of 2011 it is essential that those on low incomes are protected.

vi. Residential Property Tax

The Government intends to bring in a form of property tax under the terms agreed with the Troika. It is essential that such a property tax is not a 'flat tax' but one which is linked to ability to pay and is weighted against taxing modest homes.

It is a reality of our current position that the tax base of the economy needs to be widened. Not to do so would leave too heavy a burden on income, consumption and payroll taxes. One option for widening the tax base is to introduce some form of property tax. Previous experience would suggest that this would be unpopular. But much depends on whether it could be done on a fair and progressive basis. Some options are explored below.

One approach is to base an income related property tax on the notional rental income from that property, or on a percentage of the value of the house. The value of properties can be put into broad bands, based on a number of factors including size, location, most recent sales of similar type and adjusted by the housing index, etc. An amount of the value of the house (e.g. first €100,000 of value) could be exempt from tax. Such a tax could be introduced initially at least on a self-assessed basis.

The taxable element, which could be a small percentage of the value of the house, would be taxed as income at the individual's marginal rate of tax, less any other allowable expenses. These could be water or refuse charges, part of management fees in the case of apartments, or even part of outstanding mortgages.

Another approach would be the development of a Site Valuation Tax (SVT) which would be levied on all land zoned for development – including residential sites and land banks held by property speculators. The rate of the tax would be linked to the provision of public services and would be levied as a charge per square meter of a site. Collins and Larragy (2011) have proposed an approach to the introduction of a SVT. Such an approach would require the completion of a national digital property registry. It would also be necessary to establish a fair and transparent system of site valuation taxes including appropriate provision for low income households.

vii. Capital allowances

Property Based Capital Allowances should be discontinued, along with interest deductibility against rental income. There are substantial amounts of unused capital allowances for individuals and companies being carried forward for tax purposes. It is proposed that all losses and capital allowances not utilised by December 31, 2012 be lost. It is conservatively estimated that the value to the exchequer would be in the order of €600m

viii. Interest relief against rental income

Termination of this relief in respect of individuals and property companies might yield savings in excess of €1bn.

ix. Taxes cigarettes and alcohol

While there are limitations to the extent to which prices for these products should diverge in an all-island economy, there does appear to be scope for increasing excise duties on cigarettes and some types of alcohol sold through off-licence premises – in particular, wine – without an undue loss in revenue to the exchequer.

x. Taxes on financial transactions

Along with the European Commission and the ITUC Congress supports the proposal of a Financial Transaction Tax (FTT) which could raise between €160-€700 billion - more than three times the current levels of international aid. It would also help reduce corporate tax evasion and ensure more effective regulation of banks.

xi. Tax treatment of pensions

Provision of adequate incomes for those who retire is an important collective and individual responsibility. Inadequate provision for pensions is a consequence of a number of factors, including the prevalence of funding and contribution arrangements in both public and private sectors that are out of step with modern realities and requirements.

The treatment of pensions in the taxation system is therefore a vital element in helping to provide for future income flows. Currently, the patchwork arrangement whereby many pension schemes are under-funded and significant numbers of workers are without adequate contributory or occupational pension cover (if any) is unsustainable.

There is a strong case for an additional state pension scheme into which savers can invest. This would give the state great sums of capital immediately and the savers a secure place to invest, with a real return and lower administrative charges.

There have been major changes to the tax treatment of larger pension funds over the past few years. Congress does not endorse any further amendments to relief on pension contributions until the effects of all these changes are clear. It would be more equitable and efficient to streamline pension provision by gradually increasing basic or contributory pension payments to all retired persons to a level consistent with a decent standard of living, while progressively closing off various types of pension tax reliefs and exemptions. For example, the rate of imputed withdrawal from very large Approved Retirement Funds (typically in excess of €1.5m) should be increased.

A person retiring and disposing of his/her business may claim exemption from CGT on the disposal, if the value of the business assets sold is less than €750,000. We propose that such a disposal should be taken into account if the person is also taking a tax free lump sum from a pension fund.

The Commission on Taxation recommended that the pension contribution tax relief at the marginal relief be reduced to 33% with the savings being used to increase the relief for those on the standard rate. It is the intention of the government to reduce the tax relief to

only 20%. Congress is opposed to this change given the absence of an adequate universal state pension as well as the under-funded position of most defined-benefit schemes. There is a high risk that because of such a measure voluntary contributions to pension schemes would be severely hit in such a way as to undermine pension provision for the future as well as erode the estimated gains to exchequer receipts contained in the fiscal plans for the coming four years.

Congress is opposed to the temporary stamp duty on the value of pension fund assets at the annual rate of 0.6% levy over four years. This valuation is on the basis of gross value of assets and has no regard to the extent of scheme liabilities. As 75% of defined benefit pension schemes are in deficit, the cost of this pension fund levy will be added to the deficits in the case of underfunded schemes requiring either further increased contributions, a reduction in benefits - or a combination of both.

Pension funds which increase their current level of investment by 5% of their asset value in the domestic economy should be exempted from the pensions levy. This should be conditional on investment in Government approved activities. Such approval would be contingent on meeting criteria extending over progressive resource reallocation (i.e. into sectors contributing to growth potential), and job generation.

xii. Capital Acquisitions Tax

Notwithstanding more equitable improvements in this tax in recent years, yields from Capital Acquisition Tax are low (just under €238 million in 2010 and €391million in 2007).

Income from all sources should be treated in the same way. Thus there is a strong case for a further reduction in the existing thresholds, especially in relation to the generous thresholds allowed in respect of agricultural and business reliefs (where, for example, a reduction from the current 90% exemption rate to 60% could yield an estimated €60 million in revenue). It is also proposed that business and agricultural relief should be restricted to the first €4 million of business assets.

Separately, there is a case for removing exemption relief for inheritance of a dwelling house apart from the case of cohabiting couples. Specifically, it is proposed to reduce the CAT threshold to €250,000 for children of a disponer and to €25,000 for others.

Discretionary Trusts have been used for the purposes of tax avoidance. Much tighter legislation in the area is required with a curbing of tax avoidance vehicles.

xiii. Social Insurance & Universal Social Charge

Class S rate of Social Insurance and the Universal Social Charge should be extended to all gifts and inheritances (Capital Acquisitions Tax) as well as to capital gains (whether liable to Capital Gains Tax or not). The charge would be levied on the gross amount and not just the taxable amount.

xiv. Capital Gains Tax

This tax was levied at 40% over a decade ago. It is proposed to raise the tax from

Income from all sources should be treated in the same way.

25% to 30% and to apply the USC (see above). This would still leave the rate of CGT below the marginal rate of income tax. Congress also proposes that a proportion of the gains on the disposal of private residences in value of over €1 million be subject to CGT and that the normal principal private residence exemption cannot be availed of more than once every five years.

xv. Temporary Corporate Profits Levy

Every citizen has been asked to contribute to fiscal adjustment, Yet the rate of tax on corporate profits remains unaltered, while earnings and other incomes have been levied. There is an overwhelming case for a temporary levy of 2.5% on corporate profits in Budget 2012. As the effective rate of CT is well below the top rate of 12.5%, this is not onerous. It would also demonstrate some social solidarity as profits of non financial companies have risen rapidly in the past year. For example S&P 500 companies, many which operate here, are expected to register year-on-year earnings growth of 13% for the third quarter of 2011.

xvi. Trade Union subscriptions

Trade Union subscriptions should be treated on the same basis as professional subscriptions for tax purposes. The 2011 Budget abolished tax relief on Trade Union subscriptions while the subsequent Finance Act retained tax relief on subscriptions to professional bodies. This is discriminatory. No restriction whatsoever is placed on the subscriptions paid by the self-employed or business to professional bodies or trade associations. It is not an acceptable use of the tax system to refuse relief to workers in trade unions while tax relief for membership of a professional body, (and exemption from USC and PRSI) continues to be available to the self-employed and in respect of professional fees paid for by an employer.

xvii. Tax expenditures

While some progress has been made in regard to reducing tax expenditures, much remains to be done to remove tax reliefs which have no clear economic benefit and which treat people differently. Congress has advocated eliminating the range of legacy property-based tax reliefs. Although these schemes were technically abolished in 2007, they are currently costing the state in excess of €500 million per annum in lost taxation revenue. Various tax breaks which allow high earners and investors to reduce their tax liabilities for income, corporation, capital gains and capital acquisitions taxes should be progressively removed. It is vital that a series of structural reforms be introduced which ensure that annual reports on the costs of these schemes are made public and that economic evaluations are performed in advance of their introduction, extension, renewal or amendment.

xviii. DIRT Tax

Taxation on savings is levied at rates well below that on tax on work and enterprise. An increase in the general rate from 27 to 30% would bring it closer to the effective rate of income tax.

Investment Proposals

4

Congress holds that funding investment can be paid for from a number of sources:

- the Pension Reserve Fund;
- auto enrolment in a state pension scheme;
- the sale of better marketed Solidarity Bonds, hypothecated for specific investment projects;
- investment by pension funds, as set out elsewhere in this submission;
- a broader tax base; and
- private investment in NewEra through expanding indigenous firms (and not selling-off public firms).

Congress reiterates that the period of fiscal adjustment be extended to 2017, while the composition of adjustments is changed to enable domestic investment to grow while avoiding more reductions in domestic consumption and demand.

Capital investment should be the priority and Government needs to take a lead in stimulating such investment with top priority in areas of acute infrastructural need.

The major components of public expenditure are current expenditures on social welfare, health and education together with capital spending under the Public Capital Programme.

Based on estimates contained in the Stability Programme Update (*Department of Finance, 2011*) total expenditure in 2011 will be in the region of €77 billion.

Within this broad amount €52.8 billion goes to voted current expenditure and €4.7 to voted capital expenditure.

It is vital to maintain the optimum volume and quality of public services against a background of rising population and increasing costs in areas such as the cost of medical care and equipment.

Growing levels of poverty and unemployment have added to the cost of public services even without any of the cuts to rates of payment or eligibility since 2009.

At the time of preparing this submission the results or decisions arising from the Comprehensive Expenditure Review in 2011 have not been made public. It is assumed, in this submission, that there will continue to be major savings due to the Croke Park Agreement and the impact of reductions in interest charged on foreign borrowings by Government.

It is difficult, at this point in time, to quantify the likely size of these savings in 2012 and 2013. But any savings arising from public sector reform, reduction in regressive expenditure and reductions in unemployment costs arising from Congress's investment programme, should be reinvested back into public services and social protections.

This will promote domestic demand and employment, the key elements in reducing the deficit.

In a review of capital investment and wealth in Ireland, a report by Davy Research concluded:

> *Estimates of the capital stock show Ireland lagging behind. Irish residents would hardly claim that this country is wealthier than other small euro-area countries such as Finland or Belgium. Infrastructure – roads, rail, schools, hospitals and telecommunications – is far superior in those nations, even though Ireland is not far behind in the income per capita table. Ireland misallocated investment in 2000-2008. Infrastructure should be far better than it is today. Capital stock soared by 157% in real terms in 2000-2008, but housing accounted for almost two-thirds of increase* (Years of High Income Largely Wasted,White, 2010)

Every €1 million invested in infrastructure can create between 8 and 12 direct jobs.

Congress suggests that a range of high value and labour intensive projects, such as water conservation, at least one major public transport project along with more investment in large indigenous state companies and energy retrofitting programmes, should now be rolled out. It is proposed that a once-off injection of €2 billion be invested in each of the next three years (2012-2014) giving a total of €6 billion in additional investment aimed at addressing some of the country's inadequate social and economic infrastructure.

i. Establish the State Holding Company

The establishment of a State Holding Company (NewEra) enabling a new governance structure for commercial state companies, envisages, under the Congress proposal, the holding company having access to private capital for expansion and re-investment in these companies. It also means ensuring rapid decisions on major investments and giving the companies a developmental role in the Irish economy and the capacity for expansion internationally.

This is better alternative to selling part of the ESB to raise "up to €2bn" as agreed with the Troika. It would mean extending the remit of the state holding company to hold the shares of all commercial state companies, and raising "up to €2bn" by allowing investment through bonds, preference shares or other debt instruments, with or without coupons, to long-term private investors.

This would raise cash, perhaps more easily, and prevent any private companies from gaining control over any key state company at any time. It would be much less controversial and in better times, such private investment could be used to develop these companies to create more jobs here or expand abroad. The state companies must be seen as part of an active industrial policy to create jobs in Ireland.

To sell off the commercial state companies in a fire sale for short term cash would be a major mistake. Congress therefore notes the Government's commitment that it will not sell off any state assets until the market conditions are right. We believe the Government is sincere in its intention that it would only sell off a minority of the ESB. However, history shows that partial sales soon become full privatisations. That the Minster for Transport is considering selling off the balance of Aer Lingus, elegantly proves this point. It may be that another government sells off more shares and then later, the totality - when times get tight again. To sell

It is imperative that the rest of our Pension Fund is used wisely and the sooner it is invested in the real economy, the better.

even part of a monopoly is to replay the Eircom debacle.

The alternative to privatising the ESB and other state companies is that with vision and innovative thinking, the Government could see these firms as vehicles to be harnessed, together with the private sector, to become engines of our recovery. We really do not have a choice but to take the high road – the developmental road - with our state companies. Ireland has an enterprise deficit. Our four top indigenous companies have collapsed. Privatisation only makes this deficit worse and has led to a transfer of ownership and control outside Ireland, as Eircom demonstrates.

ii. A State-of-the-Art Water & Waste Network within the State Holding Company:

The estimated cost of setting this up is €4.2 billion. Efficient use of water will create considerable long-term environmental savings and will have the capacity to create over 30,000 jobs during delivery stage and up to 12,000 permanent jobs.

iii. Retrofit energy-inefficient buildings

It is estimated that there are approximately 700,000 energy-inefficient homes in the State. Investment here could help create an €8 billion industry. Not only is this work labour-intensive, it has considerable downstream benefit (materials manufacturers/suppliers, transport of materials, etc.).

iv. Public Transport

Postponing capital investment is simply pushing up costs in the longer term and reducing potential economic growth. Waiting until economic recovery begins will be the wrong long term decision.

v. Capital investment in Education

Investment in Education generates excellent returns. But cutting it holds back future growth. The Higher Education Authority estimates that third level institutions will require a €4 billion investment to accommodate the surge in student numbers - new buildings, facilities, refurbishment. Congress welcomes the Government plan to build 40 new schools but we also argue that no prefabs should exist in Irish schools within two years. Such investment in schools is labour intensive and benefits children. Early childhood facilities need to be expanded with appropriate facilities to accommodate the increase in the number of young children attaining the age of 3-4.

vi. Investing in health

Sufficient monies need to be allocated, to the health service, to ensure the full utilisation, on a year round basis, of all available beds (acute and continuing care) so as to minimise hospital overcrowding and growing incidence of patients, on trolleys, awaiting an in-patient bed. The growing impact of the recruitment moratorium on the access to, and provision of, frontline health services, must be subject to a cost benefit analysis as delayed access to care only results in increased costs, in the medium to long term, for the health system and the economy as a whole.

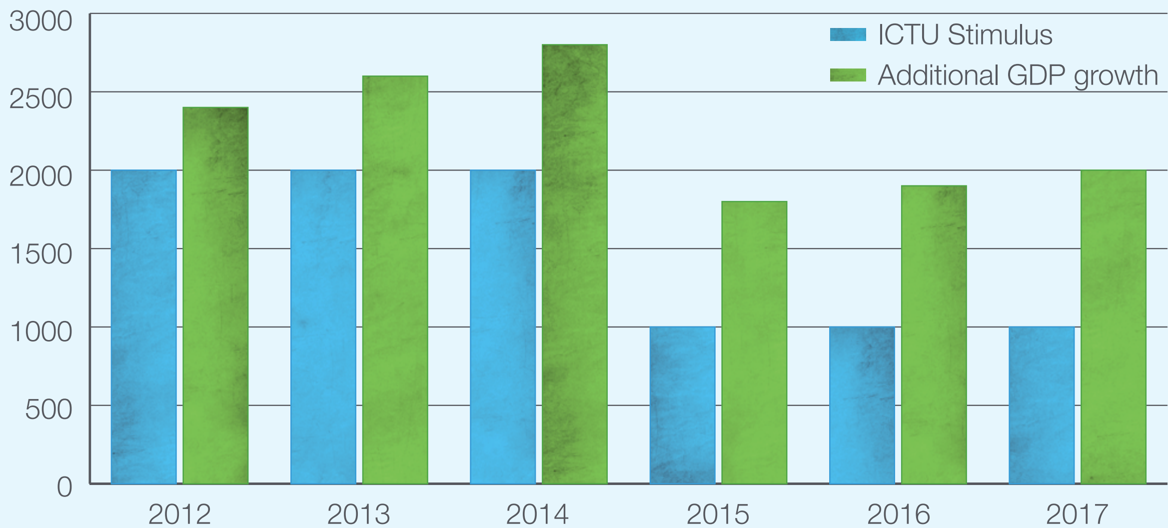
Capital spending should be prioritised, with a three to five year building programme, of facilities providing continuing care for our growing population of persons over 65 years. Due to the unique demographics, in this country, this investment is necessary now, with the economic benefits that it will bring in the short term, in order to ensure the provision of adequate care, for our aging population, over the next 25 to 50 years.

vii. Sources of Funding for Capital Investment

A sum of €2 billion a year should be taken for investment from the National Pension Reserve Fund until the €5.3bn remaining is invested in jobs in Ireland. Congress had suggested €2 billion a year for three years when the fund totalled €25bn, but it has since been "spent" on the banks. It is imperative that the rest of our Pension Fund is used wisely and the sooner it is invested in the real economy, the better.

Congress supports measures to encourage pension funds to increase the proportion of their assets invested in the domestic economy by 5% (i.e. more than double the rate of the recent levy on the value of pension funds). This could generate an additional €4 billion in capital investment to address infrastructural deficits. A number of domestic sources of funding should be tapped:

- On Wednesday November 2, Irish Bank Resolution Corporation (formerly Anglo-Irish Bank and the Irish Nationwide Building Society) is due to pay out a €700 million bond to a single unsecured unguaranteed senior bondholder.
- From April 2012 onwards €3.1 billion is due from the exchequer to Anglo Irish bank to pay off bondholders and banks that lent recklessly to it in the past (see section below on Anglo-Irish). If the EU/ECB insists on these payments then they must recognise their role and make up the loss to the taxpayer by other means.
- Along with funds from the National Pension Reserve Fund (of which there are an estimated €5bn currently), private pension funds can be mobilised to increase the overall level of investment.
- Provide amending legislation to provide for investment in the Solidarity Bonds by Pension schemes as called for by Congress, IBEC and the IAPF.
- A sustained campaign to increase public interest in the Solidarity Bond and direct the investment into designated projects.
- Establish the New Era State Holding Company in a manner which would attract pension funds.
- European Investment Bank loans could be used to match borrowings domestically to leverage growth in key areas of infrastructure.
- Multinational companies could help Ireland and themselves by deferring the repatriation of some of their profits for a period and to set up an investment fund, on a commercial basis, to invest in new or existing Irish based enterprises and infrastructure. Several such companies would set up this fund, amounting to billions and it would make a significant contribution towards economic renewal and development.
- Start auto-enrolment in the state pension fund immediately. This will give substantial flows of funds to the Exchequer.
- Encourage PRSAs to invest in the state pension scheme. If 20% is invested in it over the next year, it would provide around €1 billion.
- Sovereign Annuity Bonds can generate substantial investment capital.
- There should be well marketed Solidarity Bonds sold to the Diaspora and citizens, which are hypothecated to major capital projects and perhaps also to training and credit for SMEs.



Note: The calculations assume an investment multiplier of 1.2 in year 1 and 0.1 for each year after that.

Some idea of possible GDP and employment impacts are given in the charts.

Anglo-Irish (IBRC) Promissory Notes

The scale and significance of Promissory Notes issued at Anglo-Irish Bank and INBS in 2010 is enormous. The full amount was placed on General Government debt in 2010. Under the current promissory note value of €31 billion, of which the former Anglo-Irish Bank comprises €25 billion, estimates based on information provided by the Department of Finance indicates that the cost, in the long-term, could exceed €65 billion, including interest on the promissory notes themselves as well as interest on borrowing to pay for the Notes along with the cost of the capital payment made to Anglo Irish Bank in 2009[4] The Government has the option within the Memorandum of Understanding and without risk of contagion to review and amend this arrangement with effective cost savings to the exchequer. It must do this. Not to do so would be reckless.

4 http://economic-incentives.blogspot.com/search/label/Bank%20Liabilities

Social Protection and Work

Relief for households in mortgage arrears: It is unfair that those who took out mortgages at the wrong time or who have lost their jobs or suffered a drop in income now find themselves in huge difficulties while banks have been bailed out at enormous cost to tax-payers. Government must take the lead in finding a solution involving an appropriate and just sharing of the burden. This means putting workers and their families first, not banks. Voluntary Codes are not sufficient. This budget must provide fair and balanced solutions that protect family homes and a decent standard of living and provide realistic and achievable pathways out of overindebtedness, especially for those in negative equity. It is important that people be given the opportunity to engage with solutions that take account of ability to pay.

There should be no further cuts to social welfare rates.

Specific measures to assist the unemployed

In the medium term we should plan to adjust jobseekers benefit to give more support to people when they first become unemployed.

There should be a more flexible treatment of part time work is assessing disregards for benefits or allowances - perhaps along the model operated in the Netherlands as outlined in the recent NESC report on public supports for the unemployed.

There are changes needed to the method of calculation of redundancy payments for those on short time working or for those whose hours have been reduced at the employer's request. This is needed in view of the incidence of long term short time working and the need to curb the potential for abuse in reducing employers' redundancy obligations. In addition:

- There should be no further cuts to social welfare rates. In the context of rising levels of consistent poverty and material deprivation, it is not justifiable to further reduce the income of those who are underprivileged.
- Ensure Ireland's poverty targets present a full picture of the problem. Ireland should establish a range of poverty targets that allows for the development of strategies to assist those who are struggling such as the working poor. Budgetary decisions should be framed accordingly to minimise the negative impact on low-paid households.
- Protect the income supports and services for people with disabilities and publish an Implementation Plan for the National Disability Strategy. Congress is also of the view that we must continue with the reform programme set out in the Government's mental health policy, A Vision for Change and the promised ring fencing of €35 million annually from the health budget to develop community services must be protected.
- Ensure adequate financial and human resources are provided for the National Employment and Entitlements Service (NEES). An effective 'one-stop-shop' which provides information to the public on their benefit rights and assists with job search is essential to help tackle the crisis of unemployment. The culture must be of enablement rather than simply control.
- Provide the necessary supports to allow people take up employment e.g. affordable childcare, medical support etc.
- Introduce compensation to help mitigate the problem of fuel poverty which has been exacerbated by the regressive effect of the carbon tax on low-income households.
- Protect and increase employment by maintaining funding for community projects and by introducing new programmes, while putting procedures in place to avoid job displacement.

Overseas Development Aid: We must continue to make progress towards the UN target of spending 0.7% of national income on overseas aid by 2015. It is in Ireland's interest to strengthen the foundations of a stable and sustainable international economic order, by investing in overseas aid, Ireland can contribute to such a new global community, and build partnerships that will benefit us now and into the future.

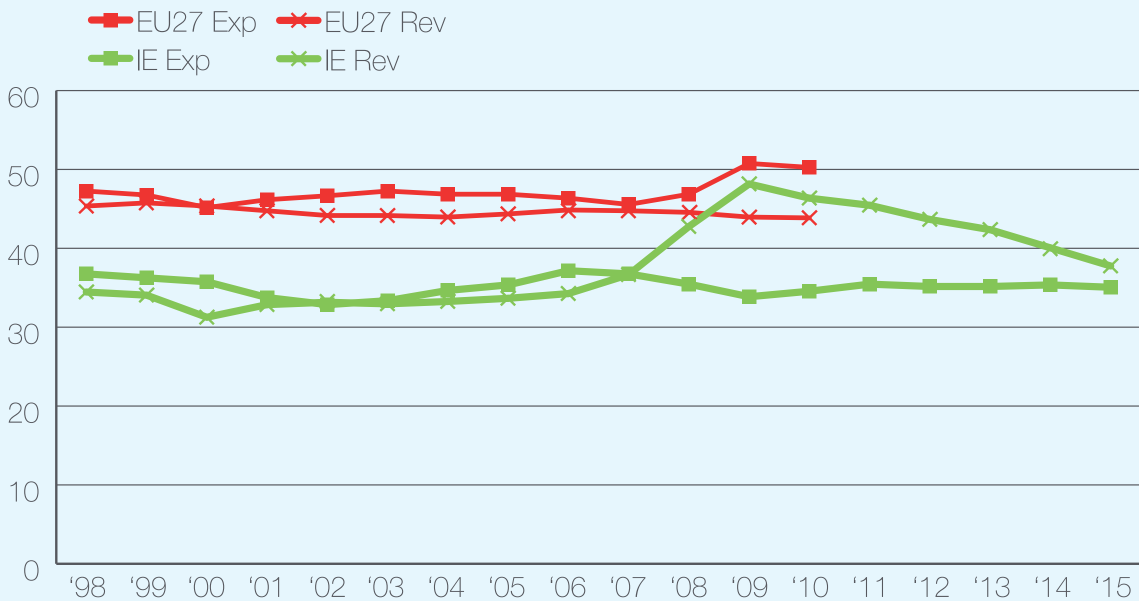
A More Realistic Timescale To Narrow The Deficit

5

The target of 3% deficit in 2015 is unrealistic because the human and social cost is too high. A negotiated prolongation of the deadline by 24 months is warranted with some leeway built in for downside risks. The target date has already been changed twice. The target of reaching a lower government deficit of 8.6% in 2012 does not require a fiscal adjustment as large as €3.6bn due to unexpected savings in interest payments as well the carry-over revenue effects of Budget 2011 and tax revenue buoyancy under a number of headings.

There is scope for fiscally neutral changes to be made within the terms of the Memorandum of Understanding. The choice of a low-revenue and, therefore in the long-term, low-spend economy is a domestic political choice and not one necessarily imposed externally. Indeed, under current plans for adjustment to expenditure and revenue the proportion of GDP accounted for by public expenditure and revenue will decline over the next four years. In other words, Ireland will move away from the current EU average of just over 50% spending and 45% revenue (see chart).

Trends in public expenditure and revenue (General Government) 1998-2015



Source: Eurostat (1998-2010) and Stability and Programme Update (Department of Finance) for later years.

Conclusion

6

We need to spend and work our way out of the economic crisis. There is still a better, fairer and economically more effective way. This is how Denmark is facing the challenge. We should follow the example of its new Government in kick-starting its small, open economy as far as is possible. This can be done with more judicious changes in current spending; with increased taxes on those with the broadest shoulders; while also investing €2 billion of our own savings in training, infrastructure and in expanding credit to SMEs and with a state-led stimulus to kick-start private investment.

The National Economic & Social Council's *Developmental Welfare State* provides an important conceptual reference. It is possible to become a more competitive and dynamic economy and move towards a model of taxation and welfare that guarantees a basic income, adequate education and healthcare. The Nordic countries have managed to achieve this. However, to move towards this type of model requires a huge change in mentality and in institutional culture.

It is in times of crisis that radical and progressive change can be made.

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Appendix

Table A.1
Latest projections of growth in real Gross Domestic Product (as of October 2011)

	2011	2012	2013	2014	2015	2016
Department of Finance (Stability Programme Update, April 2011)	0.8	2.5	3.0	3.0	3.0	
IMF (Staff Working Paper, Sept 2011)	0.6	1.9	2.4	2.9	3.3	3.3
Central Bank (Oct 2011)	1.0	1.8				
ESRI (August 2011)	1.8	2.3				

Table A.2
Previous projections of change in real Gross Domestic Product (as of mid- 2009)

	2010 actual	2010 projected	2011	2012	2013
Department of Finance (Dec 2009)	-0.4	-1.3	3.3	4.5	4.3

Table A.3
Latest projections of General Government Balance (public sector deficit) Oct 2011

	2011	2012	2013	2014	2015
Department of Finance (Apr 2011)	-10.0	-8.6	-7.2	-4.7	-2.8

Table A.4
Previous projections of General Government Balance (public sector deficit) Dec 2009

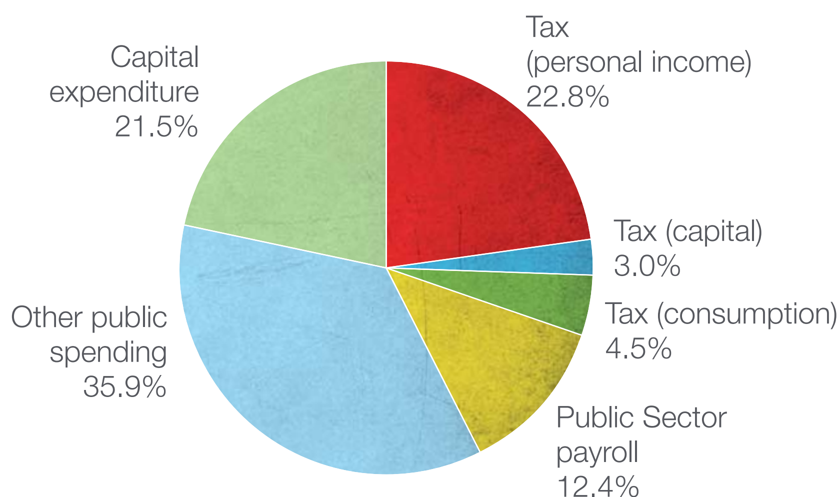
	2011	2012	2013	2014	2015
Department of Finance	-10.0	-7.2	-4.9	-2.9	

Table A.5

€m	Tax (personal income)	Tax (capital)	Tax (consumption)	Public sector payroll	Other public spending	Capital expenditure	Total (full year)
Public sector savings July 2008					1000		1000
Budget 2009	352	142	721	0		747	1963
Public sector savings Feb 2009				1400	390	300	2090
Supplementary Budget April 2009	3009	467	145	150	1215	576	5562
Budget 2010		3	20	1005	2085	961	4074
Budget 2011 (in first year)	1350	12	47		2730	1860	5999
Total Yield/ Savings	4711	624	933	2555	7420	4444	20687

The table shows that 30% of the 21.6bn to date has come from tax increases.

Composition of last six budgetary changes 2008 –2011



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