Irish Congress of Trade Unions

There is Still a Better, Fairer Way

2010 Pre-Budget Submission

STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions

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1 Congress' Vision for Ireland

The crisis presents an opportunity to build a sustainable economy and society. Congress' vision for Ireland is simple.

A more equitable society and economy will be more balanced, happier and more productive. Learning from the crisis, as citizens, in social partnership, we have within our grasp, the capacity for economic recovery and then to transform this small island into one of the best places in which to live and to work in the world.

2 The Economic Background

The Irish economy crashed in 2008, after 21 years of growth. The first 13 years were based on strong, sustained growth. A deep foundation of sustainable economic progress was laid, which largely remains in place. The past seven years growth were unsustainable, based on a property boom and cheap credit.

The economic policies which underwrote the false boom were based on tax-cutting, tax-shifting, and de-regulated financial markets. Neo-liberal economics ruled and it failed, spectacularly, after an apparent triumph.
The tax-cutting policies from 1998 were only reasonable for a few years, a) when taxes were high, and b) when they were not pro-cyclical. But by the time the Dot.Com Bubble burst in 2000/01, tax cutting, even with large surpluses, was the wrong action for the Irish Government to take. It fuelled the boom and led to a far greater bust.

From 1998, there were large current account surpluses, ie taxes greatly exceeded spending on day to day items and this lasted to 2007.

Tax cutting may seem logical to the lay person, when Revenue was exceeding spending, but it was fuelling a boom. This was especially so when interest rates were so low and the Financial Regulator failed, utterly, to control credit. This led to the collapse of the Irish banks. It is costing the taxpayer in massive Corporate welfare cheques for enterprise failure.

Congress was highly critical of government policies in the latter period. If we were at fault, it is that we were too subdued in our criticism of the liberal policies and of the pursuit of growth for growth's sake.

Today the Irish economy is in deep crisis. It is not of the making of the members of the Congress of Trade Unions and most other citizens. It was the making of Government and of a small business elite, the 80 or so "enterprise" leaders who were the directors of the Irish banks. This elite, most of whom are still leading major Irish companies, with others who are too still in key positions of influence in the economy. Their myopia and greed led us into this crisis and their continuing deep influence is disturbing.

There is a separate section on public spending, below.

Congress in Social Partnership, not in Government

Some people seem to really believe that Congress, as one of the Social Partners in Ireland, is actually part of the Government. Thus they think Congress sets policy and so we must share in the blame for the bust. Not so. Congress makes submissions to Government and discusses them with officials, often in great detail. But as Government and officials will remind us, Government determines policy.

For 22 years, Social Dialogue, or Social Partnership, greatly informed economic and social policy in Ireland. After a difficult start from 1987 for the unions, especially to 1994 when there was little growth in employment and incomes, Congress held its nerve on the experiment. Income tax concessions in return for wage and salary moderation assisted in the early years.

From 1994, Ireland did enjoy a spectacular economic boom. It was based on real economic fundamentals such as massively increased labour participation, soaring productivity, huge public and private investment. It led to rapid employment growth and increases in real incomes for all. However, between 2001 to 2008 inclusive, as Congress has pointed out in many publications, the boom was based on domestic demand, exacerbated by pro-cyclical economic policies. Congress was critical of the Government's "growth at any cost" and tax cutting strategies.

Congress did not agree with core Government economic policy, especially during the False Boom of 2001-2008. This Boom was generated, as we constantly pointed out[1], by tax incentives to property owners and wealthy investors and particularly by cuts in direct taxes, ie by pro-cyclical policies. Not alone was there no need for tax cuts, but they damaged the economy and led to the Bust.

Had there been counter-cyclical economic policies from the late 1990s, it would have dampened the boom and the revenue gained would be available in today's deep recession.

On balance, Congress' judgment call was that with employment still rising, some positive increases in real incomes and improvements in the social wage (public services), there was a value in continuing with Social Partnership.

But Social Partnership is a robust round of negotiations, not the programme for a Government. It generated many positive outcomes for working people who depend on working for a living. It mitigated the liberal economic policies of deregulation, privatisation and tax-cutting, which ultimately led to the collapse in the Irish economy in 2008.

Stable Economics: Ending Boom/Bust

The boom bust cycles are part of the capitalist economic system, but can be mitigated with wise economic policies. The failure of most in the economics profession to warn during the times of exuberance that tax-cutting was the wrong policy tells of the ideological dominance of one economic philosophy. The massive gap in the current cycle could have been avoided with more sustainable polices. In the long run, Congress urges the Government to abandon the pursuit of economic growth at all costs during a boom, to inform economic policy with social policies, as agreed under several Social Partnership agreements.

1 Forthcoming publication will set out Congress record during this period of exuberance which led the economy downhill.

This can be done now by lengthening the targeted period of Recovery to 2017. Not to do this will cause untold suffering to the most vulnerable. The short sharp shock, beloved of many economists, will cause more harm.

3 Jobs – The Priority

In our ten point plan, *There is a Better Fairer Way*, the first point made was on job protection. We argued that the social welfare system must be radically altered and integrated with skills enhancement, education and training. We suggested that this could be augmented with additional funding from the Public Capital Programme (PCP) (see below at ii).

We later sought a €1bn jobs plan but the response was for a much smaller one. We called for greater ambition as the crisis worsened and for a major drive for jobs and employment protection.

Congress reiterates our calls for job protection and greater initiatives on jobs by Government.

i) Competitiveness Is Not Only Wages.

A lot of nonsense is now being spoken on competitiveness. Some economists have even equated competitiveness with wage rates! In Ireland most people have a good idea of the complexity of this area through the work of the social partnership body, the National Competitiveness Council. That body is not obsessed with wage rates. Competitiveness is about much more than wage rates and even unit labour costs.

But, on the subject of wages, we make a number of points, with so many ill-informed advocates of wage cutting. First, Irish earnings, wage rates and salaries are still below those in most competitor countries.[2] The total cost of employing workers in Ireland is well below the cost in nearly all developed competitor countries. Total labour costs in Ireland are 22nd lowest out of 30 OECD developed countries.[3]

Ireland's rise in productivity has been at a slower rate than competitor countries over the past 5 or 6 years, an area of concern. However, it is seldom mentioned that Ireland's productivity remains one of the highest in the world, in spite of the slow recent growth. It was 2nd highest in the world after Norway and ahead of the US in 2006 and will still be close to the top performers. Even adjusting for Transfer Price Fixing by multinationals, it will still be in the top 10 countries in the world.[4]

Total aggregate earnings in the economy are declining largely because there are about 200,000 less at work now than at peak employment in 2007. This is reducing domestic demand in the economy[5] and further

2 See US Bureau of Labour Statistics, OECD or Eurostat. Eurostat has no data on basic rates from many EU countries including Ireland though it has information on trends. Those economists who had asserted that average Irish wage and salaries are higher than in competitor countries have not produced any evidence to back their claims to date. They may be confusing trends with basic rates/earnings. Info on basic rates for certain categories of workers from IDA or NCC do not show Ireland's workers' earnings' as being out of line.

3 OECD Taxing Wages 2008 for 2007.

4 OECD. The charts are quite dramatic for Ireland up at top with Norway and ahead of the US based on GDP. However, it would be more accurate to take GNP, ie exclude impact of profit-shifting to Ireland. Then Ireland's ranking is reduced several notches down but our productivity is still one of the highest in the world.

5 Private consumer spending will be down by about 7/8% this year.

wage cuts would exacerbate the deflationary impact. The cost of consumer goods in Ireland is 14% higher than the average of the EU15 and the cost of services is 23% higher. Only Denmark has higher price levels. Workers have to pay more from lower wages in Ireland for the same goods.[6]

The absence of a properly functioning banking system is the most immediate threat to our competitiveness. Further, energy prices must be reduced and the failure of our broadband infrastructure is another competitiveness issue, as is our poorly functioning planning process.

ii) Investing In Jobs And The Future

As always, Congress supports a strong level of investment in the future. Investment is especially important during a period of deflation as a stimulus and investment in our future. Borrowing for investment is always good economics. It is never so true as today. Economists agree on borrowing for investment. If the government can borrow billions to subsidise the failed Irish banks in the hope of releasing credit[7], it must borrow to directly stimulate demand, reduce unemployment, invest in training and get Ireland ready for the future upturn.

Cutting investment means that later on, our growth rate will be below trend. It will also delay our recovery, and many will lose their skills. The revised Programme for Government in early October indicated further cuts in the NDP. This does not bode well for the future.

Congress holds that the state has a major role in kick-starting the recovery, taking advantage of idle resources and lower priced resources to directly stimulate demand and to build the infrastructure that we need.

Ireland still has an infrastructural deficit. Public infrastructure – clinics, colleges, schools, roads prisons, etc. - is far behind most of Europe. Our public transport is far behind that of Europe. We should take advantage of this recession to catch up. We still can borrow the money to do so.

While comment on the planning system is not something that would ordinarily feature in a Congress pre-budget submission, we feel that any potential large-scale investment in infrastructure must result in construction employment. We suggest that the current system of planning, including the Strategic Infrastructure legislation, be reviewed to ensure that it is fit for purpose. Planning should not be an obstacle to economic recovery.

In 2008 the volume of investment in Ireland fell by a substantial 16 per cent. This year the fall is double at a staggering 32 per cent and next year it will fall by a further 18 per cent – a total collapse of 66 per cent. While much of this is in housing, other areas like plant and machinery, have also seen big collapses.

Congress holds that we must not reduce investment any further. The original spending programme of the NDP, had already been substantially reduced. To continue to cut capital spending in the recession will be deflationary

6 Eurostat, Europa database, 2008.

7 €4bn of taxpayers' cash was wasted on Anglo Irish Bank in 2009 and a double payment of a massive €3bn in taxpayers euros was invested in the Pension Reserve, to be handed over to the failed banks in taxpayer support.

especially when so much investment is still needed in health education, public transport etc. As costs are down, we will get more bang for our euro. In Europe and elsewhere massive investment in railways is taking place to reduce emissions and to facilitate travel. The building of rail is labour intensive and should be done now to facilitate economic progress later.

Education and training is an essential investment in the downturn. Active labour policies must be ramped up considerably and investment here is money well spend for he future.

4 Public Spending Cuts - McCarthy

The public is being offered a Hobson's choice between cuts in public spending and no rises in taxation. The solution is not a technocratic one of only cuts, it must be rooted in fairness. Thus it will be a combination of judicious reductions in spending and measured rises in taxes, for those who can best afford to pay them. The combination must not be deflationary.

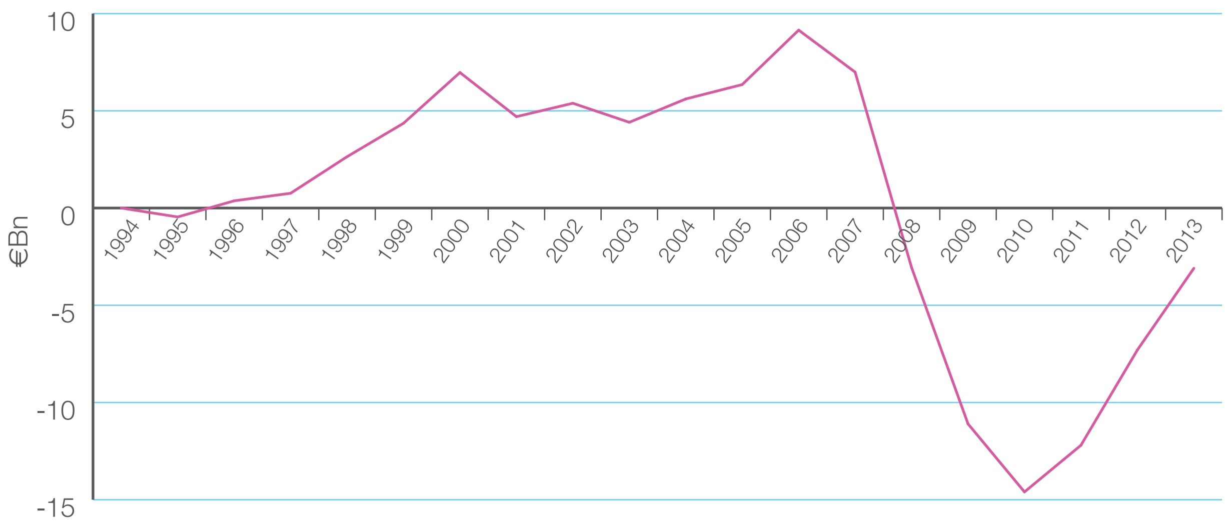
Many commentators have claimed that Irish public spending "ran out of control". Some commentators are sloppy, but others should know better.

While public day to day public spending was rising rapidly, so too was revenue from tax and other sources. Indeed, while the average rise in day to day spending was a hefty 9.1% a year in the 12 years to 2007, the rise in revenue was even higher. The graph above shows that the rises in both current spending and revenue were high. It was the crash, which began in 2007/08, which saw the fall in revenue. Gross current revenue growth averaged 10.63% in the period. Thus the "explosion in current

Price in Current Expenditure & Revenue

Source: Budgets

Ireland's Huge Current Budget Surpluses and Collapse (with adjustments)



Source: Budgets

spending" was accompanied by an "explosion in current revenue", which exceeded it by a not insubstantial average of 1.5% each year.

Indeed, the graph above shows there was a large current account surplus each year. This surplus added up to a staggering €58bn. And that was in spite of pro-cyclical tax cutting policies. The surplus was reduced each subsequent year with tax cuts and further tax expenditures (subsidies) to wealthy property investors.

The collapse in the surpluses was due to the collapse in tax revenue, not that public expenditure suddenly soared higher. Tax revenues collapsed not just because of the crash, but because of the tax shifting which governments had deliberately undertaken. They shifted the tax base from incomes and profits to consumption. This tax shifting was to prove disastrous for Irish citizens. Consumption taxes are generally regressive and with the reliance on the once-off property boom, were clearly unstable as a source of revenue.

The rapid rises in expenditure, which, we have seen, were accompanied by even more rapid rises in revenue, were also from a low base. The rapid rises each year, were accompanied by substantial rises in population and in national income, public spending was still low compared to other EU countries and was lower than even the US, as this table shows:

Table 1

Total Current Government Expenditure 2007(%GDP)

	Sweden	France	EU15	US	Ireland
2007	49.3	48.2	42.5	32.0	30.2

Source: European Economy, 2009

Current public spending in Ireland in 2007 was lower than in the USA!

Total current public expenditure in Ireland, while rising, was simultaneously being cut as a percentage of rapidly rising national income. It was cut from 40.2% of GDP back in 1994 to 30.2% in 2007, according to the EU Commission. The average in Europe also fell in the EU 15 from 46.2% in 1994 to 42.5% – a drop of almost 4%.

So was Irish day to day spending "out of control"? The answer is no.

Further, according to the European Commission, "Final consumption expenditure by general government" in Ireland is much lower than in most other EU states. In 2007, it was 16% of GDP compared to 23.1 in France, 25.1 in the Netherlands, 22.2% in Belgium or 20.5 in EU15 and the same in EU27. So the evidence is that **IRISH PUBLIC SPENDING IS LOW** compared to other countries in Europe. It is at the same level as the US by this criterion.[8]

Public spending (as a percentage of GDP) is due to rise rapidly in Ireland for 2010 and 2011 due to the collapse of the numerator, GDP, not because of more public spending. It will soar to 42 per cent of GDP by 2010 according to EU projections, thanks to the collapse in national income. The rise in the EU15 will be rapid too but only at half the Irish increase. Even the US and Japan will see high rises, due to their fiscal deficits.

In retrospect, one might say that much of the taxes were not really there, being based on the property boom. The only group which was urging caution on this was the Irish Congress of Trade Unions in our Budget submissions each year. No one paid any attention to us party poopers! And now our members have to pay for the hangover!

Slashing Public Expenditure

It is recognised that stimulating a small open economy on its own does not work. However, one can make things worse by cutting spending too far (and raising taxes too high, which is not possible in these circumstances). Furthermore, the type of cuts and the way in which one raises taxes can have major impact on economic recovery.

McCarthy's cuts are insensitive and biased. They are technocratic, focusing on just reducing spending in what is the easiest way, without any attempt to ascertain the impact of suggested cuts on the economy itself and more importantly, people. Some cuts will cost money in time as they throw people out of jobs for short term gain.

Congress holds that the McCarthy proposals were based on too narrow a set of terms of reference. They were made without any regard to the economic and social implications, or the viability of alternative perspectives.

The fact that the group greatly exceeded the government's target for cuts, while maybe somewhat cynical, indicates that it is an a la carte menu i.e. it is open to choices by politicians. This is as it should be.

8 *European Economy* 2009, statistical database.

Congress gives this advice to government on expenditure cutbacks:

1. **Do not cut social welfare rates.**
2. **Do not cut education.**
3. **Be very judicious on cuts in capital expenditure.**

This is similar to our advice back in the crisis of 1987. Congress recognises that this is a much deeper crisis. But Ireland is in a much better position to emerge from this crisis. We have a highly educated workforce, endowed with a multitude of the highest skills and much better public and private infrastructure.

The way in which the cuts are to be made is vital and will have a long term impact on the economy as well as on the many citizens and employees who will be affected. It is vital that the government is judicious in its cost reductions.

If we can afford the biggest Corporate Welfare cheque (€54bn) in history, we can maintain Social Welfare rates.

We oppose any cuts in social welfare rates. The Government must not cut the rates of welfare. It is notable that such cuts have been advocated by some economists who are employed by the failed banks which caused this crisis and other well-heeled commentators.

In particular, Congress strongly objects to the elimination of those from the ranks of the "official" unemployed, by the manipulation of the data on the numbers who are unemployed. Those who are off the live register because they have been unemployed for over 12 months and who have a working spouse earning over a set sum are excluded unless they sign on voluntarily. It is important that we know the true numbers of unemployed and official data should be maintained so that policy is evidence based.

To cut the rates of welfare further would be both heartless and bad economics.

It is the low paid and welfare recipients who spend most of their money and so it is quickly recycled in the economy. It would also be a very stupid move, politically, to cut the rates of welfare.

The rate of fall in prices (CPI) is largely a reflection of the cuts in interest rates. Most people on welfare do not have mortgages and so the falls do not matter at all. Some key prices continue to rise such as local charges and utilities, drink and tobacco and misc goods and services which include childcare, house insurance (up a massive 26.2% to July 09). For many poorer people, with no mortgages, the fall, for example, of 5.9% in the September CPI is closer to the fall in the HICP of 2.4%. For some, it was less than that, depending on their patterns of consumption.

Where there is an additional gain for some on welfare, good economists will see it as part of the stimulus package which is most effective.

Nobel Prize-winning economist Joseph Stiglitz said: "In a recession, you want to raise (or not decrease) the level of total spending – by households, businesses and government – in the economy. That keeps people employed and buying things, and makes it more likely that businesses will want to invest to serve that consumer demand. However, state spending reductions have the opposite effect: Each dollar less that the state spends generally reduces consumption by the same amount."[9]

Congress recognises that times are very difficult in Ireland now with our avoidable economic collapse but warns against cuts in welfare and in education which is the best investment public money can buy.

Avoid Panic Responses to the Crisis

Many of the McCarthy cuts will cost the economy and society much more in the long run than the money quantified by his group. This must be borne in mind in planning cuts in services and in investment. Congress opposes privatisation and in the era of wholesale nationalisation, to even to consider it for short term fiduciary gain would be a grave mistake, especially in these times of low prices.

The state's record on privatisation, while better then the UK's, is still not good. The privatisation of Eircom greatly delayed the roll out of fast universal broadband and makes a mockery of the drive for a "Smart Economy." The privatisation of the state banks, ACC and ICC, both of which served the nation well, was ill-timed, coming before all the private banks failed. Ireland could have done with at least one well-run bank. The privatisation of Aer Lingus did nothing for its performance, perhaps hindering it. It did not serve the interests of an island economy.

5 Taxation – Tax Commission

Joseph Stiglitz also wrote that when the economy is weak: "Economic theory and evidence gives a clear and unambiguous answer: It is economically preferable to raise taxes on those with high incomes than to cut state expenditures."[10] This advice certainly cuts against the dominant wisdom of many Irish economists, still wedded to the axe.

We recognise that that raising taxes can be deflationary. But if you tax those who are not spending the money (as they have much more than they need to spend) then this impact can be avoided.

Furthermore, the irrefutable evidence in the long history of Irish tax evasion is that there a great deal of hidden money out there. Ireland's wealthy have a hardened record of tax avoidance, of offshore accounts and of tax evasion. There is still wealth that can be taxed. Those who sold land before the crash made lots of money.

These are tough times. But why should only labour carry the burden? The crisis was imposed by the golden circle of so-called "enterprise" leaders on the bank boards.

There is a strong case for a top rate of tax of around 49% for those on high incomes.

9 Tax Policy Center: April 27, 2003.

10 Letter to NY Governor and others, 27th March 2008

Congress congratulated the Government on the success of its policy on the minimum effective tax rate for high income persons. In the difficulty fiscal circumstance this must be raised to 30%. This is modest compared to the rate of tax paid by most higher income people. It would be unnecessary had so many tax expenditures (tax breaks) not been introduced.

None could have made the case better than the Minster for Finance Brian Lenihan when he admitted that a mere 4% of earners paid 48% of all tax (Irish Times, 16th October 2009). This fact reveals the inequity of the Irish income distribution. It is even more telling when top potential taxpayers, the Tax Exiles do not pay anything and when the many top earners only pay at a maximum of 20% under the new Minimum Tax regime for tax avoiders. Congress would strongly disagree with the Minister when he says "there is no pot of gold." The unpleasant history of tax compliance in Ireland tells us definitively that there is much untaxed income and wealth in this country.

There is a case for a wealth tax.
There is a case for a site tax on land.

There is a case for Ireland to address its "beggar thy neighbour" low Corporation Tax policy. This form of Protectionism is deeply resented by our partner states in Europe. It is only a matter of time before the US or UK or German governments clamp down on the Transfer-Price-Fixing by multinationals and wipe out this artificial state aid to multinational capital overnight. The next day will be one of doom in corporate and official Ireland. The support of the ECB for the Irish banks may not be as unconditional as some believe. This tax advantage, outside Ireland's control, is very a precarious policy on which to depend.

There is a case for reducing the many tax allowance for business which are not legitimate expenses, such as interest deductions for private equity firms which exceed a certain proportion of revenue. The recommendation that depreciation should replace capital allowances is potentially very costly to the taxpayer. It could end up allowing massive subsidies through taxation to property speculators who have impaired assets by allowing write off of losses on property against taxes.

The toughest Budget ever has to be accompanied by the toughest drive against evasion and avoidance with large investigations. The crackdown must be real and sustained… not a PR job.

End Evasion, Curb Avoidance & Collect Taxes Outstanding.

There is €1.8 billion in current taxes owed by business over 3 years. This huge sum of money would meet a lot of the shortfall in taxes. Collection of this tax would obviate the need for cuts in welfare, essential services, and further cuts in public service pay.

Some may argue that many businesses may not have the money, but this figure is based on self-assessment and therefore it is close to the real figure owed. Furthermore, much of the billions outstanding is "fiduciary tax" i.e. it has already been paid by workers (in PAYE and PRSI and levies) and by customers (VAT and plastic bag levies) and is being held for cash flow by business rather than transmitted to Revenue on behalf of employees and customers.

Further, we believe that many formerly compliant businesses, which are not in financial difficulty, are using fiduciary taxes as their cashflow rather than borrowing from the banks. Other business are taking advantage of the current crisis to delay paying due taxes for their own use.

The Government is to be congratulated for the success of its scheme to extract tax from high income persons, whereby an effective tax rate of 20% was levied on most of these tax avoiders. The analysis shows that 214 people with income exceeding €500,000 actually paid tax. In other countries they would feel it is a privilege to pay tax if one gets such huge remuneration. Here in Ireland, many in our enterprise elite see tax avoidance and tax exile as their right. Taxes are for the little people, the PAYE workers.

Thus, Government must build on this success and it is vital that as a demonstration of commitment to fairness, the rate is increased to 30% in the Budget. The continued eradication of most tax expenditures, brought in over the years at great cost by governments, must be speeded up. That 41 persons could have avoided an average tax charge of €1.1m on dividends supposedly from patents, before this legislation would be unacceptable. Also it curbed the cases whereby 16 persons enjoyed over €500,000 each tax free on patents royalties, or another 41 "artists" enjoyed tax free income of over €600,000 each, or 5 wealthy stud farm owners who got €1.5m tax free in dividends from stallion fees.

Thus, while there will be cuts in public expenditure, these must be accompanied by increases in taxes on the wealthy. Progressive taxation in the crisis can have a demonstration effect which will reduce the political impact of cuts.

Tax Cutting: How Past Policies were so Wrong

The slashing of direct taxes has led to the current collapse in tax revenue. This was the decade of massive direct tax cutting by the Government. The top rates of income tax were slashed from 48% in 1997/98 to 41% by 2007, the standard rate was cut from 27% in 1996/7 to just 20% by 2001. Importantly, the overall effective rates were cut in half within a few years in the late 1990s. This was of great benefit to many workers in the short run, but in a Boom, it was the wrong action. It exacerbated demand.

Further, as we argued in many submissions, the additional revenue could have improved public services which were still far below European levels. The tax-cutting was combined with major incentives/subsidies – not for manufacturing and productive businesses, but for property – for wealthy investors, for builders, for speculators.

Congress recognises that Ireland's fiscal position is now dire. From huge surpluses to a massive deficit almost overnight. There is huge gap between revenue and spending. This gap is €12.5bn for 2009 in current expenditure. When investment spending is added in, we will borrow c.€20bn this year.

There was a huge gap between both in the past, but it was positive. It was a substantial surplus of €7bn as recently as 2007. The surpluses over the decade totaled €58bn! But instead of hoarding the surplus for this very rainy day, Governments cut taxes further and reduced potential revenue. Congress holds that to get out of this hole, we must understand how we fell into it. We were led by irrational exuberance based on bad economics.

In the near term, it is important that we ditch this economic ideology in favour of a sustainable model.

Taxation – The Tax Commission

The report of the Tax Commission is very disappointing. The composition and the terms of reference pre-determined the outcome. Yet it was already clear when the terms were written that the ideological bind of the "low (direct) tax" regime was a dead duck. From the public reception of the report, it appears to be very far removed from the practical reality of most of civil society, due to its composition and terms for reference, that no government is likely to implement it. Happily, the political reaction has been similarly realistic. Taxes have been raised since it began its deliberations. However, there are some useful sections in the Commission's report which could possibly be developed into for progressive policy.

Congress cannot but contrast the terms of reference of the Irish Commission on Taxation with those of the Norwegian "Commission on Distribution" of wealth and income which also reported this year. That Commission of experts was appointed to research and explain the increase of inequality, and also how the distribution of the resources and of wealth can be made more equitable by policy changes in the future. It was much broader than a Commission on Taxation and examined sources of inequality, taxation, access to welfare, to childcare, to education, impact of migration, unemployment and inherited wealth. Its report was published in April of this year.

The bias of the Irish Commission can be seen in the obvious contradiction between its recommendation on imposing a ceiling of €200,000 on tax free lump sum payments for employees and its failure to bring down the €500,000 free of Capital Gains Tax (CGT) for over 55s, selling business assets on retirement.

Further, no attempt was made to curb double claiming on retirement where a shareholder/director can get a lump sum tax free by selling shares in the family firm free of CGT up to €500,000 and at the same time get another tax free ex gratia termination lump sum from the company.

McCarthy argues against double claiming on social welfare. Surely the same principle applies to the well-off claiming tax subsidies?

The Commission was not guided by broad principles. It did not, for example, argue that income from all sources should be taxed in the same way, in so far as is possible. While espousing work and effort, when it came to recommendations, it generally recommended that passive, unearned income should be taxed at a lower rate than income from work and enterprise.

For example, it did not recommend that inheritances should be taxed at anywhere near the rate of income tax, maintaining the huge 90% deduction from CAT for inherited businesses. It failed to address the major loophole whereby a person can inherit a family business / farm and have only 10% of the value of the asset considered for the already low CAT and then claim again and get up a further €434,000 tax free as a child of the donor. A child *inheriting* a business or farm worth say €10m, will pay tax of €141,500 whereas if she earned the sum over many years, they would pay tax of over €4m.

Where the authors of the Irish report found a conflict between equity and what they perceived to be efficiency or in the interests of business, they always opted for efficiency. Their definition of economic efficiency was very short-term.

Ireland's economic collapse is partly due to a misplaced view by many in Official Ireland that what they *think* is the best interests of business is also best for its citizens. It is important that business people and especially senior public servants now recognise that what they think is in the interests of business, is not necessarily so. For it was precisely these liberal policies that led to the collapse in the Irish economy, a collapse far worse than anywhere else.[11]

There is a separate Appendix on the main findings of the Commission. We reject the whole philosophy of low taxes, which is now hopelessly out-dated (Appendix 1). In particular, we point out the contradiction in the report between its apparent support for work and enterprise and its recommendations which negate this by giving tax advantages to unearned income such as dividends, and share transactions etc.

6 The Banking Crisis & NAMA

It is ironic that all discussion of private banking in Ireland must be addressed by the public finances. This is because the 80 or so "enterprise" leaders who made up the directors of the Irish banks were so reckless in their lending that all the Irish banks failed. So the once "private" banks have to be bailed out by our member's tax euros.

Congress is alarmed that the deep crisis, generated in no small way by bad governance and incestuous boards, has not led to deep initiatives by this government to change the fundamental way in which business is governed in Ireland. The Irish government is not even discussing the issue of a radical reform of corporate governance in a serious way.

The taxpayer is pouring billions, and is exposed to even more, in subsidies to private interests without ensuring that we do not get a return to business as usual after the crisis. Congress believes that our members, the PAYE and consumption taxpayers, are getting a very raw deal.

Congress was the first organisation to recognise the need to nationalise the banks back in November 2008. We regard NAMA as flawed, but reluctantly accept that it is government strategy. We can only hope it will work out. If it does not, our members, will, as usual, pick up the bill. Congress is deeply unhappy with this. For more on banking, see Appendix 2.

11 Even Iceland will have a fall of -7% in GDP in 2009, less than Ireland's of 8.5% and its unemployment is forecast by OECD to rise to 10% next year. Our is higher already and rising.

Office of Indebtedness - A NAMA for Families

Congress is calling on Government to take immediate action and use the NAMA legislation to protect households in the current economic crisis. Its not enough to save the banks, working families too must be thrown a life line. Working families who have lost their jobs and incomes must be protected from threats of repossession and they must be provided with realistic ways to deal with their over indebtedness.

It is unfair that the PAYE taxpayer is funding NAMA, while at the same time working families are under threat of losing their home. It is imperative that Ireland puts in place fair and appropriate laws to deal with the weakest casualties of this crisis. Congress is therefore calling for an office of indebtedness to be set up at the same time as NAMA.

7 Reforming The Private Sector - Corporate Governance

The focus on public sector reform has led many to forget that this deep crisis is due to the total failure in Corporate Governance in the Private Sector, especially in banking, assisted by poor regulation. There must be no return to business as usual in the private sector and especially in the banking sector.

It is argued by neo-liberal economists, without blushing, that banks are too big to fail. Thus the taxpayer must bail them out, to avoid systematic damage to what is called the free market. If certain companies are not allowed to fail by Governments, then company law must be re-written. The free market no longer exists for some firms.

The raw cut and thrust of capitalism, Darwinian survival of the fittest, of rewarding success and punishing failure, is dead. The rule of "free" market economics must be re-written. Thus company laws, limited liability, are now "impaired". These laws cannot be impaired for just some big firms i.e. the banks. So the laws of corporate governance for all firms in the new economic order must be now re-written. Congress has called for radical changes in Irish company law. It is now time to shift from the narrow interest of shareholders, i.e. the "shareholder value model" to the broader stakeholder model, like in Germany, the Nordics or even Japan. Even Jack Welch, the Father of Shareholder Value, admitted that the whole basis of company law, based on shareholder value was wrong. He did not just recant. He said that "shareholder value is the dumbest idea in the world". Welch now admits that employees, customers and products matter.

Irish company law must change, as the quid pro quo for the bank bailouts. There has to be a more inclusive corporate governance – where the wider interests of workers, consumers, suppliers – must be considered for inclusion on company boards, under law. The farce where boards are "elected" by shareholders and become self perpetuating cliques of élites must be addressed by this government. It's the least we should get for our €54,000,000,000.

Existing standards of Irish company governance, much of which is based on voluntary codes of practice, it is still poorly executed by companies. A Grant Thornton review on the extent of compliance with the Combined Code by Irish Companies, found approximately 50% of Stock Exchange companies were non-compliant. It concluded that the voluntary approach to the Code has failed and that the only acceptable solution is to incorporate governance principles into legislation.

Congress agrees and is surprised that this is not a live issue in business circles. Is it because they know they are getting taxpayers' "money for nothing."

8 Conclusion

This is a very deep economic crisis. It was brought about by economic policies which failed almost totally. Ireland is suffering the biggest collapse in National Income in the world, with a fall of 14% over a short period.

This collapse must not bear disproportionately on the most vulnerable. If we work together in solidarity to find equitable economic solutions, Ireland can emerge stronger. Together in adversity, we can develop better businesses, more educated and skilled workers, reduce inequality, improve our public infrastructure, protect poorer citizens and solve our immense problems. We can use the crisis to build a really inclusive society and a more productive economy.

Appendix 1

Commission on Taxation 2009

Congress' Overview

Introduction

The public disquiet aroused by this report demonstrates that the Government overplayed its hand in seeking to determine the outcome, through provision of a narrow, biased, Terms of Reference (TOR) and its selection of the Commission membership.

This was in stark contrast to the Commission which sat 25 years ago, which enjoyed non-restrictive terms of reference and a more representative membership, as pointed out by its then Chair - Miriam Hederman O'Brien – in an interview following the publication of this report.

The report of the current Commission is a child of the economic policies that have brought this once successful economy to its knees: low direct taxes, high spending taxes, combined with de-regulation and privatisation.

Indeed the Commission's core term of reference – maintain low taxes – was outdated before it had even commenced work. The crash had already begun. In correspondence, the Minister for Finance informed Congress that he had advised the Commission to take account of the changed economic circumstances. Regrettably, he did not change the terms of reference.

Overall, the report is too pro-business. This is unnecessary. It does not have to be a zero-sum game, with a winner and a loser. This lack of balance reflects the Commission's flawed terms of reference and its composition, hand-picked by the Department of Finance to reflect the views of business and tax planners. And just like the over-zealous McCarthy report - which went beyond its terms of reference – the Commission has achieved this all too well.

Flawed Terms Of Reference (TOR)

Both the terms of reference and the composition of the Commission are in polar opposition to the views of Congress, as outlined by the General Secretary to the then Minister for Finance, Brian Cowen.

- The first objective of the Commission is to keep the overall tax burden low.
- The second is to ensure that the regulatory framework remains flexible.
- Another objective is to guarantee that the 12.5% rate of corporation tax remains.
- With regard to carbon emissions there is no mention of fuel poverty, in a time of rapidly rising fuel prices.
- And all of these objectives were further constrained within the parameters of "having regard to the commitments on economic competitiveness.

Composition

It is our view that eleven of the Commission's members could be viewed as representatives of capital/employers (that is even excluding the farmers' rep) with one sole representative of labour. Indeed most appear to be tax planners or bankers, or involved in investment which may be assisted by tax planning.

There is a further imbalance in the Commission with strong representation of some of the major tax planning firms with whom Revenue have had major difficulties, in the past. Some of these firms may have acted against the public interest in complex tax planning, and may have been successful in undermining the tax base, legal though that may be.

In the United States, a Senate / Congress Committee would have examined any possible contradictions or conflicts in the nominations, prior to their appointment. Here, members' CVs were not even disclosed on their appointment.

Before the Commission was Established

In a letter to the Minister for Finance on January 8, 2008, the General Secretary wrote:

"While Congress welcomes the proposed establishment of the Commission on Taxation, we believe that its review must be evidence-based and grounded in an overall philosophy of equity, combined with economic efficiency and the recognition that taxation is an integral part of a modern society and not 'a burden'. The Commission might also address the clear link between public spending and taxation and attempt to inform the public of the wide choices available to them through this linkage."

He said that *"Congress believes that the Irish tax system has become simpler over the past decade and while evidence-based decision-making is an aspiration, it is not always achieved and in some cases, it is not sought. The Irish Taxation system still has a number of features which make it biased against those who work and favour forms of speculation and inherited wealth through much lower effective rates of taxation compared to the rate of tax on work."*

Yet in drafting the Commission's terms of reference the Department of Finance/Minister employed the language of the ideological Right in describing taxation as a "burden." This set the tone for the outcome of the report.

On the composition of the Commission, Mr Begg pointed out: "Finally, Congress urges the Minster to ensure that the composition of the Commission on Taxation is representative of civil society. It is vital that the Commission is not dominated by business interests. In particular, the Government should be wary of the appointment to the Commission of representatives of certain 'professional groups' which are essentially anti-tax lobbies, as this would undermine its credibility before its inception."

This view was rejected.

The Contrast: Norway's Commission on Distribution of Wealth & Income.

In stark contrast to the Irish Government's narrow and biased exercise, the left of centre Norwegian Government (just re-elected) appointed a Commission on Distribution of Wealth & Income late last year. Its experts were charged with researching and explaining the increase in inequality, and on how to ensure that the distribution of resources and wealth becomes more equitable.

Its terms of reference were broader and its composition more reflective of civil society. Its report was published in April of this year and contains many progressive recommendations.

http://www.regjeringen.no/pages/2185274/PDFS/NOU200920090010000DDDPDFS.pdf

Our own Commission did not address the high level of inequality in both the distribution of income and of wealth in Ireland. Reports from the likes of the ESRI trumpet how inequality did not dis-improve during the boom, but seldom question the fact that Ireland is one of the most unequal societies in the developed world. This was confirmed by Minister Lenihan when he revealed that a mere 4 per cent of taxpayers pay almost half of all tax, demonstrating that there is a small elite here with a disproportionate amount of the wealth and incomes.

Indeed, the Commission on Taxation report contains a table (page 54) outlining just how unequal income distribution is. And this is based only on disclosed income. It shows that 8500 persons or 'tax units' earned over €275,000 in 2006 – a total of €5.8bn. On this total they paid just €1.9bn in tax on income. Indeed the combined income of these high-earners equalled that of 165,000 earners further down the earnings scale.

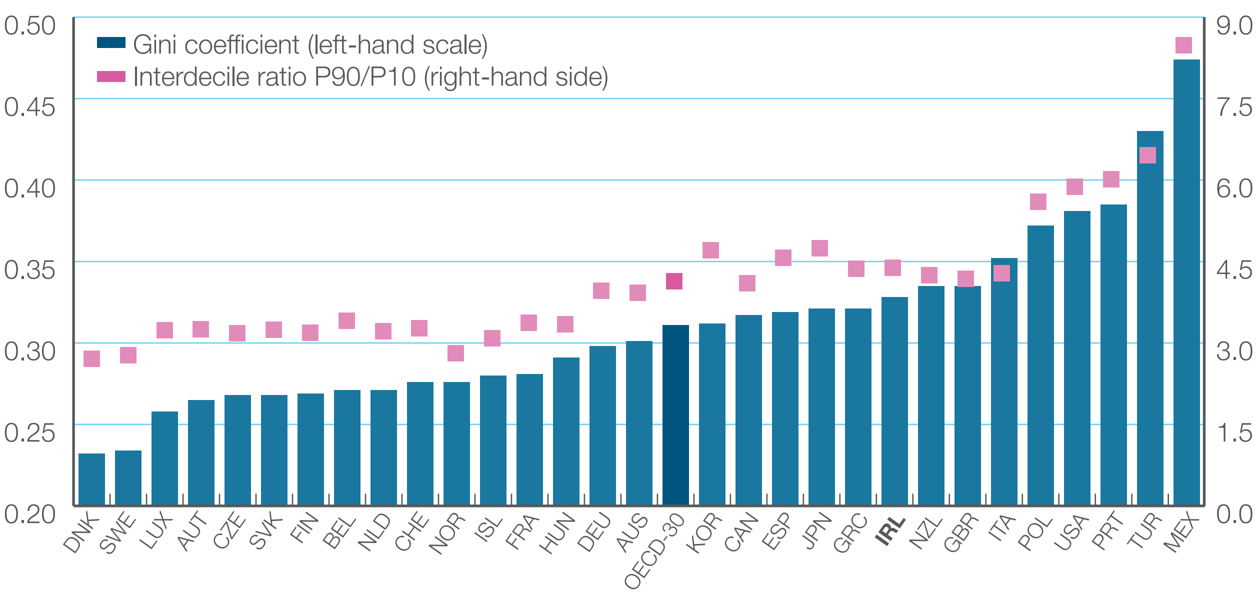
The table clearly shows how unequal Ireland is, well below even the OECD average. It is just behind the UK and New Zealand. Ireland is one of the most unequal societies in Europe.

Tax plays a major part in inequality reduction. The Commission's report shows no interest whatsoever in this huge opportunity cost to the economy and society. And the gains for business in increased state supports (subsidies) will be short lived. This report fails to meet the needs of most Irish people.

Too "Pro-Business"

While equity was one term of reference, the Commission erred greatly in the balance between it and what was perceived to be of benefit to business. Where the report encounters a conflict between equity and what is perceived to be 'in the interests of business', it is the interests of the latter that always win out.

Income inequality varies considerably across OECD countries



Note: Countries are ranked, from left to right, in increasing order in the Gini coefficient. Data refer to the mid-2000s for all countries. The income concept used is that of disposable household income in cash, adjusted for household size with an elasticity of 0.5.

Our economy crashed because the Government, regulators, and the Departments of Finance and Enterprise were so over-zealously pro-business. This was shown by: de-regulation/no regulation, privatisation, massive tax breaks, subsidies, high taxes on consumption (which pushed up the overall price level), and by pursuing pro-cyclical, demand-boosting economic policies. This lethal cocktail brought this economy to its knees, where it now rests. More of the same, even somewhat modified, will keep us there. Instead of working for business, this liberal economic ideology, destabilised the economy with a huge boom/bust cycle which destroyed many fine viable businesses.

Low taxes means low public services. Exceptionally, in the real boom of the 1990s, it was possible to have low taxes and increased public spending. When the economy over-heated, Government should have stopped cutting taxes. Instead it gave even more tax subsidies to the wealthy, to property and business interests, without assessing their impact on equity and economic performance. That many of these, though, not all, are to be terminated, is welcome. But the recommendation to maintain low direct taxes on incomes and on business profits, at a time of severe fiscal crisis is very regressive.

Remember business in Ireland already enjoys a range of lucrative benefits: one of the lowest rates of company tax in the developed world; the lowest social contributions in the world; many tax subsidies; an array of state agencies[12], largely devoted to pursuing the business agenda.

Ireland has the lowest 'tax wedge' in the world – this is the difference between what it costs an employer to hire a worker and what that worker takes home in pay.

It can be seen from the graph above that the Employers' Social Contribution and workers taxes are very low in Ireland and have been reduced substantially since 2000. In justifying the low tax model for Ireland, the Commission quotes an OECD report (2006) which asserts in 12 out of 17 studies, there was evidence that a higher tax wedge increases unemployment. (Interestingly, the tax wedge was further reduced when we had almost full unemployment, fuelling the boom and exacerbating the bust).

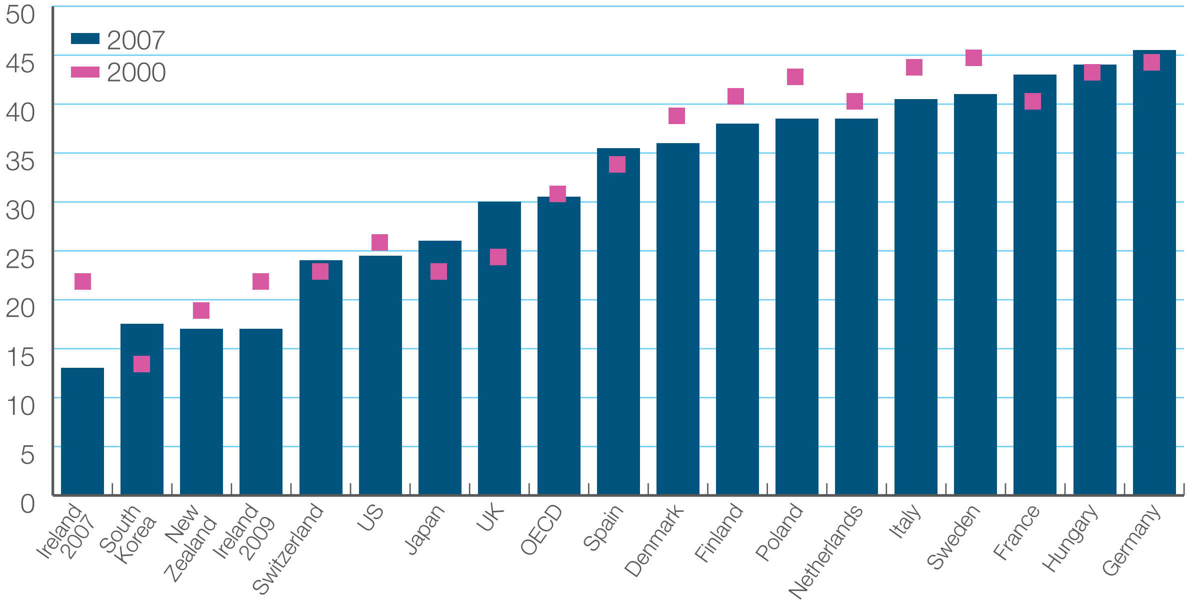
The destabilising economic policies of boom/bust in recent years inevitably means that the wedge will rise, if only to pay for the enormous public bailout of the failed private sector banks.

But the Commission neglected to quote an earlier OECD report on the impact of tax which concluded: "It is clear from the literature review … that the effects of taxes on economic performance are ambiguous in some areas and unsettled and controversial in others."[13] This OECD report was omitted by the Commission. It must be pointed out that the OECD describes taxation ideologically, i.e. as "a burden," as does this Commission. The OECD is recognised as conservative liberal research economic body on economic matters, and generally favours low taxes and low social spending.

12 IDA, SFadco, Udaras, Forfas, BIM, Teagas, SFI, FAS etc.

13 OECD, 1997, Taxation and Economic Performance.

Total tax wedge on labour (as a % of average earnings), 2007



Note: As reproduced in Commission on Taxation Report.

Congress has repeatedly pointed out that in the real world - not that of economic models - the high tax Nordic countries are:

a) at the top of all the competitiveness league tables;

b) at the top of OECD's social leagues and

c) the most socially cohesive - which means long-term productivity and welfare.

It is also self-evident that low taxes on inherited wealth, on unearned incomes on capital gains, are a disincentive to work and enterprise while marginal rates on work are higher. Yet the Commission made a strong case for lower CGT, low CAT and low taxes on unearned income. It did not address inherited wealth. A number of points have been made in the main submission on this subject which should be acted upon in time.

The low tax regime is on the way out. The Commission does recognise this when it admits that with the tax rises to pay for the crisis, the wedge has risen by 36% in the past two years.

The balance of the report is skewed against social equity. It should be addressed by increasing the tax contribution from business. On the contrary, the report seems to pursue a serious agenda of not just cutting business taxes, but of subsidising business through offset eg for R&D against PRSI paid by workers! In fact, the taxes on companies are so low in Ireland that temporary reductions eg on employers PRSI would have little effect. The low direct tax regime means that scope for a fiscal stimulus is very limited.

The Abolition of Corporation Tax

The report does not recommend the abolition of Corporation Tax, ie taxes on business profits. But it goes very close to doing so and when all its recommendations on reductions for the corporate sector are added up, it might as well have done so. It would be simpler just to abolish or zero rate it.

But there is a reason the Commission did not propose the abolition of Corporation Tax. If there was no Corporation Tax in Ireland or it was zero-rated, the other countries, especially the US would tax their Irish subsidiaries at their, much higher, rates. An additional bonus of retaining the current system here and combined with the fact that the report did not really simplify it, is that it will ensure much work for Irish tax planners.

It is extraordinary that the term 'Transfer Pricing' (TP) did not appear once in a major 550 page report on taxation. This is where MNCs shift or transfer their taxes to tax havens or low tax countries, by manipulating internal pricing. Ireland has been a great beneficiary of TP. But it is doing so at a cost of our fellow member states in Europe. It is artificial and cannot last. One would have expected, at the very least, a discussion of the implications of the termination of TP

Trade Union Tax Credit

There is a contradiction that the credit for trade union membership is to be eliminated but that there is no proposal to alter the current arrangements whereby membership fees for professional associations and institutes, as well as employers bodies are legitimate business expenses for firms and the self-employed. This exhibits an unacceptable class bias, to which Congress is opposed.

Cost Neutral?

The report does not give costings. It says it met its reference to be cost neutral. We have a deep, uneasy feeling that the recommendations would shift taxes from business and unearned income earners to middle income families.

Main Controversial Issues

A Property Tax

"Provide for an annual property tax on all residential housing units with the broad exceptions of local authority and social housing units and some other limited exceptions."

The case made for a Property Tax is to widen the tax base and shift it from work and enterprise to immovable and unproductive assets. It is argued that such a tax is progressive, will assist local authorities in maintaining services through local funding and also assist in building local democracy. It is also a very stable tax, it is difficult to evade and is generally progressive as those with more valuable houses should pay more.

Most countries in the world have a tax on property including domestic dwellings.

It is clear that there will be drastic cuts in public expenditure due to the collapse in taxes from property and economic activity and the 304,000 less people at work in 2010 compared to 2007. Thus local authorities will have financial support from Government greatly cut. Many local authority workers will face job losses and services will be curtailed.

The case against a property tax is that it is unpopular with Irish people who have a high home ownership ratio. The biggest objection is that many fear it will be an additional tax and in some instances, will be inequitable. A further case against it is that the money raised will go straight to reduce business taxes. An alternative proposal is for a land or a site tax.

We should consider a tax on site value, rather than on property or completed development. These taxes are not imposed on effort, but on "rent." This is the value over and above the economic costs of production. The value of a site is determined by its location and amenities. It is not so determined by the activities of the owner. The most important amenity is the infrastructure created by local and other public authorities (eg the investment in a LUAS). A tax on updated site values will get back the cost of infrastructural investment from its main beneficiaries. If local authorities are allowed to keep the additional revenue generated by their investments, they would have a great incentive to further the development of their area. A site tax is mooted in the revised Programme for Government (Oct. '09).

Taxes on property also rise with prosperity; they are hard to evade; and they are automatically imposed on otherwise untaxed foreign owners. These benefit from the huge public investment by the Irish taxpayer, without paying for them. A higher property tax is an easier and inescapable way of making the tax exiles contribute to our society.

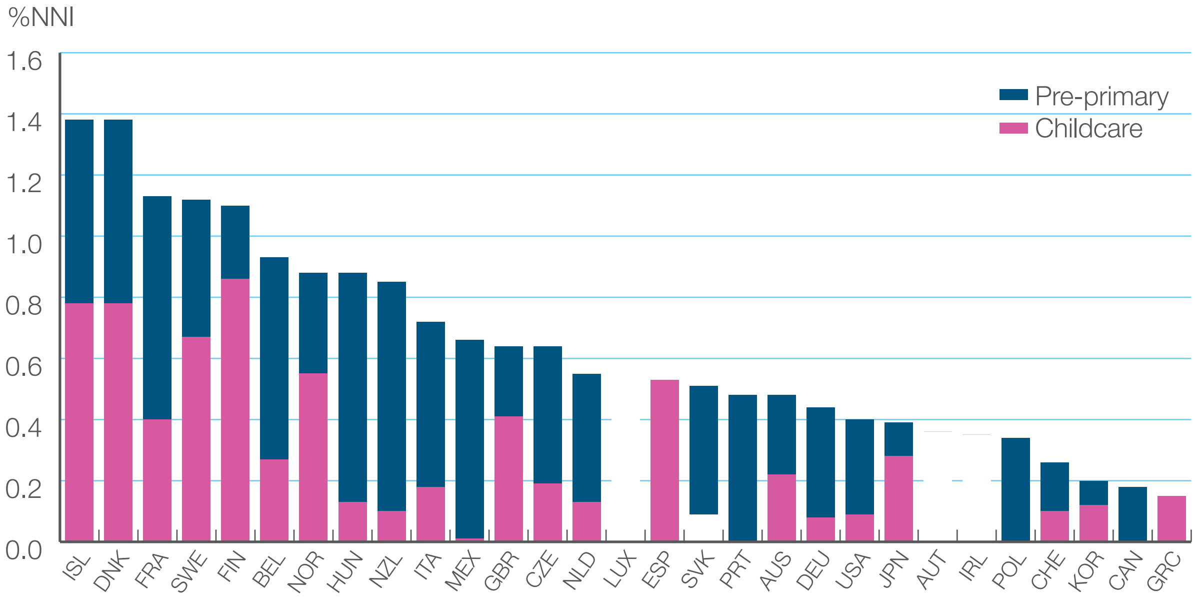
Many Irish people, besides the big boys, became mini-property speculators during the boom. Higher taxation on site values would lower the intensity of future property speculation. Had we had such a tax, the boom/bust would have been smaller.
The tax should be levied on land above a certain value and it should be proportional to value, ie higher for high value land. It would work most efficiently when properties were revalued regularly. Many developed countries have such revaluations on property.

Taxing Child Benefit

The taxation of Child Benefit is a very difficult issue. There is a strong case in equity for such a tax with this costly state benefit also going to the highest earners. Child Benefit is used for a range of costs in relation to children - food, clothing, school books, uniforms and childcare and it is an important anti-poverty measure. And given the abolition of the Early Years Childcare Supplement, Child Benefit is now the only payment to assist parents with childcare costs, which depending on where you are in the country, can range from €800 to €1000 per month. There is no properly supported and resourced childcare system in Ireland added to the fact that the payment is made directly to women. It should be noted that further proposals from the Commission on removing tax allowances for childcare facilities; tax breaks for childcare service providers; and employer care be treated as BIK could also add to childcare costs. Congress could not support the taxation of Child Benefit until there is a strong state supported system of child care in place.

See this graph on the next page on how low state support here is.

Public spending on childcare including pre-primary education, percentage of NNI, 2005



Source: OECD Family database (www.oecd.org/els/social/family/database).

Nordic countries spend significantly more on childcare programmes

Another reason against means testing benefits is the high level of tax evasion in Ireland. There has to be a major drive against evasion which is widespread to ensure that big farmers and the self-employed cease to feature disproportionately in access to student grants etc.

Minimum wage

Congress welcomes the view that the general aim should be to continue to exempt the minimum wage from taxation.

A Self Employed PAYE Credit

> "An earned income credit (PAYE Credit) at a modest level should be phased in over time for proprietary directors and the self-employed."

Congress will strongly oppose this as it will have a huge cost and it is regressive. It is understood that the self-employed have considerable leeway in determining their incomes compared to the PAYE sector. The PAYE allowance was introduced in the early 1980s in response to this inequity. We believe this could cost up to €650m a year.

Depreciation not Capital Allowances

There are a number of apparently innocuous recommendations which could have major impacts on tax revenue. These are not clearly spelt out in the Report, regrettably. One is the recommendation to substitute depreciation for Capital Allowances. Accounting convention requires that the accounts give a true and fair value and the International Accounting Standards require that impairment of assets be reflected in the accounts and that the impairment is recognised as a loss in the financial statements. Thus, for example, in this era of collapse in property prices, property developers have an asset which cost €6m, but it is now impaired by €4 million. To recognise the real value at €2million, say in 2010 with the change suggested, if accounting depreciation is substituted for the present Industrial Buildings capital Allowance, it could create an additional windfall capital allowance of €4 million for the investors, available to shelter other income from taxation.

The Tax base

> "We consider that lower tax rates on a broad base are better than higher rates on a narrow base."

Congress concurs with this view. However, the low tax terms of reference over-determines the Commission's flexibility in this vital area, especially when the economy is in freefall.

A Perverse View of Equity

> "Equity is a key aspect of a tax system."

But Congress considers that the Commission was too keen on the overriding issue of competitiveness and on what it perceived as the pro business agenda. It was the deregulated, low tax model which assisted greatly in crashing the Irish economy.

Artists versus Sports Stars

The integrity of the report is undermined somewhat by a number of what appear to be "pet" recommendations in the report. To abolish all tax relief for Artists while bringing in new regressive tax breaks for elite sports stars is a contradiction. While Congress favours retention of the Artists tax exemption, but with a ceiling so that modest earnings of struggling artists can be supported. But to simultaneously suggest giving a new tax break of €300,000 to certain sports stars is incomprehensible.

There are other contradictions in this report which undermine its attempt at independence or that it is an evidence based report.

12.5% rate of corporation tax will remain

> "Our terms of reference require us to have regard to "… the guarantee that the 12.5% rate of corporation tax will remain"."

Congress has consistently held the view that using Corporation Tax as a key competitive advantage, when it is not in the Government's control, is not sustainable. While we have gained revenue under Transfer Price Fixing by firms which locate profits here to avail of the low tax rate, this will not last. It is part of the race towards the bottom, where the winner is the corporate sector, including non-trading firms like banks, incorporated professionals, wholesalers and retailers. Congress supports EU tax coordination of rates within an agreed range. We are, however, opposed to the current proposed Consolidated Tax Base.

Capital Gains

> "We recommend that capital gains should not be taxed to the extent that they arise from inflation."

Congress does not agree. When the rate was twice its present level - ie at 40% - gains were allowable and this was fair, for assets held for some time. With such a low rate, much lower than the marginal rate, this reduction would be totally unacceptable.

Congress is disappointed that the Commission did not recommend the treatment of Capital Gains as income as in many other countries. The rate is half of that of the top rate of income tax. It is perverse that work should be taxed at higher levels than income from windfalls and speculation

Pensions

The Commission's pension proposals are predicated on the idea that people should save for their retirement and that the role of the tax system is to encourage such saving. The whole pension issue is much bigger than taxation. There is an ever increasing body of evidence that funded pensions appear to be unsustainable and that much of the tax forgone has been eaten up by provider charges or stock market losses. These issues have not been considered by the Commission.

The Commission have come down in favour of the Pension Board proposal for an SSIA type system of matching contributions rather than traditional relief. Firstly it is recommended that the current tax, PRSI and health levy relief should in the medium to long term be replaced by a matching Exchequer contribution of €1 for each €1.60 contributed. Secondly there is a proposal to kick start pensions with an SSIA type scheme of €1 for €1, moving to €1 for every €2 contributed.

The Commission has therefore made a useful suggestion to increase the tax relief for standard rate tax payers which is most welcome. Unfortunately while the proposal appears equitable it is balanced by a reduction in tax relief for middle income earners rather than reductions for very high earners. The relief for all in this proposal will be 38.5% as against the current relief of between 20%and 28% for standard rate taxpayers and 46% to 49% for higher rate taxpayers. While this might be good news for many of our lower paid members our higher paid members in compulsory schemes would experience a drop in income.

The Commission's suggestion of capping the tax free lump sum at €200,000 is not unreasonable. Most workers will never get a tax free lump sum especially of that amount. The Commission is however inconsistent in that it neglects to curb the €500,000 free of CGT to €200,000 to the self employed on retiring aged over 55, as stated above.

The Commission's suggestion that 'the regime for non-funded pensions should be examined to identify the implicit tax cost' is a clear piece of none-too-subtle Public Sector bashing. The Commission does not appear to be interested in the tax forgone in pensions overall which gives tax free fortunes to the super rich. Neither does the Commission seem concerned that 80% of the tax forgone on private sector pensions finds its way into the pockets of those who need it least.

In conclusion, the future of our pension system is a much bigger question than the tax treatment of contributions. To some extent the Commission is already lagging behind the debate insofar as they seemed to envisage private-funded pension as the only game in town. Congress will reflect on the Commissions recommendations and engage with a broad range of opinions and interest to assess the impact of the individual proposals on those we represent. We still look forward to the White Paper on pensions reform.

Appendix 2

The Banking Crisis

The biggest public expenditure, risk, ever.
Several billion in taxpayers' euros in cash has already gone to bail out the failed Irish banks. Billions more are promised. Cuts in basic public services and even welfare are simultaneously being contemplated as taxpayers are forced to bail the banks. NAMA is a vast commitment underwritten by taxpayers. The bank bailout is **the biggest public expenditure risk** on behalf of taxpayers ever undertaken in the history of the Irish state. Thus this comment is included in our Budget submission.

Congress is Ireland's largest civil society organisation and represents the largest single block of taxpayers, with 630,000 employee union members in this state. Congress represents almost half of the 84,000 employees in financial services in the Ireland.

Back in April 2008, in Congress' *Narrowing the Pay Gap*, a paper which forecast the banking crisis, we quoted from Nobel economist Joe Stiglitz: *"Anybody who believes the banks know what they're doing has to have their heads examined. Clearly, unfettered markets have led us to this downturn and to enormous social problems."* Congress drew attention to the then looming banking crisis. We focused on bank remuneration and on one bank, Anglo Irish Bank.

Again, Congress was among the first to argue that nationalisation represented the best way to deal with the crisis in the banking sector. On November 27, 2008, Congress published its own analysis on the problem and this concluded that bank nationalisation best served both the interests of the economy and the taxpayer: http://www.ictu.ie/download/doc/banking_group_dont_sell_out_our_banks3.doc We argued that it was time to establish an entirely new financial regulatory regime, encompassing all financial services and operating at national, Eurozone and global levels. On December 3 2008, General Secretary, David Begg, reiterated this point in an address to a Labour Party conference.

However, as NAMA is the chosen methodology of Government, Congress will critically support it in the national interest, *provided* it is accompanied by radical reform of corporate governance for all Irish firms and a NAMA for households at risk. If the banks are too big to fail, then new rules must be made.

Yet Nationalisation may still be undertaken with a state shareholding of anywhere in excess of 50 per cent of stock. The remaining minority of the shares can still be traded on the stock exchange, even if Government is so ideologically opposed to nationalisation. We noted that stockbroker economists are against nationalisation. It must be pointed out that trading in the banks' shares is a very large part of their incomes. These vocal stockbroker economists represent an elite, vested interest. Their opinions helped pimp-up the boom/bust. They still have undue and often detrimental economic influence on economic decisions.

Banks Shares and a State Holding Company
Congress suggested in our 2009 pre-Budget submission that the shareholding in the banks be invested in a State Holding Company, similar to the UK's Financial Investments (UK FI).

Congress set out details for the establishment of a State Holding Company (SHC) in 2005.[14] The body would be a passive investor in the commercial state companies providing an opportunity for Pension funds and others to invest in them and to provide capital for their expansion.

As privatisation was in vogue, the government did not endorse our detailed proposals at that time. Since then, the world has changed. Nationalisation on an unprecedented scale, in various forms is underway worldwide. The SHC is a good vehicle for storing the banks' shares and for re-investing the money if and when it is repaid to the state.

A Social Dividend

The idea of a "Social Dividend" was first suggested by the Congress in mid September. Congress reiterates its demand that the NAMA legislation includes a "Social Dividend." Through NAMA, the taxpayer will become in effect the biggest property owner in Ireland, almost achieving Davitt's dream of the public ownership of the land of Ireland. Thus, we must not waste a good crisis and there must be major social provisions in the Act to provide for housing, schools, health centres, sports and other community facilities.

A further social dividend is that this state's virtual control of the banks can open up their books, not just to study the malfeasance of the past and to set new rules in stone for the future. Access to their books must now be used by our government to allow the Revenue dig deep to ascertain the whereabouts of all the tax avoidance and tax evasion schemes. All banks must now have excellent governance schemes put in place by the state to ensure that they cannot facilitate and even in some case, initiate, tax evasion and avoidance again. Some Irish banks have a regrettable history of assisting in tax evasion.

Passive control of the Irish banks after their 80 enterprise leader-directors almost destroyed the Irish economy is not an option. The actions of these enterprise leaders, remain unchallenged. These directors are still comfortably ruling leading Irish companies, running major law and accounting firms, and are in key positions in universities and the media, having successful destroyed Ireland's reputation. They have brought a new meaning to the word "success". They have re-defined the word "enterprise".

After the Crisis: One Publically Owned Bank

Finally, when the crisis is over, one Irish bank must be held in majority state ownership. We can never trust the private interests, golden circles or not, to have such unfettered control over credit again, without the very best oversight. This oversight should include good regulation, but also part-ownership so the state has a professional insider-knowledge of banking and its current practices. Even the most fervent free market fundamentalist cannot say that the private sector banking is in any way superior to public owned banks. We had two good state development banks which were recently privatised ACC and ICC. However, the independence of the new state bank from the political process must be guaranteed by proper structures and a representative and competent board.

14 *A New Governance Structure for State Companies,* Summer 2005, Congress.

Radical Reform of Corporate Governance

If the banks are too big to fail, then the rules of all forms of governance for all firms must change too. If "limited liability" no longer applies to banks, then company law must change to take account of this.

Congress calls on the Government to move immediately to reform Irish company law away from the Anglo-American Shareholder value model to a more inclusive European style stakeholder interest model. We also seek wider, more diverse representation on supervisory/ regulatory and state boards from employees, consumer interests, to many more women.

The governance of all financial services companies at board level and at regulator level must be changed by law, not by supposed "best practice," engineered by the "Big Four" accounting firms. These banks are too important to be left on their own - ever again.

Office of Indebtedness: NAMA for Ordinary Families

Congress is calling on Government to care for working families. Its not enough to save the banks, working families need to be thrown a life line too. Regular working families who have lost their jobs and incomes must be protected from threats of repossession and they must be provided with realistic ways to deal with their over indebtedness. It is unfair that the tax payer is funding NAMA, while at the same time working families are under threat of losing their home. With the dramatic growth in over indebtedness and the increasing number of families with mortgage arrears and other debts it is imperative that Ireland puts in place fair and appropriate laws to deal with the casualties of this crisis.

There is a strong case that persons at risk of losing their homes to repossession get a real break from the banks. Consideration should be given to the system where, in the case of negative equity for those in straightened circumstances, with, say job losses, or major verifiable income falls, the mortgage is written down to market value and the period of time for repayment is stretched.

Congress believes that moves by the Irish Banking Federation (IBF) to offer further 'reassurance' to homeowners in difficulty with repayments is insufficient and calls on the Government to put in place legislation to provide proper protection.

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