An Investment and Equality Agenda: Unite Pre-Budget Submission 2016

Pre-Budget Submission

Unite the Union

September 2015

Introduction

Once again, we have a misleading narrative dominating the public debate. During austerity, the narrative was dominated by 'there is no alternative' or that spending cuts are better than tax increases. All manner of spin was used to justify a socially inequitable, economically inefficient programme of austerity.

Today is no different. The debate is dominated by the misleading assertion that the Government is limited to fiscal adjustments (i.e. spending increases, tax cuts) of between €1.2 and €1.5 billion. This is not true. The Government can go much further if it chooses, redirecting much greater resources into economic investment, public services and poverty reduction.

Yes, the fiscal rules only allow the Government a limited amount of budgetary scope – but that only refers to the amount of spending increases and tax cuts we can introduce without compensating measures. The Government can go much further in order to gather the resources needed to build a broad-based, inclusive recovery.

We now know. Domestic and international bodies such as the Nevin Economic Research Institute and the IMF have shown that increasing investment actually reduces debt by driving productivity; and redistributing income from the highest income groups to the lowest income groups drives growth. Throughout the recession and the austerity policies, Unite continually pointed out the benefits of economic and social investment. We continue to highlight this approach – an approach based on equality and investment.

No one doubts the immense social and economic repair job that is required for the Irish economy and society. Nor does anyone doubt how far behind we are from average European services and income supports. We have an opportunity to start that repair job, to move towards an average European social state.

No one is stopping us. It is our choice. After seven years of wrong options, we have an opportunity to start making the right choices.

In our pre-budget submission we cover the following:

1. Prioritising Social and Economic Investment
2. Reforming Not Cutting Taxation
3. Increasing The Social Wage And Workers Living Standards
4. Special Social Housing Investment Programme

In Summary

Unite is proposing a total budgetary package of €4.8 billion.

Exchequer Measures

- An increase in taxation on capital and wealth (wealth tax, capital acquisitions, derelict sites and subsidies to large pension pots): €795 million
- Increased public expenditure (investment, public services and social protection): €1,925 million

Social Insurance

- An increase in the social wage, or employers' PRSI (0.5 percent across the board and an additional 9 percent increase on wages above €100,000): €700 million
- Initiate new public service programmes (affordable childcare, a cap on prescription medicine costs, pay-related sickness and unemployment benefit): €700 million

Fiscal Space

- Use of Fiscal Space to for social and economic investment: €1,130 million
- Use of Fiscal Space for tax reforms (eliminate PRSI step-effect, introduction of refundable tax credits, indexation): €220 million

Special Social Housing Investment Programme

- A special housing investment programme to tackle homelessness and provide housing for households with priority needs (families with children or with people with disabilities): €2,000 million
- Investment programme to be financed by the repayment of bank bail-out funds

This would be a once-off programme which would have no impact on the structural deficit.

Jimmy Kelly

JIMMY KELLY

Ireland Secretary
Unite the Union

1. A Statistical Recovery

The consensus that Ireland has entered a recovery is based on headline rates, but when different sectors and indicators are put under the microscope the picture becomes murkier. In 2014, when the economy grew by over 5 percent, there was little mention of the warnings by the Central Bank that a significant amount of that growth was confined to the activities of the IFSC and therefore had little impact on the domestic economy; or the Irish Fiscal Advisory Council's observation that contract manufacturing (an activity that occurs entirely outside Ireland but, for statistical reasons, is included in our national accounts) could make up half of the growth. So we may be enjoying a statistical recovery, but for many sectors and many workers the stagnation continues.

Another example is employment: we are treated to a tidal wave of numbers showing strong growth. While much of this must be treated with some scepticism – especially the 2013 employment numbers which may have been artificially inflated by the CSO's statistical re-alignment of its sample base – what has not featured in the debate is the impact of emigration. Over 300,000 people of working age have emigrated since the start of the crisis for recession-related reasons. This led the Nevin Economic Research Institute to observe that were it not for this, unemployment would be significantly higher.[1]

- **We are a deprivation nation**. Over 30 percent – or 1.5 million – suffer multiple deprivation experiences. Over 40 percent of children suffer deprivation. Our living standards are closer to Greece than they are to most other EU-15 countries.

- **We are a low-waged nation**. 350,000 workers are officially categorised as low-paid while one-in-five people in the workforce live in deprivation conditions.

- **We are a low-investment nation**. Our investment levels are still nearly 30 percent below the Eurozone average, undermining our long-term capacity to grow jobs and incomes.

- **We are a low-spend economy**. We would have to increase spending on public services, social protection and investment by over €12 billion – even when factoring in age demographics and defence spending to reach the EU average. .

There is no doubting that some sectors are in recovery mode and there have been some gains in jobs and incomes. But this does not constitute a broad-based, inclusive recovery. We need to move from budgetary policies that continue to squeeze our capacity to grow, invest and share. This constitutes the core principle of our pre-budget submission.

[1] Emigration Has Taken Its Toll, Dr. Tom Healy, Nevin Economic Research Institute: http://www.nerinstitute.net/blog/2015/07/03/emigration-has-taken-its-toll/

2. Prioritising Social and Economic Investment

We accept the limitations of the fiscal space imposed by the EU fiscal rules (though these rules are not fit for purpose; they cannot predict, provide warning or prevent another fiscal crisis of the type suffered by Ireland).[2]

These limitations allow the Government to introduce fiscal adjustments of between €1.2 and €1.5 billion. This is the fiscal space – the amount of adjustments the Government may make without compensation fiscal adjustments (i.e. tax increases, spending cuts). We will use a middle figure as a baseline (€1,350 billion).

- We propose an overall increase in public expenditure of €2.6 billion – to be funded by the fiscal space and increased tax revenue.
- If the Government is able to realise the upper level of fiscal space, then spending could increase to nearly €2.8 billion.
- We further propose an additional once-off temporary investment programme of €2 billion (Section 5 below).

(a) Prioritising Social and Economic Investment

Every day we get more news about the level of damage to our social infrastructure and the social conditions faced by over one million people. There is an urgent need to prioritise social and economic investment – to repair our public services, to lift people out of deprivation and to promote greater productivity and efficiency through investment.

Table 3: EU and Ireland Primary Spending: as a % of GDP 2015 Estimate[3]

EU Primary Expenditure	**Ireland** Primary Expenditure	**Ireland** *(excluding multi-national accounting)*	**Ireland** *(excluding MNC / elderly demographic)*	**Ireland** *(excluding MNC, elderly / youth demographic)*	**Ireland** *(excluding all previous and defence spending)*
45.0	33.2	36.4	39.7	37.6	**38.6**

[2] According to the EU methodology, as recorded in the Cyclical Adjustment of Budget Balances, Irish public finances prior to the crash were ranked as one of the best with structural surpluses rather than deficits. In short, the EU methodology did not and could not provide warning signals that Irish budgets were unsustainable: http://ec.europa.eu/economy_finance/db_indicators/gen_gov_data/documents/2015/ccab_spring_en.pdf

[3] Sources: EU Ameco database http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm and Department of Finance Budget 2015. Age and defence expenditure is from Eurostat 2013 data (the latest year available) http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=gov_10a_exp&lang=en Differences in age and defence spending as a percentage of GDP between 2013 and 2015 will be fractional. The table aligns Irish expenditure with EU spending. For instance, if Ireland had the same proportion of elderly, the demographic demand on spending would increase by 3.3 percentage points of GDP factoring in pensions, medical/nursing care and community care. However, if we had the same number of young people (below 16 years), the demographic demand on spending would fall by 2.1 percentage points of GDP. If Ireland spent as much on defence as the EU, spending would rise by 1 percentage points of GDP. All GDP ratios use the Irish Fiscal Advisory Council's hybrid GDP benchmark which measures fiscal capacity.

Ireland is an ultra-low spending economy with lows levels of social and economic investment. A surface reading suggests that Irish primary spending is over 25 percent below average EU levels. However, given the idiosyncrasies of Irish GDP data, we need to undertake a number of adjustments to the headline measures.

When we factor in multi-national accounting practices, age demographics and spending on defence, Ireland still remains extremely low, coming in at 14 percent below EU spending and ranking 23rd out of 28 European countries.

- **Ireland would have to increase primary spending by over €11 billion just to reach the EU average.**

To begin moving towards a modern European society, we propose that over 90 percent of our total budget be allocated for social and economic investment.

Proposed Exchequer Spending Parameters		
Category	**Programmes**	**Expenditure** *(€ million)*
Public Services	In addition to inflation-proofing public spending, additional resources to be given to health and education. In particular, the direct provision system should be ended.	950
Social Protection	An increase in basic social protection payments and special programmes targeted at the most at-risk of poverty and deprivation groups (people with disability, lone parents)	425
Public Investment	Target general purpose technologies (e.g. next generation broadband), infrastructure (e.g. water/waste) and social housing.	550
Total Exchequer Expenditure *		**1,925**
* We propose further expenditure through the Social Insurance Fund – see Section 5 below		

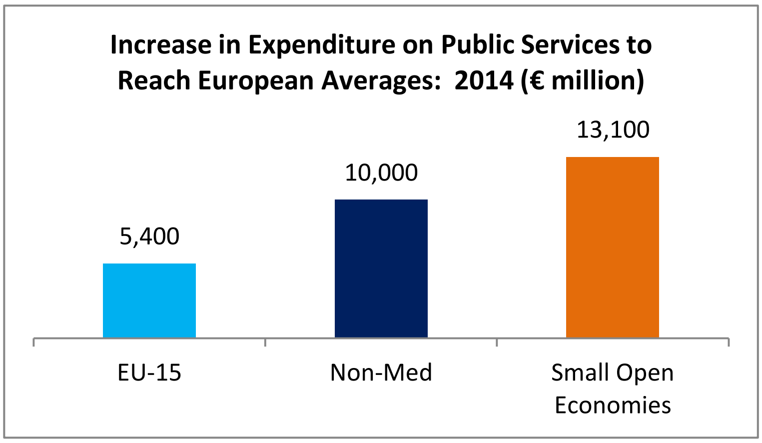
We are proposing an Exchequer expenditure programme of €1.95 billion. If the Government is able to realise the upper level of fiscal space then we propose that this supplement the public investment programme. This would increase public investment to €700 million.

(a) Public Services

There is little appreciation in Ireland of the extent of our under-investment in public services compared to European averages.

- Ireland would have to increase spending on public services by €5.4 billion to reach the average of other EU-15 countries.

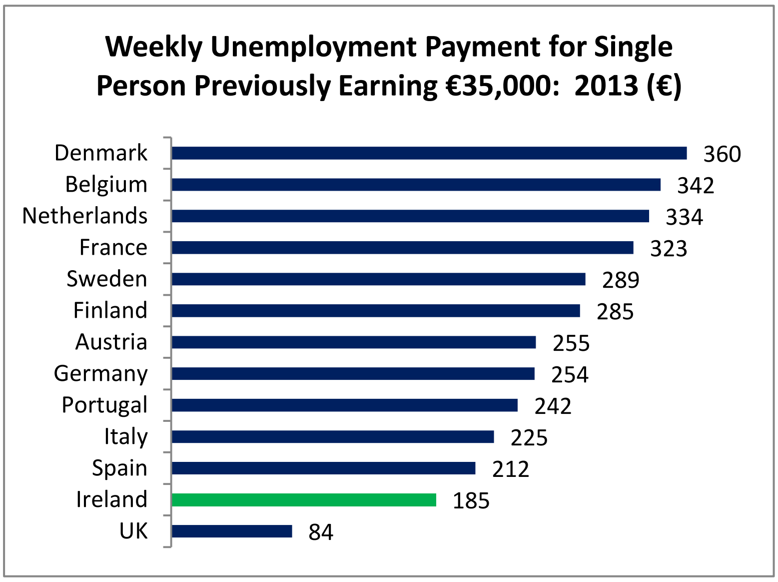
- When we exclude the poorer Mediterranean countries (Greece, Portugal, Spain and Italy), Ireland would have to increase spending by €10 billion.
- And comparing Ireland to its peer group – other small open economies – spending on public services would have to rise by over €13 billion.



While these figures will fall slightly when factoring in age demographics and defence spending, it shows the scale of under-investment in areas such as health, education, policing, housing, recreation, etc. compared to EU averages.

Our proposed increase of €950 million in public services will start to close the gap with other European countries but it is only a small, first step of a long-term investment drive.

(b) Social Protection



The extent of deprivation among those reliant on social protection has unfortunately not received the attention it deserves. 55 percent of unemployed suffer enforced deprivation; 53 percent of those unable to work due to disability or sickness suffer; while over 63 percent of lone parents live in deprivation conditions.

Those reliant on social protection payments have seen their incomes fall dramatically since the start of the crisis. Since 2009, working age payments have been cut by over 10 percent in real terms. Basic payments would have to increase by nearly €20 per week just to bring them back to 2009 levels.

- **Irish social protection payments compare unfavourably with other European countries.[4]**

[4] OECD Benefit and Wages: http://www.oecd.org/els/soc/benefitsandwagestax-benefitcalculator.htm. Payments exclude housing benefits (for instance, with housing benefit in the UK which is more widespread, the weekly payment would rise to €227 per week.

Unemployment benefits are well below the levels of most other advanced EU countries. This is primarily due to the fact that almost all other countries operated a pay-related benefit.

Given the fiscal constraints imposed by the EU's fiscal rules, and the need for social and economic investment, we can only make a start to bringing those reliant on social protection above the poverty line. Our proposal contains an increase of €7 per week in basic working age social protection payments (€265 million) and provides €160 million for investment in supports for lone parents (e.g. restoring the recent Lone Parent cuts) and those suffering from disability and illness – the latter including an introduction of a small 'cost of disability' payment which can be expanded in subsequent years.

(c) Public Investment

Public investment is at an historical low. The average level of investment between 1995 and 2008 was 3.5 percent of GDP. In 2015, the level is half that. Driving public investment is key to increasing economic productivity and business efficiency, the foundation of long-term sustainable growth. Investment priorities include general purpose technologies such as next generation broadband, infrastructural quality such water and waste (in particular, tackling the dozens of areas where raw sewage is spilling out into our water resources), human capital (re-training and upskilling) and social housing.

Our proposals envisage an increase of €550 million in public investment. If this of rate of increase is maintained, spending on public investment would double by the end of the decade, returning to our historical average.

* * *

We have an opportunity to increase social, economic and infrastructural investment. This investment will drive productivity and growth, increase employment and start to reduce the high levels of poverty and deprivation.

All we have to do is make a choice.

3. Reforming, Not Cutting, Taxation

Ireland has a low-tax economy. However, this low-tax status is not spread evenly across the economy. Taxation on Irish workers is already close to the European average.

Implicit Tax Rates 2012 (%)			
	Implicit Personal Tax Rate *(Employees)*	**Implicit VAT Rate** *(Impact on Households)*	**Implicit Social Wage** (*Employer's Social Insurance*)
EU	26.3	7.5	20.5
Ireland	22.7	7.4	7.7

Implicit or effective[5] Irish personal taxation is below the EU average. However, given the net demographic/defence spending impacts, this level is approximately appropriate. Indirect taxes are certainly higher than the appropriate benchmark with Europe.

It should also be noted that the implicit tax rate for Irish personal taxation increased substantially since the beginning of the crisis. It rose by over 20 percent at a time of falling real wages, reduced hours and cuts in income supports (e.g. Child Benefit). Since 2012, there is some evidence that the effective tax rate has increased further, mainly due to lack of indexation.

There is no evidence to support a tax-cutting agenda. Irish workers are appropriately taxed at European levels. What they lack are the public services and in-work income supports that can reduce high living costs (see next section).

(a) Personal Taxation

While Unite rejects the tax-cutting agenda, there are areas of reform that should be undertaken:

- The PRSI step-effect, whereby many low-paid workers face more than 100 percent marginal tax rates when their income exceeds the PRSI threshold, should be removed through a phasing in of the threshold.

- Refundable tax credits should be introduced for workers earning €14,000 and above. This would be a first step in covering all workers. The administration would be complex. Therefore, the budget should make a commitment to introducing these credits.

In addition to these reforms, personal tax credits and the standard rate tax band threshold should be index-linked for inflation. These three measures would cost €220 million.

[5] Implicit tax rates measure revenue as a percentage of their appropriate activity. For instance, implicit personal tax rates and the social wage measure revenue as a proportion of gross wages and salaries; implicit VAT rates measure VAT revenue as a percentage of private consumption. Implicit tax rates are less distorted by output volatility than measurements that use GDP/hybrid GDP as the denominator. Data from Eurostat Trends in Taxation 2014: http://ec.europa.eu/eurostat/documents/3217494/5786841/KS-DU-14-001-EN.PDF/7bec4a16-f111-4386-a4b4-8f1087be1063?version=1.0

(b) Capital / Wealth Taxation and Regressive Tax Expenditures

We are proposing to raise €795 million for social and economic investment from the following sources:

- **Wealth tax**: The Nevin Economic Research Institute estimates that extending the current property tax to financial property and large real properties (i.e. a wealth tax) can boost revenue by up to €300 million annually. However, the Minister for Finance projected wealth tax revenue at between €400 and €500 million.[6]
- **Application of the USC to gross inheritance and gift taxes**: Historically, inheritance taxation revenue was much higher in the 1960s and 1970s with revenue averaging 0.5 percent of GDP.[7] Moving towards this average would boost revenue considerably.
- The introduction of a **tax on empty houses and derelict sites**
- **Reduce the annual pension contribution ceiling** to €75,000
- The OECD estimated that Ireland had a much higher level of income **tax expenditures** which undermined the progressivity of the tax system. In 2005, Irish income tax expenditures were €6.6 billion higher than the EU average. Additional tax expenditures were introduced in 2006 and 2007 but since then, there has been a reduction of such expenditures. Nonetheless, it is likely that Ireland is still an outlier.[8] There could be potential revenue of €480 million in standard-rating non-pension tax reliefs and allowances.

These along with forensic increases in indirect taxation (on-line gambling, sugar sweetened drinks) would easily garner €795 million.

Proposed Parameters for Taxation Measures		
Category	**Tax Measures**	**Cost**
Revenue Increases	Taxation on capital and wealth; reductions in regressive tax expenditures; excise and other taxes	€795 million
Tax Reforms / Indexation	Remove PRSI step-effect; introduce tax credits; inflation index income tax credits and standard rate tax band	€220 million
Net Revenue Increase		**€575 million**

[6] NERI: Wealth Tax: Options for its Implementation in the Republic of Ireland: http://www.nerinstitute.net/download/pdf/neri_wp_no_6_2013_mcdonnell_wealth_tax.pdf (and personal communication). Ministerial estimate: Parliamentary Question June 7th 2011: https://www.kildarestreet.com/debates/?id=2011-06-07.107.0&s=%22wealth+tax%22+section%3Adebates#g109.4

[7] OECD: Revenue Database

[8] OECD Ireland Economic Survey 2009: http://www.finfacts.ie/biz10/OECD_Economic_survey_Ireland_2009.pdf

4. Increasing the Social Wage and Workers' Living Standards

Ireland is a low-tax economy, but not in terms of personal taxation on employees or indirect taxation (VAT, excise). It is due almost exclusively to the low level of the social wage, or employers' social insurance.

Employers' social insurance is part of an employee's pay package. Workers are paid a direct wage that goes into their pocket (after tax); and they are also paid a social wage which goes into the social insurance fund. Out of this fund, workers can access income supports and public services which are free or at below market costs (e.g. health services, GP care, prescription medicine); at least this is the case in other European countries. However, Irish workers don't get this benefit because the social wage here is so low.

Over the long-term, the Irish social wage should rise to the European average. This should start in Budget 2016. We propose an increase of employers' PRSI:

* A general increase of 0.5 percentage points (to 11.25 percent in employers' PRSI
* An increase of 9 percentage points (to 19.75 percent) on incomes in excess of €100,000

This will raise approximately €700 million.

(a) Increasing Social Benefits – Public Services

This revenue would be ring-fenced in the Social Insurance Fund. We propose four new public service programmes that could be launched with this revenue:

- **Affordable Childcare**: The state, alongside establishing new childcare facilities through local authorities (as operates in continental EU countries), should create a voluntary national network of private childcare providers (for-profit, non-profit, community) so that childcare fees can be capped through direct subsidy of the providers.

- **An annual cap on prescription medicine costs.** A number of European countries place a cap on the price of individual prescriptions, alongside operating a cap on the annual expenditure. An annual cap should be introduced – starting at €500, falling over the years.

- **Pay-related Sickness Benefit**: currently, sickness benefit is not paid out until the eighth day of sickness; and it is only a flat-rate payment (€188 for a single person). This time gap and low payment means that many can't afford to be sick – and if they are unable to work, they may receive no payment at all. In many other European countries there is almost no time gap and the pay-related element pays up to 100 percent of pay for the first few weeks. We propose to roll out a European standard of pay-related Sickness Benefit over the medium-term.

- **Pay-related Unemployment Benefit**: again, Ireland is an outlier in Europe by not providing a pay-related element to unemployment benefit. This pay-related element should be re-introduced (there used to be a pay-related benefit before it was abolished in the 1990s). A first step would be to guarantee workers 60 percent of their previous wage up to a threshold of €40,000. This percentage and threshold could be increased over the medium term.

These measures would boost workers' household income – through reduced childcare costs, higher income during temporary periods of illness and unemployment, and reduced prescription medicine costs. This, in turn, would boost domestic demand – driving consumption, investment and business income. This again illustrates that boosting workers' living standards and providing social security is a driver of economic growth.

5. Special Social Housing Investment Programme

When the banking crisis hit Ireland, the National Pensions Reserve Fund was nearly emptied to provide recapitalisation to banks participating in the guarantee. Since then, approximately €3 billion of that has been repaid. However, instead of being returned to the Fund (now the Strategic Investment Fund), it have been used to pay down debt.

In the Spring Statement the Government has estimated that another €2 billion will be returned to the Exchequer in the form of 'co-co' bonds (capital contingent bonds) from AIB and Permanent TSB – though recent reports suggest AIB could be returning more before the end of the year. Given that our debt levels are falling faster than is required under the EU fiscal rules (which don't start applying to Ireland until 2018 in any event) and given that our investment levels are low, Unite proposes that this €2 billion be used for a temporary, once-off investment programme in social housing, with special emphasis on accommodation for the homeless, families waiting for extraordinary lengths on the housing lists and families with special needs.

This would require, if not consent, then at least tolerance from the EU Commission. Given that this would be a temporary, once-off investment programme it would have no impact on the structural deficit. Further, EU legislation allows for such deviations in the case of emergencies.

To this end, the Government should ask the Oireachtas to declare a *housing emergency* to help facilitate this necessary programme.

6. Conclusion and Summary of Taxation and Spending

The following is a tabular breakdown of our proposals:

UNITE BUDGET 2016 PROPOSALS: FISCAL SUMMARY			
Revenue		**Expenditure**	
Proposal	**Estimated Yield** ***(€ million)***	**Proposal**	**Estimated Increase in Spending** ***(€ million)***
EXCHEQUER			
Wealth Tax	350	Social Protection (3.7 percent increase in basic working age rates); targeted programmes for lone parents / disabled	425
USC on Capital Acquisitions	250	Public Investment	550
Derelict Site Tax	75	Public Services (health, education, etc.)	950
Reduce Pension Contribution Ceiling	120		
SOCIAL INSURANCE			
Employers' PRSI Increase (0.5 percent across the board/ 9 percent on wages over €100,000)	700	Initiate: affordable childcare programme, annual prescription medicine cap, and pay-related unemployment sickness benefit	700
FISCAL SPACE			
Increase in Fiscal Space	1,350	Tax Reforms: eliminating the PRSI step-effect, introduction of refundable tax credits, indexation	220
TOTAL			
2,845		**2,845**	
SPECIAL INVESTMENT PROGRAMME			
Bank Bailout Repayments	2,000	Social Housing Investment	2,000