Budget 2019 | Unite Pre-Budget Comment

“An economy built around wage deflation and property price inflation will always be destined for crisis”.

“Social housing is about tinkering with a broken system. Public housing is about reforming and changing the system”.

Unite the union

October 2018

Budget 2019: Unite Pre-Budget Comment

INTRODUCTION

> ***"[…] workers and communities continue to experience serious hardship in the form of low pay, precarious working conditions, a low social wage, insufficient income supports and an elevated cost of living."***

Budget 2019 comes at a time of crisis demanding new politics and new policies to deliver transformational social change. Unite does not expect the Government to heed the advice of the trade union movement, civil society or the Opposition parties. For as long as Unite has been making submissions around the budget and in response to consultations, we have been ignored. But we will continue to give voice to the suffering and frustration of people at the sharp end, challenge the political choices being made by Fine Gael/Fianna Fail, and show that another way is possible.

Headline growth figures are positive, with the Nevin Economic Research Institute (NERI) projecting real GDP growth of 5.8 percent in 2018 and 3.8 percent in 2019 along with employment growth of approximately 100,000 over the same period.[1] However, two consecutive phases of austerity have done untold damage to Ireland's public services and infrastructure, while workers and communities continue to experience serious hardship in the form of low pay, precarious working conditions, a low social wage, insufficient income supports and an elevated cost of living. Above all, the state is in the midst of a housing emergency and deepening crises in healthcare, education and childcare, each the result – in Unite's view – of policies that are underpinned by a market-driven political philosophy and designed to benefit particular economic interests.

The Government and its predecessor have pursued a tax-cutting agenda whilst going beyond compliance with EU fiscal rules, consciously eroding the revenue base available for public expenditure and circumscribing the possibility of an expansionist fiscal strategy. As of 2015, Ireland's public spending as a proportion of GDP was 28.7 percent, the lowest in the EU-28. Using the GNI* measure developed by the CSO moves Ireland to 17th out of twenty-eight countries with a public spending to GNI* ratio of 43.6 percent. Research by NERI has found that public spending per capita (excluding interest payments on the national debt) in Ireland ranks 9th out of ten high-income EU countries and is some 12.6 percent below the

[1] Nevin Economic Research Institute, *Quarterly Economic Observer,* Summer 2018, p. i.

weighted average of its peers.[2] Unite along with the ICTU, NERI and various political and civil society organisations have consistently argued that these low levels of spending are both damaging the infrastructure upon which sustainable economic development is based and threatening the future provision of high-quality, universal public services. Indeed, this low-spend policy has put the viability of vital services in serious jeopardy, with severe consequences for the people who rely on them.

Given the scale of these challenges and the potential impact of Brexit, there is a clear need to broaden the tax base and to use the fiscal flexibility at the Government's disposal to invest in public housing, healthcare, education and childcare, as well as stepping up our efforts in the crucial policy areas of infrastructure, R&D and making the transition to a low-carbon economy. Unions have been calling for 'just transition' policies to ensure resources for reskilling and upskilling, as well as alternative employment provision, for workers affected by decarbonisation.

1. JUST TAXATION AND A PROGRESSIVE FISCAL POLICY

> ***"A recent study by academics at Berkley University has identified Ireland as the tax haven of choice for US multinationals."***

Ireland has one of the lowest tax takes in the EU, at 37.2 percent of GNI compared with an average of closer to 45 percent in our peer countries. This is set to fall further into 2021 if the Government continues offering populist tax cuts rather than pursuing the necessary reforms to build a broad, sustainable and progressive tax system. One study has found that Ireland would raise €8.1 billion more in revenue if per capita taxes and social insurance contributions were at the weighted peer country average. In particular, it is estimated that increasing employers' PRSI contributions to the EU average would raise at least an additional €6.4 billion that could be diverted into childcare programmes, enhanced social protections or the implementation of the Sláintecare report.[3]

The issue of effective corporate tax rates in Ireland is the subject of increasing international attention, due in no small part to the Apple tax case. One report issued by the Comptroller and Auditor General (C&AG) last year revealed that 13 of the top 100 companies with the highest taxable income had an effective tax rate of less than 1 percent. A recent study by academics at Berkley University has identified Ireland as the tax haven of choice for US multinationals,[4] upholding the conclusions of organisations such as Oxfam, while Christian Aid observes that the Government's window-dressing has failed to address corporate

[2] Tom McDonnell and Paul Goldrick-Kelly, Public Spending in the Republic of Ireland: A Descriptive Overview and Growth Implications, NERI Working Paper Series, WP 2017/No. 46, June 2017, p. 14.
[3] Paul Goldrick-Kelly and Thomas A. McDonnell, Taxation and Revenue Efficiency in the Republic of Ireland, NERI Working Paper Series, WP 2017/No. 48, October 2017.
[4] Thomas R. Torslov, Ludvig S. Wier and Gabriel Zucman, 'The Missing Profit of Nations', National Bureau of Economic Research, Working Paper 24701, June 2018.

exploitation of the state's 'single malt' tax structure.[5] Social Justice Ireland notes that the introduction of an effective corporation tax rate of just 6 percent would yield in excess of €1 billion in 2019,[6] while a reduction of the tax break on intellectual property from 100 percent to 80 percent could raise an additional €750 million in 2019 alone.[7]

Many of Ireland's wealthiest individuals meanwhile are able to use a range of reliefs and credits to reduce their tax bill, as well as availing of capital allowances, loss reliefs and other mechanisms to move money overseas. As reported as recently as September 28th,

- 140 of Ireland's 334 high net worth individuals (those with over €50 million in assets) declared a taxable income of less than €125,000.
- of these 140 people, 83 declared a taxable income of below the average industrial wage – €36,500.
- 90 of these wealthy individuals pay an effective tax rate less than the average taxpayer.[8]

Unite holds that the very least we should be doing is demanding fundamental reform of Ireland's tax system through:

- the closing of loopholes and reliefs to bring the effective corporation tax rate closer to the low headline rate of 12.5 percent;
- the rigorous amendment or complete abolition of Section 110 provisions and tax avoidance mechanisms such as the Knowledge Development Box;
- an end to the exemption which enables banks to write off taxes on profits against past losses;
- abolition of the Special Assignee Relief Programme (SARP) and measures to achieve an effective tax rate of closer to 40 percent for those earning more than €400,000 per year.

These measures would form part of an overall shift towards European levels of taxation and a European standard of public services.

In its pre-Budget Submission, the ICTU has proposed a series of short-term measures that would raise additional revenue of €1.325 billion and begin spreading some of the tax burden onto capital, wealth and environmentally-unsustainable activities.[9]

---

[5] Christian Aid Ireland, 'Not Without Cost', 5 February 2018, https://www.christianaid.ie/news/tax-justice-1.
[6] Social Justice Ireland, 'Budget Choices', June 2018, p. 5.
[7] Sinn Féin, *A New Ireland: Sinn Féin Alternative Budget 2019*, p. 18.
[8] Cliff Taylor, 'Many of Ireland's wealthiest taxed at rate below average worker', *The Irish Times*, 28 September 2018, https://www.irishtimes.com/business/economy/many-of-ireland-s-wealthiest-taxed-at-rate-below-average-worker-1.3644850.
[9] ICTU, *Pre-Budget Submission, Budget 2019: Investing in our Shared Future*.

Key amongst these are a once-off recurring wealth tax, reform of capital taxes and tax expenditures, and the abolition of the reduced 9 percent VAT rate for the highly profitable hospitality sector, which is long overdue and would yield upwards of €500 million for investment.

These proposals have Unite's support, although the scale of land hoarding and the housing emergency facing us would both seem to necessitate the immediate introduction of a much higher Vacant Site Levy (of 25 percent) in areas of acute housing need, along the lines proposed by the Independents4Change. On a related note, any progressive tax reform package ought to address the obscene situation whereby predatory REITs (real estate investment trusts) or vulture funds are exempt from paying corporation tax on income and gains arising from its property rental activities.

Unite has repeatedly argued against the Government's self-imposed fiscal restrictions and presented alternative proposals for a progressive budgetary strategy. In its Summer Economic Statement 2018, the Government lays out its intention to continue going beyond compliance with EU fiscal rules, choosing not to use an additional €0.9 billion of its available fiscal space in 2019 and a total of €4.1 billion over the 2019-2021 period. These are resources that could otherwise be used to help repair the damage done to public services over the past decade.

With regard to the Government's intention to set aside €500 million this year for a 'rainy day fund' (growing to €3 billion by 2021) to prepare for a future crisis, Unite's view is that the rainy day is here now for tens of thousands of people experiencing housing, health and other need.

2. HOUSING

> ***"Social housing is about tinkering with a broken system. Public housing is about reforming and changing the system".***

Ireland is in the midst of a housing emergency, which has been building for a number of years and worsened at every turn by the policies of successive governments.

- Homelessness in the Republic of Ireland has more than trebled in four years, from just over 3,200 people in 2014 to 11,133 (including over 4,000 children) today.[10]
- The use of B&Bs and hotels accommodating the homeless increased in 2017, despite an earlier guarantee at the time of the Apollo House occupation by former Housing Minister Simon Coveney that the practice would end. Last year, the overall amount

[10] The latest figure includes the 1,606 people removed from the official homeless figures by the Department of Housing. See Kitty Holland, 'Over 1,600 people removed from homeless figures in "recategorisation" exercise', *The Irish Times*, 27 September 2018, https://www.irishtimes.com/news/social-affairs/over-1-600-removed-from-homeless-figures-in-recategorisation-exercise-1.3643824?mode=sample&auth-failed=1&pw-origin=https%3A%2F%2Fwww.irishtimes.com%2Fnews%2Fsocial-affairs%2Fover-1-600-removed-from-homeless-figures-in-recategorisation-exercise-1.3643824.

paid to hotels by Dublin City Council alone was €46.93 million, up from €38.94m in 2016.[11]

- There are over 71,858 households on official social housing lists and approximately 40,000 active Housing Assistance Payment (HAP) tenancies, up by 13,589 in one year – that is close to 110,000 people in need of social housing support.[12]
- Over 70,000 mortgages are in arrears, with up to 20,000 in long-term arrears and at risk of repossession and eviction.
- Average rents have reached an all-time high of €1,587 for Dublin and €1,094 across the state,[13] with a large number of landlords exploiting loopholes to circumvent existing rent controls. It is increasingly apparent that escalating housing costs are a key factor in driving down living standards, making it impossible for low-paid, precarious workers to put down roots and forcing many others to make considerable sacrifices in order to make ends meet.[14]

As Rory Hearne has noted, the Government's flagship housing strategy Rebuilding Ireland embedded the long-term shift away from state-built and supplied housing towards a market-led model, with 85 percent of the 134,000 pledged 'social housing' units to be delivered through the private rental sector and only 15 percent of planned new builds through local authorities and housing associations. Even by its own low standards, Rebuilding Ireland has signally failed to deliver. The Department of Housing claimed that 25,000 social housing 'solutions' were provided last year. Yet only 7,000 new homes were added to the social housing stock. And of that 7,000, fewer than 400 were built by local authorities.[15] This trend has continued into 2018: of the 12,358 'additional housing solutions' provided in the first six months of this year, only 487 (3.9 percent) were new builds by local authorities.[16]

Since 2016 the private rental sector's role in social housing has increased from 74.2 percent to 75.4 percent, with the number of HAP tenancies growing exponentially. State subsidies to private landlords through HAP, the Rent Supplement (RA), Rental Accommodation Scheme

---

[11] Gordon Deegan, 'Hotel paid nearly €5m to put up homeless', *Irish Examiner*, 31 March 2018, https://www.irishexaminer.com/ireland/hotel-paid-near-5m-to-put-up-homeless-468941.html.
[12] Summary of Social Housing Assessments 2018, https://www.housing.gov.ie/sites/default/files/publications/files/summary_of_social_housing_assessments_2018_-_key_findings.pdf.
[13] Rental Tenancies Board, *Rent Index 2018, Quarter 2.*
[14] St. Vincent de Paul, *Stories of Struggle* (2018), https://www.svp.ie/social-justice/publications-submissions/publications/stories-of-struggle-2018.aspx; TASC, *Living With Uncertainty: The Social Implications of Precarious Work* (2018), pp. 60-71.
[15] Rory Hearne, 'No ordinary housing crisis', TASC blog, 14 June 2018, https://www.tasc.ie/blog/2018/06/14/no-ordinary-housing-crisis/.
[16] Kitty Holland, 'Only 4% of new social houses built by local authorities', *The Irish Times*, 28 September 2018, https://www.irishtimes.com/news/social-affairs/only-4-of-new-social-houses-built-by-local-authorities-1.3643509?mode=sample&auth-failed=1&pw-origin=https%3A%2F%2Fwww.irishtimes.com%2Fnews%2Fsocial-affairs%2Fonly-4-of-new-social-houses-built-by-local-authorities-1.3643509.

(RAS) and the Social Housing Current Expenditure Programme (SHCEP) total €700 million per annum and are on course to reach €1 billion by 2021. These schemes neither make economic sense nor guarantee the security of tenure associated with the right to housing.[17]

Social housing investment and provision has declined steadily over the past three decades, collapsing during the austerity period as the Department of Environment and local authorities were starved of funding. As the nature of provision has changed, so too has the meaning of social housing. In the first place, the notion of 'affordability' has crept into the debate, normalising the view of housing as a commodity as opposed to a right. Minister Eoghan Murphy's perception of €320,000 as affordable in a state where half the population earns €27,000 shows just how far removed from reality are Fine Gael. But even some progressive conceptions of 'affordable housing' aimed at those on lower incomes imply that those homes will become part of a speculative, profit-driven market system that has never and cannot provide for the basic right to housing.

In the second place, 'social housing' no longer means a local authority built and owned home for life, paid for by means-tested rents. Instead, it has become a short-hand for any form of publicly subsidised housing without implying public ownership or security of tenure. Were we to apply a more rigorous distinction between public and for-profit housing, three-quarters of social housing provision in Ireland would technically fall into the latter category – despite being heavily subsidised by the state.

Government policy is designed not to resolve the housing emergency but instead keep the overwhelming majority of residential property in the private sector whilst driving up land value, house prices and rents, thus delivering asset price inflation and a lucrative, state-subsidised income to developers, landlords and international capital. Likewise, the proposed establishment of a Land Development Agency represents a thinly veiled attempt to hasten the transfer of public land to private interests.

Social housing is about tinkering with a broken system. Public housing is about reforming and changing the system.

For this reason and those set out above, there is an urgent need for the trade union movement to force a complete rethink on housing provision, with a view to creating a mixed-income universal public housing system based on the cost rental model, where the rents of tenants would fund the large-scale construction and maintenance of new housing. Examples of how this might work have been provided by NERI and the Workers' Party.[18] In addition, this radical shift needs to be coupled with the demand for a referendum to

[17] Rory Hearne, 'No ordinary housing crisis'.
[18] Tom Healy and Paul Goldrick-Kelly, Ireland's Housing Emergency: Time for a Game Changer, NERI Working Paper Series, WP 2017/No. 41, March 2017; Workers' Party, *Solidarity Housing: Getting the Vultures Out of Irish Housing* (2016).

enshrine the right to housing in the Constitution, underpinned by a clear and progressive statutory definition of public housing.

In the short-to-medium term, the priority should be to increase the proportion of public rental housing through the building of public housing on public land. A goal of €3 billion of capital investment in new cost-rental houses, acquisitions and real refurbishments over a twelve-month period is not unrealistic, given the fiscal discretion available to the Government. Going forward, the establishment of a new Central Housing Authority with a remit for pooling diverse sources of funding – from the Irish Exchequer to the Ireland Strategic Investment Fund and the European Investment Bank, to pension funds and credit unions – could see the construction of at least 15,000 public homes and 3,000 refurbishments and/or acquisitions annually over the next five years, as part of an €18 billion emergency housing programme that would seek to bridge some of the immediate shortfall whilst phasing in a new model of public housing delivery.

Finding a short-term solution to the emergency confronting us requires that local authorities halt the sale of public land for private, for-profit developments and that they are given the funding and support to acquire land and houses through Compulsory Purchase Orders (CSOs). We also need to see:

- an end to economic evictions;
- an end to public-private partnerships and joint ventures;
- the introduction of a Vacant Property Tax (as advocated by the ICTU);
- an emergency three-year rent freeze (along the lines proposed by Sinn Féin); and
- an increase in Part V social housing delivery in private developments to 30 percent.

It will require sustained public pressure in the form of an organised movement of trade unions and civil society working closely with progressive political actors to secure these necessary yet modest reforms and move towards a new, sustainable model of human rights-based housing delivery.

3. HEALTH

> ***"If the richest in our society had to endure the same healthcare provision as the majority of citizens, we would have one of the best health systems in the world".***

Unite believes that if the richest in our society had to endure the same healthcare provision as the majority of citizens, we would have one of the best health systems in the world.

The effects of Ireland's two-tier health system manifest themselves in the form of underfunded and understaffed services, long waiting lists and worse outcomes for those who can't afford private insurance. Staff are stretched to breaking point and patients are dying on hospital trollies. The system we currently live under is perpetuating inequality, with devastating social consequences.

Unite supports the ICTU's call for the Government to commit an additional €600 million in 2019 as part of a twin-track approach to begin addressing shortfalls in hospital provision, expanding services (particularly our primary and community care services) and moving towards an adequately-funded, publicly-controlled and universally-accessible single-tier health service – as outlined in the Sláintecare report.[19]

4. EARLY YEARS AND CHILDCARE

> ***"Co-operative childcare offers an effective and sustainable medium-term solution to soaring costs, low pay and poor working conditions."***

High-quality early childhood education has been shown to have significant positive impacts on children's cognitive and social development, their life chances and wider societal wellbeing. Childcare is another neglected aspect of policy-making that carries huge equality implications particularly for low-income households, women and lone parents. The provision of appropriate childcare can support labour market participation, improve gender equality in the labour market and education, relieve financial and other pressures on families, and at the same time improve child outcomes.

Yet consecutive studies show that Ireland spends just 0.1 percent of GDP (0.14 per cent of GNI*) on pre-primary education compared to an OECD average of 0.8 per cent. Furthermore, as of 2015, Irish childcare costs for lone parents were the highest in the EU and the second highest for couples, while the average family in Ireland spends 35 percent of their household income on childcare – double the European average.[20] In this context, the introduction in recent years of enhanced childcare subsidies for those on low incomes is to be welcomed. On the other hand, it must be recognised that schemes such as these are being introduced to a poorly regulated, market-based system in which it is up to private childcare providers whether or not to reduce fees in line with the subsidy, or at all for that matter.

Unite supports ICTU's proposal that public investment in early years care and education in Ireland should be increased over the next five years to – at a minimum – the OECD average (i.e. 0.7 percent of GDP) and – again at minimum – to at least the UNICEF benchmark of 1 percent of GDP by 2027. Over the longer term, Ireland should aim to match the best performing countries such as Iceland, Sweden and Denmark (all above or near 1.5 percent

[19] ICTU, *Pre-Budget Submission, Budget 2019: Investing in our Shared Future*, p. 19.
[20] OECD, *Society at a Glance 2016*, https://read.oecd-ilibrary.org/social-issues-migration-health/society-at-a-glance-2016_9789264261488-en#page1.

of GDP),[21] as part of part of a long term strategic plan to transform the childcare sector into a public service.

In the interim, we should be looking to investigate the benefits of pluralist provision in the childcare market through the introduction of a cooperative childcare model. Democratic ownership options give employees the opportunity to share responsibility, increasing job satisfaction while creating a strongly-motivated staff team with low staff turnover. The involvement of parents in shaping their children's learning experiences and care also contributes to childcare that meet the needs of the family and community. Co-operatives have the edge in recruiting and retaining the best employees due to their attractive employment benefits and excellent working conditions. Co-operative childcare delivers value for money because profits are not taken out of the service by shareholders, but re-invested in service delivery and the local community. Co-operative childcare offers an effective and sustainable medium-term solution to soaring costs, low pay and poor working conditions.

5. EMPLOYMENT, INCOME AND SOCIAL PROTECTION

> ***"An economy built around wage deflation and property price inflation will always be destined for crisis".***

On the surface, demand in the economy and labour market conditions look to be improving, with NERI projecting continued employment and wages growth into 2019 providing there is a soft Brexit.[22] However, the labour force participation rate appears to have levelled off at 61.5 percent, some 5 points down from its pre-crash peak of 66.7 percent, while the modest wage growth recorded in recent years comes after years of wage stagnation and is proving insufficient in the context of rocketing housing costs.[23] Ireland remains a low wage economy by European standards, compounded by the inadequacy of both the National Minimum Wage and the social wage. Consequently, one in every six people, including 100,000 people in employment, are living on incomes below the poverty line.[24] An economy built around wage deflation and property price inflation will always be destined for crisis – crises which impact hardest on those on low and middle incomes.

Clearly, investment in public housing, healthcare, education, childcare and infrastructure would bring about a quantitative improvement in employment rates and corresponding reductions in social welfare payments, as well as a qualitative shift in the nature and

---

[21] ICTU, *Pre-Budget Submission, Budget 2019: Investing in our Shared Future*, p. 20.
[22] Nevin Economic Research Institute, *Quarterly Economic Observer,* Summer 2018, p. 5-8.
[23] Ciarán Nugent, 'Wages in Ireland, 2008-2016: A cohort analysis, NERI Research inBrief, No. 56 (May 2018); Ciarán Nugent, 'Wage sufficiency in the context of Ireland's Housing Emergency', NERI Research inBrief, No. 51 (November 2017); TASC, *Living With* Uncertainty, pp. 60-71.
[24] Social Justice Ireland, *Poverty in Focus 2018*, https://www.socialjustice.ie/sites/default/files/attach/publication/5203/povertyfocus.pdf?cs=true.

conditions of employment in Ireland. For instance, a major public housing programme would help to reorientate a great deal of construction activity – which accounts for around half of the overall increase in employment over the past two years – away from speculative and commercial real estate development and towards decent, sustainable forms of work that contribute to the public good.

Long-term investment in public service delivery and infrastructural development needs to be matched by investment in the knowledge and skills base that would support such plans. That is why Unite is supporting proposals to create 19,000 apprenticeships in 2019, with a particular focus on craft apprenticeships that will support the delivery of an ambitious public housing programme.[25]

Increasing the social wage in the form of housing, healthcare, education, childcare and increased in-work income supports and social protections forms one part of the equation for addressing the cost of living crisis facing us. On the other hand, Unite has consistently made the point that Ireland suffers from low pay by European standards, particularly in the private sector, and that this necessitates Government action to improve wages through measures such as improved collective bargaining provision. Unite also wishes to reiterate its call for continued increases in the National Minimum Wage to bring it into line with the Living Wage. This is not only increasingly necessary but eminently possible in both the public and private sectors as the fiscal space continues to open up and the market economy continues to recover.

In the neoliberal era, and with an economy following a 'low wage/high property price' trajectory, planning for retirement is incredibly difficult for many people. However, with just 40 percent of private sector workers having any personal pension provision, state intervention is necessary. Unite welcome plans for an 'auto-enrolment' while noting that the draft Government position focuses exclusively on a Defined Contribution model. The instability of such schemes, allied to the very large and disproportionate management charges applied by providers, can be mitigated by strong Government regulation, and Unite will be making a submission to the Department of Social Protection in this regard in the coming weeks.

Unite notes how a fiscal crisis (2008-14) born out of a private debt crisis, followed by a current health crisis and our housing emergency, all provide examples of how Government policy facilitates the exploitation of public need for private profit , succeeding only in further embedding those crises.

[25] Sinn Féin, *A New Ireland*, p. 22.

If this is not to be repeated in terms of addressing an impending pension crisis, a fundamental change of approach will be needed. Otherwise, people's retirement plans and savings will also be misused in this manner. .On public Sector pay, Unite is extremely disappointed that, by the end of the Public Service Stability Agreement (PSSA) 2018 – 2020, it will have taken 12 years for public sector workers to have their pay restored. Government must plan and make provision for the complete unwinding and repeal of the FEMPI Legislation, including full pay restoration for all public servants and a return to the pre-Haddington Road Agreement hours.

While recognising the recent improvement for post-2011 new entrants, Unite notes that the improvements do not fully or adequately address the issue of equal pay. Therefore, Government must outline its detailed plan to fully fund and address the issue of equal pay for new entrants in the public service.

Brendan Ogle
Senior Officer – Republic of Ireland
Unite the Union

4 October 2018