Beyond Austerity

Proposals for a Thriving Economy
Pre-Budget Submission 2014

September 2013

unite the UNION

Introduction

Austerity has failed. From the beginning, the trade union movement and progressive organisations knew that austerity would fail. It drives down growth, employment and income, resulting in a poorer economy and society. International agencies and domestic commentators are coming to the same conclusion.

Now is the time to end austerity in Ireland. Economics is about choices – political choices. Unite's proposals, and our analysis of their likely impact, show that – even within current financial constraints – we can make better choices and achieve better outcomes. End austerity – and you end the 'need' for austerity.

In the following pages we put forward a number of measures that will expand economic activity. This is not about a temporary stimulus. This is about putting the economy on a sustainable path to recovery and fiscal stability. This is about generating a thriving economy where prosperity is shared out equally. An end to austerity cuts, investment, smart taxation, growing wages and strengthening labour rights – these can play a vital role in helping Ireland escape recession and stagnation.

We need a new direction. We need a new debate – about how we improve our public services; how we provide social protection for everyone; what kind of investment will lead to a modern, dynamic economy; what kind of businesses we want to create. These are the issues we should be debating now. Unite wants to engage with all sections of society interested in pursuing this new growth agenda – an agenda for a thriving economy.

Together we can make Ireland work again.

Jimmy Kelly

JIMMY KELLY

Regional Secretary
Unite the Union

Summary of Measures

Unite's proposals and analysis of their likely impact show that – even within current financial constraints – we can make better choices and improve outcomes. End austerity – and you end the 'need' for austerity.

1. **Don't proceed with cuts in the overall levels of current spending**

- The Government will still meet its Budget 2014 deficit targets
- Would constitute a mini-stimulus – employment would rise by up to 17,000 and consumer spending would rise by up to €1.1 billion if the cuts do not proceed.

2. **A small additional €500 million in tax measures to be reinvested back into domestic demand**

- Since we are meeting our targets, reinvest the revenue in the current budget: increase social protection rates, restore egregious cuts (including to home helps, disability supports), restore crucial public services. This will boost growth, consumption and employment

3. **Reinvest 'savings' into current expenditure.**

- Re-invest increased savings, efficiencies and productivity gains into domestic demand
- A number of organisations have highlighted inefficient expenditure (e.g. on prescription drugs). Tackling these would provide revenue to reverse egregious cuts, expand public services and establish new ones (such as affordable childcare)

4. **A Special Investment Programme equivalent to 1% of GDP: €1.7 billion.**

- Infrastructural investment paid for by the sale of Irish Life and Bank of Ireland bonds

5. **Establish a €1 billion Enterprise Fund**

- To set up new, and expand current, Public Enterprises / Public-led enterprises; and support a new generation of *Companies of Excellence* – focus on a handful of indigenous enterprise companies in key traded sectors (with the limitations of EU State Aid rules). To be sourced from the Strategic Investment Fund.

6. **Increase 'Social Wage' – Employers' PRSI**

- The social wage would have to double to reach the EU-15 average. The social wage pays for public services and strong social protection
- Increase the social wage (employers' PRSI) starting at the top – on wages over €100,000
- Use revenue to establish a pay-related unemployment benefit

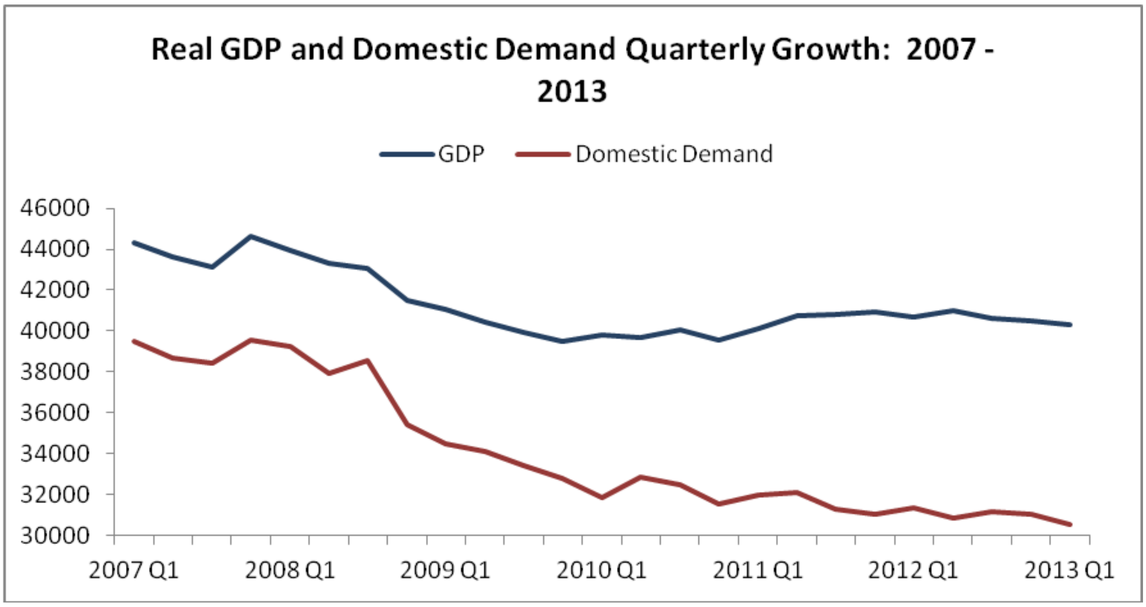
7. **Drive Wages Up**

- Increase the national minimum wage, introduce right to collective bargaining, establish strong wage floors under the Joint Labour Committees, and transpose the EU Directive on part-time workers' right to full-time work into domestic law.

The effect of our proposals would be to freeze public expenditure. Additional expenditures and investment would be sourced from the sale of Irish Life / Bank of Ireland bonds (for a special investment programme), and new taxation measures on higher income groups combined with greater public sector efficiencies.

Context: From Recession to Stagnation

In Ireland, the Great Recession is now entering a new phase – the Great Stagnation. While the economy is emerging from its double-dip recession, medium-term trends suggest that the recovery will be largely statistical: it will not be felt in homes or businesses. The economy, after collapsing in 2009 and 2010, has been stagnating over the last three years:



Since 2010, GDP growth has flat-lined while domestic demand – the best measurement of the domestic economy – has continued a slow bleed. And, according to the Government, the next few years will see little by way of concrete improvements:

- Unemployment is projected to remain above 12 percent in 2016 – and this figure would be much worse were it not for emigration.

- Precarious work, or underemployment (part-time workers who want to work more hours), is the highest in Ireland among all EU countries

- Average real wages, after inflation, will continue to fall until at least 2016 – indicating a continuing deterioration in workers' living standards.

- Investment – in comparison with other Eurozone countries – will remain at extremely low levels. Even more worrying is that corporate investment is not keeping up with depreciation, meaning that our corporate capital stock is actually deteriorating, not growing.

- One-in-four people suffering from multiple deprivation experiences (nearly one-in-three children suffer) and this looks set to continue as real wages and incomes continue to fall.

- Nearly one-in-five (18 percent) of mortgages are either in arrears or have been restructured. Again, with real wages and incomes falling and unemployment remaining high, it will prove even more difficult for households to get out from under debt.

After all the initiatives the Government has launched – the Action Plan for Jobs, the Insolvency Regime, funds for SMEs, labour activation measures – the economy and society are merely spinning their wheels.

The Failure of Fiscal Austerity

The explanation for this stagnation is simple – the austerity policies being pursued by successive governments (and, at a European level, the policies demanded by the EU Commission). Austerity is strangling the growth that is necessary to restore employment and living standards while reducing the economy's capacity to generate the revenue necessary to reduce debt.

After €27 billion in austerity measures since 2008, the underlying deficit is still higher than when the spending cuts and tax increases started. Between 2009 and 2012, the underlying deficit fell by only €4.5 billion from a total of €16 billion in austerity measures; and even this flatters the efficiency of fiscal policy – especially as it includes interest rate cuts on the EU-IMF bailout loans and the rise in corporate tax revenue which has nothing to do with budgetary measures. This shows that austerity is an inefficient and wasteful strategy to reduce debt.

Why? The Government itself produced a telling analysis – the Debt Sensitivity Analysis[1] – which goes a long way to explain why austerity is inefficient and wasteful. In their estimates, deficit reduction is almost wholly down to growth. Without growth, even though the analysis is based on €12.4 billion in spending cuts and tax increases, there would be almost no fall in the deficit.

Impact of €12.4 billion in Austerity Measures by Different Growth Rates: 2012 - 2015

Average Annual Nominal GDP Growth	**3.7% (*Government's Projection*)**	**2.7%**	**1.7%**
Deficit Reduction *(€ billion)*	10,747	7,321	3,835
Deficit Reduction *(% of GDP)*	5.7	4.1	2.4

Assuming annual growth rates of nearly 4 percent (which the Government projected in late 2011), the €12.4 billion in austerity measures would result in the deficit falling by nearly €11 billion, or nearly 6 percent of GDP.

However, assuming very low growth rates the deficit hardly falls at all – by less than €4 billion or a little over 2 percent of GDP.

In the absence of growth, austerity cannot work. But here's the catch – austerity cuts growth; it cuts employment, business activity, consumer spending and investment. In other words, it undermines the very foundations that promote economic recovery and, so, deficit reduction. To get an idea of how it cuts economic activity, the ESRI has helpfully shown the impact using their HERMES model. Below we examine the impact of €1 billion cuts in public sector wages, public sector employment and social protection payments respectively.

[1] Medium Term Fiscal Statement 2011: http://per.gov.ie/wp-content/uploads/Medium-Term-Fiscal-Statement-November-2011.pdf

Combined Impact of €3 billion in spending cuts (in 2015)			
GDP ***(€ million)***	**Consumer Spending** ***(€ million)***	**Investment** ***(€ million)***	**Employment** ***(number of jobs)***
- 2,725	-2,625	- 875	34,000

With these €3 billion cuts, GDP falls by nearly that same amount, while consumer spending is reduced by over €2.5 billion. Investment is also cut – by nearly €900 million. And all this leads to 34,000 jobs being destroyed.

If, as the Department of Finance accepts, growth is the primary driver behind deficit reduction – then pursuing policies which cut growth is self-defeating. This is why, after €27 billion in spending cuts and tax increases, the deficit has fallen little while the economy has entered into a prolonged period of stagnation.

Beyond Austerity

Countering stagnation requires policies aimed at expanding economic activity. This is more than just a demand for 'stimulus'. Stimulus assumes that the state provides a temporary relief until such time as the private markets are repaired. When this is done, the stimulus is withdrawn and the renewed growth is used to pay down the debt arising from the stimulus. This is the classic model of 'returning to normal business'.

Unfortunately, there is no 'normal' business to return to. The Irish economy was disfigured in the period leading up to the crash. For instance, between 2000 and 2007, over 40 percent of overall increased employment came from the construction sector. This doesn't count property-related employment (e.g. professional services such as architects and surveyors, or financial services). Nor does this include the employment increase based on the extra demand generated by the construction sector in the retail and accommodation sectors. Taking this into account, over half of all employment in the period leading up to the crash was due to the property boom. Like the reckless financial and speculative activities, this will not, and should not, be repeated.

This begs the question: where will future employment come from? What are the productive sectors that will drive investment, job creation and growth? And how will this be achieved? It's not just that private markets have been broken by the recession. They were broken long before the crash.

What Unite seeks is a more fundamental debate –how to increase the productive capacity of the economy, how to generate the necessary investment, and how to ensure that the wealth generated from this growth is shared out in a way that increases decent employment while reducing inequality, poverty and deprivation.

As part of the debate that will hopefully emerge we put forward a number of proposals for Budget 2014 – proposals that fit into a longer-term approach to economy recovery, fiscal stability and social prosperity.

PROPOSAL 1: Boost Expansion by Ending Fiscal Austerity

The Government's planned current spending cuts of €1.9 billion are not necessary to reach the deficit targets for either 2014 or 2015. If the Government proceeds with these cuts, it will be a gratuitous ideological choice rather than any decision based on economic rationality.

What would happen if these cuts in overall current spending were abandoned? Quite simply, the economy would expand. The Nevin Economic Research Institute (NERI) has provided us with the following information:

Economic Impact From Abandoning Overall Current Spending Cuts in 2014			
GDP *(€ million)*	**Consumer Spending** ***(€ million)***	**Employment** ***(number of jobs)***	**Deficit** ***(€ million)***
2,100	1,100	17,000	857 – 1,200

The economy would expand to the benefit of workers (more job creation) and the domestic business sector (more consumer spending). Overall growth would rise. The deficit would also rise – but not nearly to same extent as the abandoned cuts. That because cuts do not equal savings.

The Government would still reach their targets in 2014.

Fiscal Impact From Abandoning Overall Current Spending Cuts in 2014: Deficit % of GDP		
Government Target	**Unite** ***(lower bound)***	**Unite** ***(upper bound)***
5.1	4.8	5.0

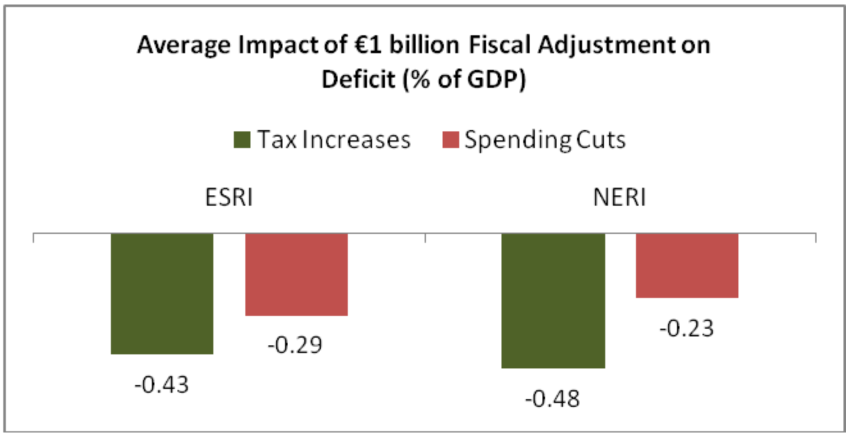
So, with no overall cuts in current spending we find the economy expanding and public finances on target. And by not proceeding with the cuts we will be providing a significant boost to social equity. Spending cuts in public services and social protection impact primarily on the users – largely low and average income households. These households have suffered disproportionately since the onset of austerity. We can end this inequity by abandoning the cuts – giving a significant boost to the economy in the process.

Even freezing public expenditure will be a challenge. In real terms (after inflation) it would still involve a small cut. There are also demographic pressures (increasing elderly population and children entering education). This will put even more emphasis on real reform. Below we see how we can further improve this by redirecting expenditure from unproductive to productive expenditure at no extra cost to the state.

➔ **Unite proposes no overall cuts in current spending.**

PROPOSAL 2: Boost Expansion Through Smart Taxation

The Government intends to introduce new taxation measures in the order of €750 million (including pre-announced measures in Budget 2013 such as the removal of tax subsidies to large pension pots). This compares to new taxation measures averaging a full-year yield of €1.6 billion over the last three budgets. This provides considerable scope for new taxation measures targeted at high-income groups and unproductive/inefficient activities.



Taxation is more efficient at reducing the deficit than spending cuts. This is the conclusion of both the ESRI[2] and the Nevin Economic Research Institute.

Both institutes report the same result: the average impact of a €1 billion tax increases over six years reduces the deficit substantially more than current spending cuts. This is because tax increases have less of an impact on domestic demand than spending cuts.

Put another way, current spending cuts are more deflationary and economically damaging than tax increases; therefore, they are less successful at reducing the deficit. Continuing with current spending cuts will unnecessarily prolong the stagnation Ireland is currently experiencing.

Tax-based fiscal adjustments are more efficient at deficit reduction while less damaging to the economy. However, there is a major caveat. Tax increases on low-average income groups are likely to be very damaging and socially inequitable: damaging, because they will lower consumer spending, and inequitable because so many households are experiencing real income declines and high debt.

This, therefore, requires 'smart taxation which limits the impact on domestic demand; that is, impacting on high-income groups (who are not likely to reduce their consumption to any significant extent) and unproductive activity.

As there is no need to increase taxation for the purposes of fiscal consolidation (we saw in the previous section that fiscal targets will be met in any event), new taxation measures can be redirected into the domestic economy in order to boost activity – consumer spending, employment, etc. We can make 'smart' taxation work as a tool for economic growth and fiscal consolidation.

➔ **Increase Taxation by €500 million to reinvest into social protection and public services.**

The revenue raised from these measures could be reinvested into

- **Social protection**: an increase of €6 per week, or 3.2 percent, would cost less than €280 million and help restore past cuts (the Vincentian Partnership for Social Justice points out that inflation for minimum essential standard of living is well above national rates)
- **Reverse egregious cuts**: home-help services to the elderly, disability services, community groups, homeless shelters, (the National Women's Council of Ireland has highlighted a number of cutbacks that impact primarily on women and should be rolled back), etc.

[2] The HERMES-13 macroeconomic model of the Irish economy, ESRI: http://www.esri.ie/UserFiles/publications/WP460/WP460.pdf

- **End inequitable practices**: abolish 'direct provision' for asylum seekers and allow them to apply for social protection.

3. Drive Efficiencies in Public Expenditure and Reinvest

While proposing no reductions in the overall level of current expenditure, this is not to endorse the status quo. We need to drive public sector productivity and efficiencies. Unfortunately, the Government has relied on pay cuts and job losses, and called this 'reform'.

Irish expenditure on public services is well below EU averages. In 2014 we would need to spend an additional €7.5 billion just to reach the average of the other EU-15 countries not in bail-out, while an additional €9.5 billion expenditure would be necessary to reach the average of our peer group – other small open economies. And the Government intends to cut spending on public services by nearly 10 percent over the next two years. Rather than doing 'more with less', we are doing 'less with less'.

There are two important types of reform: policy reform, and organisational reform.

- The Irish health sector has one of the highest levels of inter-penetration of public and private interests which promotes perverse incentives and leaves the country with a two-tier service. This drives up unnecessary costs. The Netherlands also opted for a health service driven by compulsory private insurance – and they have seen their costs rise to one of the highest levels in the EU. This is a matter of political policy.

- The high cost of pharmaceutical drugs, both branded and generic, can cost multiples of their equivalents in other EU countries. The ESRI recently showed[3] that Ireland pays an exceptionally large amount for drugs compared to other EU countries. This, again, is an issue of government policy.

These examples show the considerable savings that could be made if more efficient and productive *policy* options were taken. However, instead of dealing with these difficult issues, the Government opts for the easy route of cutting public services, cutting pay and pursuing an employment moratorium.

The second type of reform is the re-organisation of workplace practices. During the negotiations over Croke Park II/Haddington Road, Unite proposed that public sector workers be centrally involved in a process of '*employee-driven innovation*'. This approach to reform has been used in other European governments and has produced positive results. This shouldn't be surprising – it is the producers of services (whether public or private) who know what the problems are and how to solve them.

If the Government were serious about public sector reform it would suspend the Haddington Road Agreement and establish an authentic reform process driven by employees. Unless a relationship of trust and cooperation is restored (a relationship that was shattered by the Government's tearing up of the original Croke Park Agreement) real reform will have to await a subsequent Government.

➔ **Any 'savings' from policy and workplace reform to be reinvested into public services and social protection.**

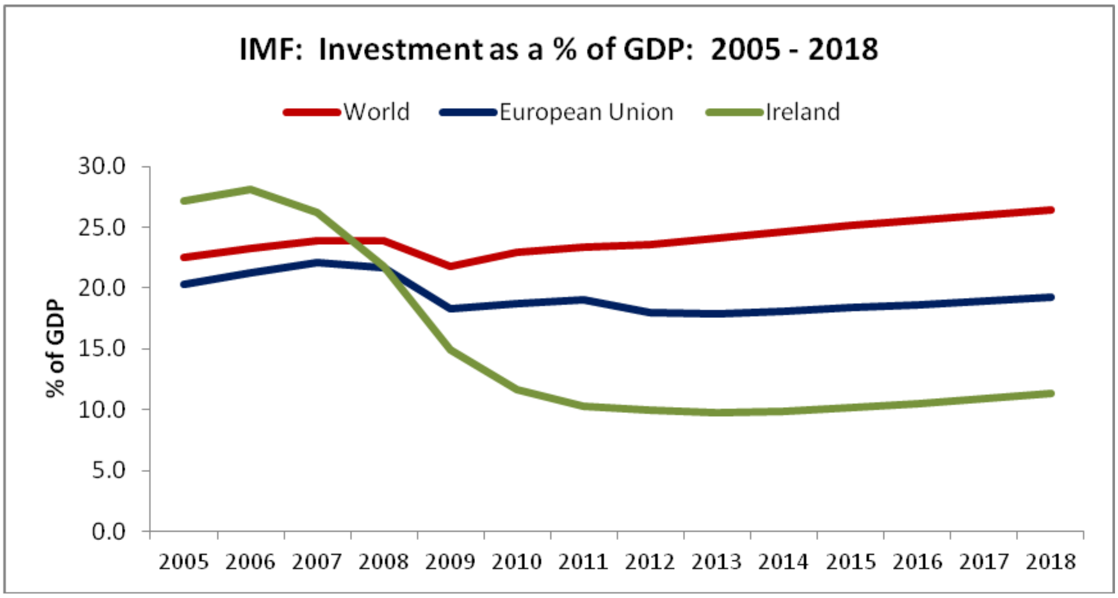
NOTE on Public Sector Employment: The Government's moratorium on public sector employment is intended to 'cut costs'. However, the ESRI has recently shown that reducing public sector employment actually increases the debt. This is because the deflationary impact of reducing employment in a jobs-recession is so damaging to consumer spending, employment and growth, that the minimal savings made are outweighed by falling GDP. After the fractional reduction in the deficit and the reduced GDP

[3] Ireland: Pharmaceutical Prices in a Comparative Context: http://www.esri.ie/UserFiles/publications/RS32_Pharma.pdf

are calculated, the debt actually rises as a % of GDP. This is just one of many examples of the irrationality of austerity.

4. Special Investment Programme

Ireland is suffering from an investment crisis – both public and corporate. Following the property crash, Irish investment is projected to continue lagging well behind EU and world levels. The Government has been slashing its own investment budget, while the corporate sector has effectively gone on an investment strike.



To reverse this trend will require a substantial increase in public investment. This is not a cost. It creates employment and economic activity in the short-term. In the long-term it raises the productive capacity of the economy, ensuring continuing employment and income growth. For instance:

- What would be the impact on business activity if fibre-optic Next Generation Broadband were rolled out to every area in Ireland?

- How much future savings will be generated if a modern water & waste system were built (rather than expending resources on meters)?

- How much savings in household and on fuel-imports would be produced if a major energy refit were rolled out for the one million energy-deficient buildings – savings that could be spent in the domestic economy?

Each of these investment projects would create tens of thousands of jobs in the short-term (and, so, reduce the deficit – that's why investment is an additional means to repair public finances) while increasing productivity in the future.

➔ **Unite calls for €1.7 billion, or 1 percent of GDP, to be invested through a special programme.**

This is a modest programme but has the capacity to create up to 25,000 jobs in the short-term. The increased economic activity and wealth-generating assets will, in turn, induce increased private investment. In this way, we can work our way out of the recession.

This can be funded without recourse to additional taxation or extra borrowing. The Government received nearly €2.5 billion from the sale of Irish Life and Bank of Ireland capital bonds. This money should have been returned to the National Pension Reserve Fund (that's where the money came from originally). Instead, the Government has thrown this money on to its growing cash mountain (at the end of the first quarter of this year, the Government had over €30 billion in cash and assets). If this money was used to fund a special investment programme for next year it would reap greater benefits than using this money to pay down debt.

NOTE on INVESTMENT

We shouldn't think of public investment as only buildings and roads. There are a number of initiatives that can be undertaken which can improve assets – physical assets, human capital – and which can continue to generate revenue, savings and productivity increases. Below are some examples.

Next Generation Broadband	A state-of-the-art telecommunications network for every business and household - generating productivity gains and facilitating new markets for business.
Green Construction	An €8 billion labour-intensive industry from energy efficiency upgrades for 700,000 buildings in need - reducing imports and promoting non-energy consumer spending.
Modernising Information Systems	Public building energy audits, synthesising and uploading land and corporation registries to enable free access – providing for greater freedom of information.
Education and Re-skilling	Improving peoples' skills and abilities – in the workplace and in formal education – will help reduce the individual, social and economic costs of long-term structural unemployment (for instance, the INOU's call for 'learner centred provision of education and training supports' combined with 'literacy and numeracy training').
Preventative Health Initiatives	Free check-ups and follow-up tests for people over 40 – reducing future health costs and absenteeism while significantly improving peoples' well-being.
Employer of Last Resort	A guarantee – starting with young people – that no one will fall into long-term unemployment. The state will provide work, education and/or training placement for all those unemployed for more than a year.
Financial Initiatives	Loan guarantee schemes to retain businesses and jobs along with household debt relief to alleviate unsustainable housing costs. This will facilitate higher demand as resources are freed up for the economy rather than debt.
A Modern Waste and Water Network	Modernising our water network - would create 30,000 jobs reduce high maintenance costs that come from patching up our current system and make real environmental gains

5. Building Indigenous Enterprises

There is an elephant in the room that is rarely referred to. It is assumed that once our public finances are repaired, labour is made 'flexible' (i.e. wages and conditions are cut), taxes and regulations are maintained at low levels – we will return to full employment. This assumes that our fundamentals are sound. They are not. There are deep-rooted flaws at the heart of Ireland's market economy.

Before the crash, job creation was heavily reliant on construction and property-related sectors, and the demand they generated. There is no returning to that (nor should there be). But there is no ready replacement. While foreign capital can contribute to employment growth, it will be limited – only 4,700 jobs annually over the past two years have been created by multi-nationals in the traded sector.

We need to create and grow domestic enterprises – in competitive international markets. The Irish indigenous sector is one of the weakest in Europe. Compared to our peer group – other small open economies – we would need to increase indigenous manufacturing employment by over 100,000 just to reach their average, while non-construction indigenous business would have to grow their value-added by over 40 percent just to reach our peer-group average.

This will not be solved by reduced taxation, reduced labour costs (which are already well below the EU-15 average), reduced regulation, etc. This cannot be solved by relying, faith-like, in unfettered private markets. It requires a sustained and substantial public and worker-inclusive intervention.

Building a strong indigenous enterprise sector is a long-term project. Budget 2014 can make a start by striking out in a new direction. Unite proposes a twin-track enterprise-development process funded by resources from the Strategic Investment Fund:

First, the resourcing of *Companies of Excellence* – companies where management and employees commit to investment and training, recognition of trade union bargaining rights and deeper participatory structures, fair compensation and profit sharing, employee commitment to company performance. These companies would obtain a suite of state services and support (e.g. overseas support, networking, more focused third level interactions, supply chain development, procurement aid, training for management and employees on strategy and business model development, sales / marketing, language skills, etc.). The goal should be to develop sectoral leaders within the indigenous sector – similar to what Telesis proposed over 30 years ago.

Second, the development of business models as an alternative to traditional private and public enterprise: municipal enterprises (in effect, public enterprises operated by regional and local authorities), community enterprises and cooperatives, worker-managed and worker-owned enterprises, and micro-social enterprises.

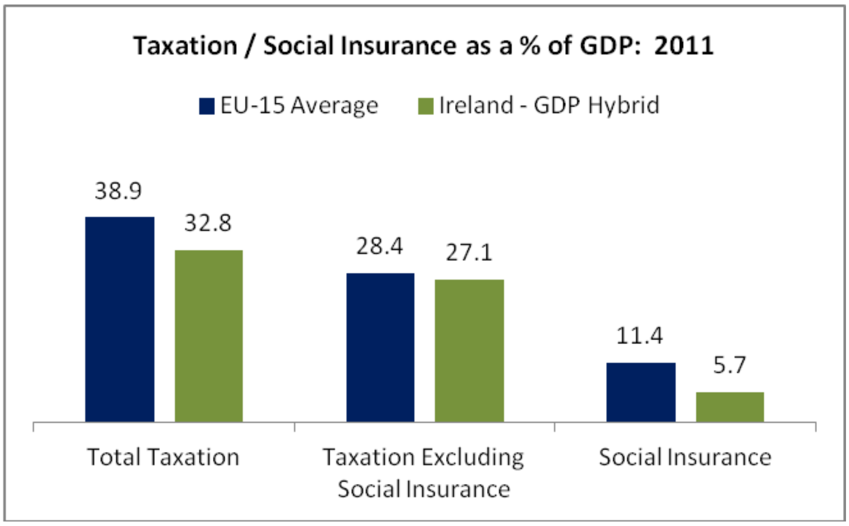
The development of a vibrant, public and social entrepreneurship will depend on developing new models and funding sources (e.g. public banks) that accommodate people, rather than demand that people accommodate limited models.

- ➔ **Establishment of an Enterprise Fund of €1 billion to be sourced from the Strategic Investment Fund**

Unite will be discussing these and other proposals regarding indigenous enterprise in a forthcoming policy discussion document to be published shortly. We are not proposing any expenditure from the Fund in 2014. As a start, the Government should convene representative employer and employee organisations on a sector basis to prepare comprehensive audits along the lines of Enterprise Ireland's audit of the print and publishing sector. The first step is to acknowledge the problem and start a national and democratic dialogue on how we overcome it – one that is evidence-based.

6. Social Insurance – The Basis for Social Prosperity and Economic Growth

Ireland is a low-tax economy.



However, in terms of income tax, VAT and excise, and corporate tax revenue, Ireland is average by EU standards. The reason for our low-tax status is the low levels of social insurance. We would need to double revenue from social insurance just to reach EU averages.

Social insurance, while categorised as a tax, is actually that portion of employees' compensation – paid by both employees and employers – into a social insurance fund which, in turn, pays out benefits to workers in the form of public services and social protection (that's why it is called the 'social wage). In other countries these benefits include:

- Free health services – including free (or heavily subsidised) GP care and prescription medicine.
- Pay-related social insurance pensions
- Pay-related unemployment / sickness benefit
- Greatly enhanced maternity, paternity and family leave benefits

Instead of relying on private markets for key services and income supports, workers can pay into a fund which, in turn, provides those services and supports. This spreads the risk and the costs – risk and costs which individual workers could not afford. Social insurance is about social cooperation and solidarity.

Transforming our social insurance system is a long-term task. Given that *real* wages will not start rising until 2016 it would be economically irrational to increase PRSI at this stage. That process should only commence when real wages start to rise and new benefits are introduced. However, given the low level of employers' PRSI, we can make a start here.

➔ **Unite proposes that employers' PRSI be increased to 18 percent on wages/salaries exceeding €100,000.**

Over time the threshold can be lowered to cover all incomes. However, this small step – which will have only a minimal impact on domestic businesses (the impact on our traded sector would be minimal, representing less than 0.1 percent of total sales) – can start the process of creating new benefits. Therefore, in tandem with this proposal:

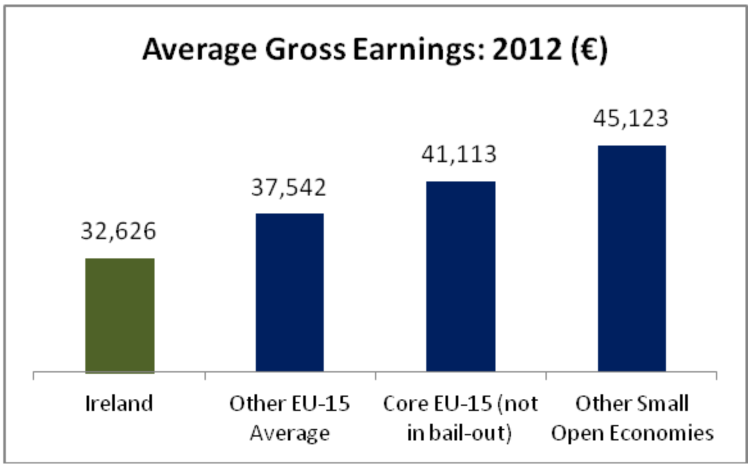
➔ **Unite proposes that a pay-related unemployment benefit be introduced.**

This will help soften the blow of unemployment and maintain demand in the economy – which will benefit businesses reliant upon consumer spending.

Increasing social insurance should not be a tool of fiscal consolidation. It should be about enhancing existing and increasing new benefits. This two-step approach in Budget 2014 can start the long process of transforming our social insurance system, increasing resources for public services and income supports.

PROPOSAL 7: Raising the Wage and Income Floor

There needs to be a concerted drive to raise the wage and income floors in order to boost living standards for workers – in particular, those in low-paid employment and reliant upon social protection. There has been considerable misrepresentation about the level of Irish incomes. Ireland is a low-income, low-waged economy.



Irish average gross earnings – as measured by the EU Commission – are well below the average of other EU-15 countries. They are even further behind those countries not in bail-out; and they are a long way off the average of Ireland's peer group – small open economies.

Another way of measuring incomes is to compare labour costs. In the market economy (essentially the private sector, with some public enterprises), Irish labour costs are 14 percent below the average of other EU-15 countries. Compared to our peer group – other small open economies – we are an incredible 30 percent below average.

Employers get labour for 'cheap' in Ireland and workers and the economy suffers as a result.

A critical part of economic recovery and fiscal stability is to increase workers' wages, starting with the low-paid. There are three key means to do this:

First, **introduce the right of workers' to bargain collectively with their employers**. Ireland is one of the few countries in the OECD without such a right. A recent study showed that collective bargaining rights can result in a five to eight percent increase in wages in organised workplaces.

Second, **provide part-time workers with the right to more working hours in their workplace** when those hours become available. This would mean transposing the EU Directive on part-time working into domestic law – something that successive Governments have failed to do for over a decade. This would allow people to work themselves out of low-incomes and provide greater security.

Third, **increase the minimum wage to €9.20**. The value of the pay-packet for the lowest paid workers has significantly declined since the last increase in 2007. To merely restore that value in 2007 terms would require an increase of between 50 and 55 cents.

Raising wages would have a positive impact on public finances and economic activity. For every €100 wage increase, the Exchequer benefits by €41.75 (including employers' PRSI) while consumer spending can increase by up to €60. This helps to reduce the deficit and increase sales-income for domestic businesses.

Raising people's wages, giving them rights in the workplace, and the opportunity to work – these constitute an expansionary policy on their own. The Government should take the opportunity of the Budget to announce that these changes will be introduced early next year.

A Multi-Faceted Approach

Unite is proposing a broad-based, many-sided expansionary approach. These measures are intended to boost growth, employment and consumer spending while maintaining a sustainable approach to public finances.

Abandon austerity cuts • Increase resources for public services and social protection through higher taxation • Re-invest increased public sector efficiencies • Launch a special investment programme • Establish an Enterprise Fund • Increase the 'social wage' to create new benefits • Strengthen labour rights and grow wages

At the time of writing this submission it has been argued that, because there is still a great deal of uncertainty, we can't be confident that our export sector will provide the growth numbers that we need, we should continue with austerity. This is a curious argument.

First, if external demand is coming under pressure, it doesn't make sense to continue depressing domestic demand. This would be attacking the economy from two fronts. If external demand falters, then more measures should be employed to boost domestic demand.

Second, what if Ministers have 'over-sold' the benefits from the Anglo Irish debt-repayment deal, that there is less fiscal flexibility that previously assumed? As the Government has declared that Ireland requires 'financial emergency' measures (e.g. the recent Financial Emergency Measures in the Public Interest Act, 2013 than the amount of taxation on higher income groups should be increased to make up the short-fall. If this 'financial emergency' continues those sectors that can afford to pay should pay. The benefit from this is that it will have limited impact on domestic demand.

Expanding the economy – through investment, employment and growth – remains the best and most sustainable pathway to recovery and fiscal stability.

APPENDIX 1: Taxation Measures

Unite is proposing €1 billion in new taxation measures. Here are a number of tax proposals, costed by the Department of Finance and other sources. We are not proposing to introduce all of them or recommending any particular measure. And there are a number of progressive measures that are not included in this list (e.g. resources to tackle corporate tax abuse as recently discovered in the R&D tax credit scheme). However, the total amount of this partial list comes to a potential yield of over €2.2 billion – showing the extent to which tax revenue can be raised with limited impact on domestic demand or low/average income households.

Proposed Tax Measures	Estimated Revenue (€ million)	Comment and Sources
Introduce an annual 1% tax on net assessable household wealth with an allowance set at €1 million	250	This is an extension of the current property tax by including financial property in the tax base. *Source: McDonnell, T. (2013) Wealth Tax: Options for its Implementation, forthcoming September 2013*
Reduce the level at which persons and companies may claim interest repayments against tax for residential rental properties from 75% to 40%	157	Likely to be an under-estimate as it doesn't include companies. *Dail: 14459/13*
Increase Capital Taxes (capital gains and acquisitions) to 40%	170	These are tax rates that existed during the economic boom in the 1990s. *Dail: 36055/13 / 36056/13*
Increase the Universal Social Charge by 3% on all incomes in excess of €80,000	253	*Dail: 36635/13*
Reduce the tax exemption for lump sum pension payments to €80,	20	This could be an underestimate as it does not include yield from the private sector. *Dail: 36743/13*
Reduce annual earnings limit for maximum pension contributions from €115,000 to €75,000	113	*Dail: 41397/12*
Increase tax audit, resources by 125 qualified staff	93.5	Estimated cost of €6.5 million per annum to yield €100 million per annum : *Dail: 42265/12*
A Low Rate of Capital Gains Tax on Primary Residences (Site Valuations) (net of cost of stamp duty reductions)	250	*Source: Fine Gael Pre-Budget Submission 2011*
Shift the cost of the first two weeks of sick-pay to employers	89	This would be less if small companies are excluded. ***Dail: 52831/12***
Introduce tax excise duty on saturated fat, added sugar and added salt as outlined in Murray and Collins (2012)	188	*Source: Murray, M. and Collins, M. (2012) Modelling the Structure and Distributive Impact of a Fat Tax for Ireland, October 2012.*
Eliminate property tax relief legacies	327	This estimate comes from 2010 and is likely to be an over-estimate. This would be a cash-flow gain. *Dail: 19451/13*
Increase tax on betting shop profits to 3% and introduce a tax on online gambling of 3%	127.5	*Dail: 38297/12 / 38296/12*
Withdraw Temporary Reduction of Low-Rate Employers' PRSI	183	This temporary reduction is due to end in 2014. It is unknown whether the increased revenue has been factored into the Government's tax base-line. *Source: Jobs Initiative 2011*

APPENDIX 2: Macroeconomic Summary

The following assesses the impact of our proposals on the economic growth and public finances. Unite would like to thank NERI for its assistance in making these estimates. The interpretation of the data comes from the Unite research department.

1. Economic and Fiscal Impact: Abandoning Current Spending Cuts and the Special Investment Programme

As stated previously, abandoning the cuts would constitute an expansion (or a stimulus) in and of itself. GDP rises by €2 billion, 17,000 jobs are created and consumer spending increased by over €1 billion – which will provide considerable sales-income to demand-starved domestic businesses.

Of course, the deficit will rise as well but not by as much as the abandoned cut (or 'fiscal effort) given the expansion to the economy. The deficit would rise between €875 and €1,200 million.

Unite proposes a special investment programme of €1.7 billion in 2014. It is unlikely that this entire amount will come on stream in the year. Each investment proposal must undergo a rigorous – and transparent – cost-benefit analysis to justify the expenditure. We cannot afford to spend money for the sake of spending money, any more than we can afford austerity. We need smart and prudent fiscal policies.

Assuming that €1.2 billion of the special investment programme will be spent in 2014 we find that GDP will rise by an additional €1.9 billion while employment rises by nearly 20,000. The full impact on the deficit is measured below, factoring in the full investment programme and the abandoning of current spending cuts in 2014.

Impact of Unite proposals on the Deficit: 2014 – 2018 (% of GDP)

	2014	2015	2016	2017	2018
Bailout Target	-5.1	-2.9	-	-	-
Unite *(underlying deficit)*	-4.6	-2.6	-2.2	-1.4	-1.0
Unite *(Eurostat deficit)*	-5.3	-2.8	-2.2	-1.4	-1.0

As seen, the underlying deficit – the measurement used by the Department of Finance which excludes temporary or once-off payments – reaches the bailout targets quite comfortably. Regarding the Eurostat deficit, even though the money for the investment comes from the state's own resources (from the sale of Irish Life and Bank of Ireland bonds), the investment will count as expenditure even though there is no extra borrowing involved. Even so, the Maastricht deficit target is reached by 2015 and still falls to 1 percent by 2018.

2. Increasing Taxation: Re-investing in Domestic Demand

Unite has proposed an increase of €500 million in taxation on high-income groups and unproductive activity. Rather than using this revenue for fiscal consolidation purposes (as seen above, we are already hitting out targets), we propose that it be re-invested into domestic demand: increasing social protection, reversing egregious spending cuts, expanding public services.

The following is illustrative, based on data provided by NER, taking the average impact of tax increases and current spending increases. We assume a tax increase of €500 million and a spending increase of €500 million.

	Impact on GDP		Impact on Deficit	
	Tax Increase	**Spending Increase**	**Tax Increase**	**Spending Increase**
€ million	(- 175)	575	(-415)	265
Net Impact	**€400 million**		**(- €150 million)**	

As seen, increasing spending on public services and social protection by €500 million, funded by increased tax revenue of the same amount increased economic growth (by approximately €400 million) and reduces the deficit (by approximately €265 million).

This is illustrative. There can be no certainty as to the magnitude of the savings and growth. Much would depend on the particular tax and spending measures. However, this shows the broad direction of a progressive and redistributive budget – it increases growth and reduces the deficit.

We do not include this measure in our macroeconomic impact. This has the advantage of ensuring that the risks to our estimates from abandoning current spending cuts and launching an investment programme are on the down-side. In other words, we have taken a conservative approach to our estimates.

3. Increasing Public Sector Efficiencies and Reinvesting into Domestic Demand

We also proposed that efficiency gains in the public sector – whether arising from policy or organisational reforms – should be reinvested back into domestic demand. There is considerable scope for this as we are proposing no reduction in overall current spending. The following is an example of this approach.

EXAMPLE: Funding Affordable Childcare Places[4]

Let us assume that through reforms, €250 million can be 'saved' (e.g. reducing drug costs). Rather than using this for fiscal consolidation purposes, we could re-invest it into rolling out a network of childcare places. €250 million could fund over 18,000 childcare places. This would have a positive impact on household finances, economic growth and deficit reduction.

- Nearly 5,000 jobs would be created (though a portion of this would be a transfer of staff from existing private and voluntary crèches so that job creation would not be net). This doesn't count the jobs created/retained due to non-wage expenditure – purchasing materials to run the childcare centres from private sector (purchase of food, materials, etc.).

- Being job dense, this investment would increase in GDP by over €250 million and reduce the deficit by nearly €150 million.

The impact on households would be considerable. Let's assume a household is paying €185 a week for childcare for one child. This new public sector-driven childcare network could charge €60 a week

[4] Unite's Notes on the Front: http://notesonthefront.typepad.com/politicaleconomy/2012/11/i-want-to-be-an-agent-of-economic-recovery-but-they-wont-let-me-play.html

(another revenue source for the Government which would further reduce the deficit). Over the year (45 weeks) the savings could be over €5,000. That's substantial. What happens to this money?

A large part will be spent in the consumer economy, some may be saved, and some may be used to pay down debt. It is difficult to assess the economic impact but it would amount to a mini-stimulus. The total savings to households could be as high as €100 million - with a high percentage being redirected into other consumer spending.

This is the positive impact – on households and the economy – from redirecting public sector efficiency gains into expanding services for people.

Again, we do not factor in these gains in our basic macroeconomic impact assessment.

4. Increasing the Social Wage and New Social Insurance Benefits

We have proposed that the social wage – employers' PRSI – be increased on wages/salaries in excess of €100,000, as the first step to introducing a European-style social insurance system. Instead of using this revenue for fiscal consolidation purposes, we propose that a new social insurance benefit be introduced – pay-related unemployment benefit (Ireland used to have such a system prior to the 1980s). This would ensure that (a) individuals who lose their job would be temporarily cushioned from a substantial loss of income, and (b) consumer demand would be shored up.

We do not factor this into our macroeconomic assessment. However, with a minimal impact from the social wage increase, and the demand-rich benefit – the overall impact should be positive.

5. Increasing Wages

It is axiomatic that sustainable wage increases will have a beneficial impact on the economy. For every €100 wage rise, the Exchequer gains over €41 for a standard rate taxpayer and over €62 for a taxpayer on the top tax rate. There are further revenue gains from increased consumer spending – not only in terms of tax revenue (e.g. VAT) but in reduced unemployment costs.

These increases could come through (a) the introduction of collective bargaining rights for workers, given that organised workers benefit from a wage premium over their counterparts who are denied collective bargaining; and (b) minimum wage increases which filter upwards through higher wage scales.

There is also a benefit from providing part-time workers the right to full-time work when hours become available in the company. Increasing work hours bring workers into the tax net while reducing social protection expenditure which effectively subsidises low-pay employers (e.g. Family Income Supplement). Once more, we do not factor in these gains in our basic macroeconomic impact assessment.

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We have shown that Unite's proposals to abandon current spending cuts combined with an investment programme will increase employment, increase growth and reduce the deficit in line with the bailout targets. There are further measures which we have not factored in but which will provide upward pressure on growth and employment and downward pressure on the deficit: increased tax revenue and public sector efficiencies to be redirected into domestic demand, increased wages and the social wage. We have not factored in the Enterprise Fund as a number of planning steps would have to be taken before this could be implemented in full.

This is the alternative to austerity. It is superior to the Government's current strategy and can launch the economy on to a new path of growing prosperity, higher living standards and lower unemployment. It will take more than one year to embed growth and create a thriving economy, but Budget 2014 can make that start. All that is needed is the political will.

Beyond Austerity

Proposals for a Thriving Economy
Pre-Budget Submission 2014

September 2013

unite the UNION