

# BEYOND AUSTERITY

## SUMMARY



## Proposals for a Thriving Economy

### Summary of Pre-Budget Submission 2014



**Unite the Union**

**September 2013**

## INTRODUCTION

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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.

A handwritten signature in black ink, reading "Jimmy Kelly".

**JIMMY KELLY**

*Regional Secretary  
Unite the Union*

## SUMMARY

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*The effect of Unite's proposals for Budget 2014 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.*

*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. 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. Research indicates that, if these cuts in overall current spending were abandoned, the economy would expand to the benefit of workers (more job creation) and the domestic business sector (more consumer spending).*

- No overall spending cuts in 2014
- 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. 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.*

- Increase taxation by €500 million to reinvest into social protection and public services.
- 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. DRIVE EFFICIENCIES IN PUBLIC EXPENDITURE AND REINVEST

*While proposing no reductions in the overall level of current expenditure, Unite does not 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. 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'.*

- Re-invest increased savings, efficiencies and productivity gains into public services and social protection – and thus 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**

*Ireland is suffering from an investment crisis – both public and corporate. 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.*

- Establish a special investment programme equivalent to 1% of GDP: €1.7 billion.
- To be funded by proceeds from the sale of Irish Life and Bank of Ireland bonds

*Below are just some examples of investment to create a thriving economy:*

<b>Next Generation Broadband</b>	A state-of-the-art telecommunications network for every business and household - generating productivity gains and facilitating new markets for business.
<b>Green Construction</b>	An €8 billion labour-intensive industry from energy efficiency upgrades for 700,000 buildings in need - reducing imports and promoting non-energy consumer spending.
<b>Modernising Information Systems</b>	Public building energy audits, synthesising and uploading land/corporation registries to enable free access and greater freedom of information.
<b>Education and Re-skilling</b>	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').
<b>Preventative Health Initiatives</b>	Free check-ups and follow-up tests for people over 40 – reducing future health costs and absenteeism while significantly improving peoples' well-being.
<b>Employer of Last Resort</b>	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.
<b>Financial Initiatives</b>	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.
<b>A Modern Waste and Water Network</b>	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. ESTABLISH A €1 BILLION ENTERPRISE FUND

*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.*

- 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).
- Finance for Enterprise Fund to be sourced from the Strategic Investment Fund.
- We do not propose expenditure from the Fund in 2014. As a start, the Government should convene employers and employees 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. 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.*

- Increase employers' PRSI to 18 percent on wages/salaries exceeding €100,000.
- Use revenue to establish a pay-related unemployment benefit

## 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.* A critical part of economic recovery and fiscal stability is to increase workers' wages, starting with the low-paid.

- Increase the national minimum wage to €9.20
- Introduce right to collective bargaining
- Establish strong wage floors under the Joint Labour Committees
- Transpose the EU Directive on part-time workers' right to full-time work into domestic law.

## TAXATION MEASURES

*Unite is proposing €1 billion in new taxation measures. Here are a number of tax proposals, costing by the Department of Finance and others. 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.  <i>Source: McDonnell, T. (2013) Wealth Tax: Options for its Implementation, forthcoming September 2013</i>
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. <i>Dail: 14459/13</i>
Increase Capital Taxes (capital gains and acquisitions) to 40%	170	These are tax rates that existed during the economic boom in the 1990s. <i>Dail: 36055/13 / 36056/13</i>
Increase the Universal Social Charge by 3% on all incomes in excess of €80,000	253	<i>Dail: 36635/13</i>
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. <i>Dail: 36743/13</i>
Reduce annual earnings limit for maximum pension contributions from €115,000 to €75,000	113	<i>Dail: 41397/12</i>
Increase tax audit, resources by 125 qualified staff	93.5	Estimated cost of €6.5 million per annum to yield €100 million per annum : <i>Dail: 42265/12</i>
A Low Rate of Capital Gains Tax on Primary Residences (Site Valuations) (net of cost of stamp duty reductions)	250	<i>Source: Fine Gael Pre-Budget Submission 2011</i>
Shift the cost of the first two weeks of sick-pay to employers	89	This would be less if small companies are excluded. <i>Dail: 52831/12</i>
Introduce tax excise duty on saturated fat, added sugar and added salt as outlined in Murray and Collins (2012)	188	<i>Source: Murray, M. and Collins, M. (2012) Modelling the Structure and Distributive Impact of a Fat Tax for Ireland, October 2012.</i>
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. <i>Dail: 19451/13</i>
Increase tax on betting shop profits to 3% and introduce a tax on online gambling of 3%	127.5	<i>Dail: 38297/12 / 38296/12</i>
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. <i>Source: Jobs Initiative 2011</i>