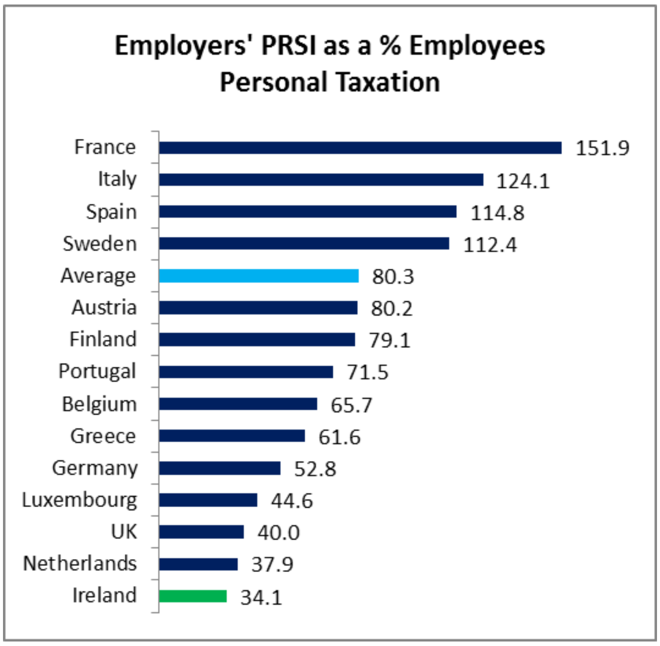
UNITE Economic Comment

Time for Employers to Pull Their Weight

September 2014

There is one 'tax' that is never mentioned in the current debate over budget options: employers' social insurance. Strengthening our social insurance system is key to raising public services and income supports on a par with other European countries. Workers paid for the recession; it is time that employers start paying for the recovery.



There is little appreciation in Ireland of the significant role that employers' social insurance plays in other European economies. In many EU countries, employers' social insurance raises more revenue than personal taxation on employees.

In France, Italy, Spain and Sweden, revenue from employers' PRSI exceeds the amount collected from workers' income tax (including taxes like Ireland's USC) and employees' PRSI.

Irish employers' PRSI is the lowest in the EU-15. Irish employers would have to contribute more than €8 billion just to reach the EU-15 average

Understandably, there has been much attention paid to the corporate tax regime and the potential impact of the recent OECD proposals, However, we shouldn't forget that EU countries raise more than three times as much revenue from employers' PRSI as they do from coporation tax.

And Irish employers enjoy one of the lowest levels of employers' PRSI.

They pay less than 8 percent PRSI on wages. This compares to an average of 21 percent in the EU-15. Irish employers' PRSI would have to more than double just to reach that average, never mind countries like Austria, Belgium and Finland – other small open economies.

Employers would need to contribute €8 billion more than they are currently contributing just to reach the average of other EU-15 countries.

Free health care, subsidised prescription medicine, pay-related unemployment, sickness and pension benefits – this is what a strong social wage purchases for workers and their families.

The Social Wage

Some refer to PRSI as a 'tax on jobs'. This demonstrates a profound misunderstanding. Employers' social insurance is part of every employee's wage (or compensation) package; it constitutes the 'social wage'. However, instead of paying it directly to the employee, the PRSI is paid into a social insurance fund. In other countries, this pays for workers' access to free health care (including GP services) and heavily subsidised prescription medicine; pay-related unemployment and sickness benefits; pay-related state pensions, etc. That is why most EU-15 countries have much higher living standards than Ireland – with access to universal public services at subsidised cost coupled with enhanced income supports. And that is why Irish workers don't enjoy these benefits – because of our low 'social wage'.

__A high social wage is not a bar to job creation or economic growth. In fact, it can help create more employment and growth.__

If the social wage was a 'tax on jobs' then how can we explain the following: the average employers' PRSI rate in other small open economies (reliant, as we are, on exports) is nearly 25 percent. The Irish rate is less than 8 percent. Yet, these countries have much higher levels of employment and economic output. Irish employment would have to increase by 290,000 to reach average of these countries - and that doesn't include the 440,000 people of working age who have emigrated since the start of the crisis.

Clearly, a high social wage is not a bar to generating jobs and growth.

Investing in a Modern Social Infrastructure

Indeed, a strong social wage can boost employment and economic output. Increasing Irish workers' social wage to average EU levels will have to be phased in over years consistent with our recovery. Therefore, Unite proposes as a start:

- ➔ **Increase Employers' PRSI to 19.75 percent on salaries above €100,000, and**
- ➔ **Introduce a new Pay-Related Unemployment Benefit**

Increasing employers' PRSI should not be a fiscal consolidation measure; it should be used to fund new and expanded social protection programmes and public services.

__For a fractional cost to employers, workers can receive a pay-related unemployment benefit when they lose their job – maintaining living standards and consumer demand.__

This increase would affect very few companies, mostly within the multi-national and financial sectors (even then, the impact would be marginal – the increased PRSI would only amount to less than 0.01 percent of turnover). However, it would raise approximately €150 million which, in turn would fund a new pay-related unemployment benefit. Under this new scheme people who lose their jobs would receive 66 percent of their net wage for an extended period up to a threshold of, for instance, €36,000.

This would not only cushion the fall in income and help maintain living standards; nearly all that €150 million would be returned to the consumer economy benefitting tens of thousands of businesses reliant on domestic demand.

This is how an increased social wage can benefit consumer spending, growth and employment – the same as increasing workers' direct wages in their pocket. Together, they can lead to economic growth and build a modern social infrastructure.

Published by UNITE the Union, Research Department

Jimmy Kelly, Regional Secretary: Jimmy.Kelly@unitetheunion.org
Michael Taft, Research Officer: Michael.Taft@unitetheunion.org
Alex Klemm, Press Office: Alex.Klemm@unitetheunion.org