

A New Start



A Submission to the Government's 'Jobs Initiative'

May 2011

Introduction

We have a choice.

We can continue with the failed policies of austerity – which is leading us into a decade of debt, unemployment and low growth.

Or we can make a new start – which will put people back to work, grow the economy and raise living standards.

We welcome the Government's intention to introduce a Jobs Initiative. It gives us an opportunity to turn our back on deflationary policies which are degrading the economy and society.

We accept that the new Government cannot turn things around over-night. They have inherited an economic and social nightmare. This will take years to put right.

But the Government can give an important signal. It can state that it has learned that most fundamental lesson – that austerity cannot succeed. You cannot grow an economy, create jobs, and repair public finances while at the same time degrading the economy's ability to generate growth and employment.

From the start of the crisis UNITE has argued for pro-growth strategies, based on sustained and substantial investment into our economic and social base. Our analysis has been vindicated. Those who argued for public spending cuts and cuts in people's disposable income through regressive tax increases have been proven wrong.

Now the Government has the opportunity to make a **New Start**. UNITE accepts that the Jobs Initiative is only the beginning. Our proposals are intended to provide a boost to the economy while the Government introduces more comprehensive pro-growth strategies in the months ahead.

We also recognise that, because of the failed austerity programme, the resources we have available for social and economic investment is limited. That's why the proposals we put forward will not entail any additional borrowing.

But the Irish people voted for an alternative to the misrule of the last Government. They voted for jobs, growth and fiscal stability.

That is what the new Government must deliver on.

Jimmy Kelly

Regional Secretary, UNITE

Time to Face Reality: Austerity Isn't Working

It is time we face reality. Austerity has failed.

Since 2008 the Government has cut over €20 billion out of the economy – over €12.5 billion in public spending cuts.

Yet the deficit has hardly budged.

The reason is simple: in order to overcome the deficit **the economy must grow** – generate jobs and enterprise activity which, in turn, will increase tax revenue and reduce unemployment costs.

But **austerity actively cuts growth** which in turn drives down tax revenue and increases unemployment costs.

Every €1 billion spending cut takes *over ½* per cent off domestic growth. Cuts do not equal savings – they reduce growth. And low growth means a broken economy and broken public finances.

We have the proof: just look at what has happened.

So we can continue to keep our head in the sand. Or we can face reality.



The new Government should take the opportunity in this 'Jobs Initiative' to acknowledge reality: **that austerity isn't working.**

It should reject the policies of Fianna Fail and start putting in place policies that will grow the economy – creating jobs, generating higher tax revenue and reducing the burden of unemployment.

It is not too late to change.

But if we continue down the same road as the last Government we may find ourselves trapped in a low-growth, high-unemployment and high-debt economy for the rest of the decade.

Principles for a New Start

The fundamental issue facing the economy is the continuing collapse in domestic demand – investment, consumer spending and Government spending on public services.

As a consequence, employment is continuing to fall.

It is this combination of unemployment and low domestic activity that is maintaining high deficits.

The Government's '*Jobs Initiative*' is an opportunity to begin the long process of reversing that fall. It can't be done in one budget – never mind a mid-year budget. Not all the damage that Fianna Fail has done can be reversed in the short-term.



But by acknowledging the failure of austerity measures and by taking the first steps in a different direction - the Government can start re-instilling confidence in the economy and hope among people.

There are three principles informing this submission:

1st Principle: Provide additional resources for labour-intensive investment – this will provide a boost to employment in the short and long-term

2nd Principle: Transfer income to low-average income earners – this will begin to reverse the slide in consumer spending.

3rd Principle: Re-invest savings in public services back into public services. This will help retain and grow jobs and economic activity.

4th Principle: Measures should entail no extra borrowing

Our proposals do not entail any extra borrowing. But as they will generate tax revenue and reduce unemployment costs through job creation, will increase GDP growth, and, therefore, reduce the deficit - it is consistent with the EU-IMF bail-out deal.

And if we start taking these small steps today, we can take larger steps tomorrow – growing the economy, investment, employment.

**Make a New Start
Reject Austerity and Start to Grow the Economy**

Investment • Investment • Investment

PROPOSAL 1: Allocate an Additional €1 billion to €2 billion to labour-intensive investment

Identify the problem and fix it.

The driving force behind the Irish recession – falling demand, rising unemployment and emigration, declining tax revenue – has been the collapse in investment levels.

Investment has fallen at a greater pace than the GDP.

We can start to reverse that trend by allocating an additional €1 billion to €2 billion in investment above what is budgeted for.



This would be drawn down from our remaining savings and cash balances – in other words, from money that has already been borrowed. *This would entail no new borrowing.*

For every €1 billion capital investment:

- ➔ Between 8,000 and 12,000 jobs are created in the short term
- ➔ GDP grows by nearly 1 per cent by the second year
- ➔ Tax revenue increases by over €300 million in the first year
- ➔ Over €60 million is saved on unemployment costs in the first year
- ➔ Deficit is cut by nearly ½ per cent.

This proposal is only intended as temporary stop-gap – giving the Government time to develop a more comprehensive programme of sustained and substantial investment in the next budget. But even this stop-gap could enhance our national assets:

School refurbishments	Road upgrades
Flood defences	Local regeneration projects
Local Authority housing maintenance	Building Insulation
Employer of Last Resort initiatives (job placements, back-to-education, retraining, etc.)	Community Services (e.g. literacy programmes, etc.)

We have the need, the people, the skills, and the money.

Let's invest and get Ireland back to work

Kick-Starting Domestic Demand

PROPOSAL 2: A €1 billion tax package - new taxes on higher income groups and reduced taxation on low-average income earners

Consumer spending has fallen 10 times more than the Eurozone average.

This is due to unemployment, emigration, spending cuts (e.g. cuts in social welfare rates, Child Benefit, etc.) and tax increases that slashed the disposable incomes of low and average income earners.

With interest rates rising, more job losses, employers' demands for real pay cuts and the failure of austerity policies – consumer demand will keep falling this year.

We need to begin reversing this.

Budget 2011 was highly regressive – with the introduction of the Universal Social Charge, cuts in personal tax credits, etc. The Government's 'Jobs Initiative can address this by



- Introducing temporary tax relief for those on low and average pay – those who spend most of their income. This can be done by reversing some of the Budget 2011 tax measures (personal tax credit cuts) and revising the USC rates and thresholds.
- Restoring the cuts in social welfare rates
- Extending the tax base and increasing taxation at the higher end – those that save a large amount of their income. Fine Gael and Labour proposed a number of measures in the last budget and during the campaign that could yield considerable resources.

This would be a straight € for € swap – resources would be redirected from higher income earners to those on low incomes.

This would entail no loss to the Exchequer. In fact, it would boost GDP and tax revenue as we would be directing the 'savings' of high-income groups into consumer spending by households who spend most of their income.

We badly need to stop business closures and job losses now. This can help until the Government has time to bring in a more expansionary budget later this year.

Keep Businesses in Business Keep Workers in their Jobs

Stop the Austerity – Reinvest Our Savings

PROPOSAL 3: Reinvest Savings Back into the Economy

We have to stop the attack on the domestic economy.
No further cuts to public services.

Public services, social welfare income and public sector pay have already been slashed. This has been the problem – it has embedded deflation in the economy and resulted in falling domestic demand. This has extended the recession and driven government debt higher.

We need to promote domestic demand – not undermine it.
We need to mobilise savings and efficiencies for the benefit of the economy.
Where there are savings from:

- **Increased productivity** (arising from better political management and work practices)
- **Reduced unemployment costs** (arising from our investment programme)
- **Ending regressive expenditure** (such as private education and health)

These savings should be reinvested back into domestic demand.

Cutting spending on public services entails either cutting public sector employment or cutting purchases from the private sector.

- The ESRI shows that cutting public sector employment is highly deflationary, leads to substantial unemployment and emigration, reduced consumer spending – and doesn't save money.
- Cutting purchases from the private sector means cutting income to businesses and puts more jobs at risk.



Ireland spends well below the EU average on public services – health, education, etc. We'd have to increase spending on public services by 16 percent – or over €4 billion – just to reach the EU-average.

These cuts not only harm people's living standards – their health and life opportunities - they are economically irrational.

They do not lead to savings –
They lead to low growth, more job losses and higher debt.

Re-investing into public services would represent no extra cost – but it would help grow private and public sector employment, and grow the economy.

Reinvest savings into economy = reinvest into jobs and growth.

An Ambitious Programme for Prosperity

There are a number of steps with limited fiscal cost but which can start building a platform for employment and growth.

ICTU has put forward a number of proposals which we urge the Government to immediately introduce:

→ Expand Public Enterprises, Don't Sell Them Off

We need more enterprise activity, not less. Establish a *Public Enterprise Holding Company* for all commercial state enterprises. And then let them expand, start new companies, form public/private partnerships. Our public enterprises are some of the most successful Irish-owned companies – let them invest from their own resources, create new jobs, establish new market activities; let them help grow the economy.

→ Use Public Procurement as an Instrument of Economic Growth

Social and labour clauses in public contracts can help target long-term unemployed, advance working conditions, promote training and up-skilling, and support a living wage. With central government spending over €15 billion on public contracts, with additional billions spend by local authorities, public agencies and public enterprises – this can become an effective instrument for meaningful work and growth.

→ Exceptional Short-Time Working Scheme

This has worked in other European countries; introduce it here - replacing the Employment Subsidy Scheme. This let employees reduce their working hours without loss of their job or income which would be subsidised by the State. This could be combined with re-training and return to education. This keeps people in the labour market while helping enterprises to maintain their payroll during difficult periods. It is far less expensive to keep people in work than on the dole.

→ Social Enterprise and Public-Citizen-Partnerships

Not-for-profit enterprises working in social markets, integrating long-term unemployed into supplying social goods and services, combating social exclusion while promoting local development – this is a win-win partnership between civil society and the public sector. Childcare and youth enterprises, eldercare, housing and urban regeneration, local transport, cultural development, maintenance of natural areas - investment in these labour-intensive enterprises is another high-output activity which the Government must act upon.

**With Political Will and Social Imagination we can
Start Putting People Back to Work**

Reversing the Downward Trend

The programme we have outlined is intended to stop the downward economic spiral.

It is intended to provide the new Government a breathing space until they can introduce more expansionary policies.

Our proposals will not involve any extra borrowing:

The tax breaks provided to low and average income earners would be funded on a Euro-for-Euro basis by tax increases on higher income groups.

The temporary investment proposals would be paid out of current resources (i.e. the National Pension Reserve Fund, the cash balances of the National Treasury Management Agency).

Our proposals will create real jobs – both short and long-term, increase tax revenue, reduce current expenditure (i.e. unemployment and related costs) and, therefore, reduce the deficit.

Most of all, our proposals will begin to give people hope – that through collective effort directed by the resources of the state we can begin to climb our way out of this recession.

It is only a beginning. But it is a beginning that can make a difference.

