

7 PROPOSALS TO MAKE THE BUDGET BETTER



***Growing the Economy
Reducing the Debt***

November 2011

Introduction

The Government's recently published 4-Year plan will fail. It cuts growth, employment and income. Unemployment will still be nearly 12 percent by 2015. Debt will be even higher than the Government's last projections in April (and that's after the savings on the EU-IMF interest rates and the €3.6 billion error). We are heading into more austerity, more debt, fewer jobs and less growth. People voted for something different in the last election.

UNITE was one of the first social organisations to oppose the austerity programme introduced by Fianna Fail in 2009. This was based on the common-sense principle that economies escape debt by growing employment and the economy. Austerity, however, cuts growth and employment. Austerity is an economic contradiction.

UNITE supports an investment-led programme to drive growth, jobs and fiscal stability. Investment increases our productive capacity and promotes both private and public sector activity. Investment creates wealth-generating assets in the economy. Investment creates jobs today and income tomorrow.

In 7 Proposals to Make the Budget Better we outline taxation, spending and investment programmes that could be introduced – even within the oppressive confines of the EU-IMF deal. They won't solve all the problems. But they will turn the economy in a different direction – towards growth, towards jobs, towards deficit reduction.

7 simple proposals – all we now need is the political will to implement them.

JIMMY KELLY

Regional Secretary, UNITE

Austerity is not Working

When the bail-out deal was signed last December, EU and IMF officials declared full confidence in the Fianna Fail plan to grow the economy and repair public finances. .

One of the first things the Fine Gael / Labour Government discovered when taking office was a **gigantic €3 billion hole** in these same budgetary projections. What was the reason for this hole?

- The austerity policies started in 2009 were cutting economic growth.
- And the less growth there is, the lower the tax revenue and the higher the unemployment costs.



Instead of drawing the right lessons – that austerity is an obstacle to economic growth and fiscal stability – the new Government is piling on even more austerity measures.

Since the crisis began we have had seven different sets of multi-year projections. Three times targets for Maastricht compliance has been postponed – from 2011 to, now, 2015. It's easy to hit targets if you constantly change them.

The Government's 4-Year plan has sketched out the future for the Irish economy – more austerity, more debt, less jobs and less growth. Under these conditions, it is difficult to see how fiscal stability can be restored.

Every €1 billion spending cut takes nearly ½ per cent off growth. Cuts do not equal savings – they reduce growth. And low growth means a broken economy and even more holes in the public finances.

Since the crisis began, over €20 billion has been taken out of the economy in spending cuts and tax increases. Yet the deficit has fallen only fractionally.

When you are in a hole, stop digging.

2012 Looks Set to Be Grim

All indicators and forecasts lead to one conclusion: 2012 looks set to be grim.

- ➔ **Unemployment:** the Government's 4-year plan shows employment falling again in 2012 and even by 2015, unemployment will still be close to 12 percent – barely an improvement on today's dole queue numbers.
- ➔ **Consumer Spending** is projected to fall again next year. This will put even more pressure on our domestic business sector, which in turn will put pressure on employment.
- ➔ **Domestic Demand:** we will enter into an unprecedented fifth consecutive year of a domestic-demand recession. No other EU country has experienced this in the last 40 years.
- ➔ **Wages:** Average wages per employee are projected to fall in real terms (after inflation) by $-\frac{1}{2}$ percent. This will put more pressure on households struggling with arrears or attempting to pay down debt.



Rising exports will have minimal impact on the economy as they are not job-intensive – especially in the multi-national sector. Indigenous exports produce higher employment but the Central Bank projects that indigenous industrial production will flat-line next year.

The domestic economy is expected to grow next year by an anaemic 1 percent, and possibly less. And given that the vast majority of tax revenue comes from the domestic economy – this has serious implications for public finances.

We need a new road map for economy recovery and fiscal stability.

We need concrete proposals that will boost jobs, the productive capacity of the economy and the living standards of people.

PROPOSAL 1

Drive Budget 2012 with Taxation on High-Income Groups

While the Government is bound by the total size of the budgetary adjustments, they have policy freedom to reach that target. Simply put, the Government can introduce a budget made up entirely of spending cuts, or tax increases or a combination of both. We propose that all budgetary adjustments be made through taxation.

The ESRI has shown that taxation does far less damage to economic growth and, therefore, reduces the deficit more effectively than spending cuts. However, given the lack of real wage growth and the fragility of domestic demand, there should be no tax increases on low-average income earners. All the tax increases should hit high income earners, capital, property, etc.

The Government is only required to bring in between €2.4 and €2.8 billion in new budgetary adjustments (because there will be up to €1.6 billion in tax and spending carryovers from last year's budget). Finding tax measures for high income earners would not be difficult.

Wealth Tax: €400 to €500 million	Reform inheritance tax: €200 million
Extend USC and PRSI to Capital Income: €290 million	Remove all property-based tax reliefs €450 million
Reduce interest relief to landlords: €350 million	Reduce subsidies to high-income pension pots: €200 million
<i>Source: ICTU and TASC</i>	

This means that overall expenditure cuts – current and capital – become unnecessary. Of course we should reduce unproductive and regressive expenditure – but under this new framework, this money can be re-invested into public services and social protection at no extra cost to the taxpayer.

So: drive the budget with taxes on those who can afford to pay and reinvest the savings on unproductive, inefficient and regressive expenditure. This is the pathway to growth and employment.

PROPOSAL 2: Introduce a Wealth Tax

The Minister has already said a wealth tax applied in Ireland would raise up to €500 million. There are models in other countries to examine (though the Minister specifically mentioned the French model so no doubt the Department of Finance has been modelling that). We have had a wealth tax in the past. And there is no argument in equity or economic efficiency against such a tax.

A wealth tax is essentially a property tax – except that it taxes not only housing and land but financial assets as well such as stocks, bonds, cash and super-pension pots.

Wealth is highly concentrated in the hands of a few.

The Total Amount of Wealth in Ireland Owned By:		
The Top 1% of Adults	The Top 5% of Adults	The Top 10% of Adults
28.6	46.8	58.9
<i>Source: Credit Suisse, The 2011 Global Wealth Databank</i>		

Only 35,000 people in Ireland own wealth assets of over €190 billion – an incredible and obscene concentration of wealth.

So there is no reason not to introduce such a tax. It would be an important signal of the Government's determination to ensure that all sections contribute to resolving the crisis.

PROPOSAL 3

Start the Investment Drive

The Irish recession has been driven by a collapse in investment. The only way to bring about economic recovery is to restore that investment.

Investment is simply the creation of new assets, or the upgrading of old assets, to generate income in the future. Investment creates new economic assets for social benefit – these contrasts with the privatisation lobby which wants to asset-strip our economy.

The economy receives two benefits from investment. In the short-term there is the economic activity that comes from building or creating the asset (e.g. building a new water system, early childhood education). This activity creates jobs, economic growth and tax revenue.

In the long-term, the economy benefits when the asset is used – when businesses start using the next generation broad network, when households and businesses save money from reduced energy costs in retro-fitted houses.

By driving investment we not only create thousands of jobs in the short-term but we also create new assets to generate economic growth in the future.

Next Generation Broad network	Pre-primary education
Skill upgrading (labour force and management)	State-of-the-art Water & Waste system
Retro-fitting Buildings for Better Energy and Water Conservation	Urban Regeneration

The Government should, as a first step in a sustained and substantial medium-term programme, should provide €2 billion in temporary investment. We don't need to borrow or tax to get this money. That Government has stated that they will €19 billion in cash and assets on hand next year. Let's spend it to create jobs today and wealth tomorrow.

PROPOSAL 4

Strategic Investment Bank

The Programme for Government contains a commitment to establish a Strategic Investment Bank (SIB). It was a major plank in the Labour election manifesto. The National Economic and Social Council have called for its establishment. There is clearly a need for it – so establish it.



The economy needs a public bank to provide investment into the economy. With credit for business and long-term capital projects contracting, there are now few places where affordable credit can be found. The pillar banks are rapidly down-sizing their balance books – they are hardly in a position, even if they had the business expertise, to provide credit.

The SIB could provide credit to SMEs at affordable rates – to protect cash-flow and support enterprise expansion. It could also provide longer-term credit for larger projects in the private and public sectors – such as a Next Generation Broadband network rolled out by a public enterprise company. This twin role is vital to economic recovery.

We have had public banks in the past. When domestic businesses and farmers could not get access to credit in the early 1930s, the Government of the day established the Industrial and Agricultural Credit Corporations. These banks served that role until the 1990s when they were privatised.

Over the next few years Ireland must rapidly increase its investment levels – public and business investment. However, this will not be done unless we can source affordable credit. The SIB can fulfil this role. Prior to the election Labour estimated that the SIB could release up to €20 billion for investment and loans. This would make a crucial contribution to economic recovery.

PROPOSAL 5

Raise the Low Income Floor

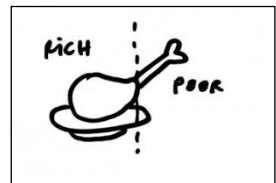
There are some economists and commentators who think a nation becomes wealthy by driving down living standards. This is perverse. Living standards are not an obstacle to economic recovery; they are part of the solution.

And the best place to start raising living standards is to raise the floor upon which the poorest households exist. These households spend almost all their income. So when they receive a boost in their living standards, businesses benefit, employees benefit, the Exchequer benefits – society benefits.

Therefore, let's raise the floor:

- Increase all working-age social welfare rates by €8 (the amount it was cut last year).
- Increase Family Income Supplement for low-paid working families by a comparable amount
- Introduce refundable tax credits so that the low-paid can take advantage of their full personal tax credits.

These three simple measures would ensure that hundreds of millions are directed into the lowest paid in the economy. This money will be returned to the economy in the form of higher spending and increased domestic demand.



Unless we raise social welfare rates, hundreds of thousands of households will face a real cut in income (that is, after inflation). This will only drag the economy down further.

PROPOSAL 6

Relieve Mortgage and Loan-Shark Debt

The taxpayer has already provided over €5 billion for mortgage debt relief. The question is not whether we can afford it. The question is who is going to deliver this relief and on what terms?

When the banks were capitalised over the summer, between €5 and €6 billion were earmarked for projected mortgage loan. But we cannot trust the banks – which caused the mortgage arrears crisis in the first place through reckless speculation – to use this money to assist households with distressed mortgages. We cannot trust they will do this in an accountable and humane manner. It must be done by a democratically accountable public agency, working with protocols that have public confidence. There is any number of means through which this debt relief can be delivered: partial write-offs, shared ownership with local authorities, etc. The most efficient and effective should be adopted with urgency.



In addition, there are many households in debt to loan sharks – legal credit agencies which nonetheless are allowed to charge interest rates in excess of 100 percent. Such households find themselves in a cycle of debt and compounding interest that they can't escape. Any public agency assigned to provide debt relief for distressed

households should be allowed to address both mortgage and loan-shark debt.

It should be remembered that, in addition to the fact that the Irish taxpayers has already paid for writing down distressed debt through bank capitalisation – such a write-down would be a boost to the economy. Households that are freed from unsustainable debt will be freed up to spend in the consumer market, benefiting domestic business, employment and growth.

PROPOSAL 7

Suspend Anglo-Irish Debt Repayments



Anglo-Irish and Irish Nationwide (Anglo/INBS) will cost the taxpayers over €80 billion up to 2031. This is socially obscene and economically irrational. The Irish Government will be borrowing, on average, over €4 billion a year over the next 20 years to pay off these dead banks. Given that we spend €3 billion a year on primary education, this puts this debt in perspective.

The Anglo/INBS is an odious, illegitimate debt. It was not incurred by the taxpayer; it should not be honoured by the taxpayer. Further:

- It is not covered by the EU-IMF bail-out deal; therefore, continued funding is not contingent on honouring this debt.
- There is little private bondholder debt remaining – most of them have already been paid off. Therefore, there would be little contagion effect on the European financial system.

On November 2nd Anglo-Irish paid off €725 million to an unguaranteed, unsecured bondholder. In January, there is a €1.25 billion payment due. In March of next year, there is a €3.1 billion payment due under the promissory notes. This madness must end.

The Government must suspend all payments due by Anglo/INBS to the few remaining bondholders and the promissory note. It should invite the main stakeholders – the Irish Central Bank and the ECB – to renegotiate the Anglo/INBS debt. This is a viable course, now that Greek debt is being revised downwards. We can save ourselves billions in the next few months - and multiplies of that in the years to come.