



## Securing an integrated national recovery strategy

Briefing paper on the decisions Government should make

prepared by

the 17 members of the Community and Voluntary Pillar

September 7<sup>th</sup>, 2010

## **Core Principles**

**We Must Protect Vulnerable People**

**We Must Protect Social Services**

**Our public services - and the people who depend on them - must not be sacrificed to fund a superficial recovery.**

**We need a plan to protect vulnerable people.**

**People who can afford to should contribute more to the cost of recovery.**

**We need an integrated social and economic recovery strategy to share the burden of adjustment fairly.**

**We must continue to work to achieve the vision for Irish society set out in the framework action plan *Towards 2016*.**

There is indeed a crisis – but it is not just an economic crisis, it’s a social crisis as well.

The seventeen member organisations of the Community and Voluntary Pillar of social partnership fully accept the gravity of the crisis facing our country and we recognise the current reality of:

- severe economic contraction
- a high level of job losses and rapidly increasing unemployment
- collapsed tax revenues with a yawning structural deficit
- soaring national debt
- the need for Government to address the near collapse of the banking system
- challenging levels of poverty and deprivation
- the cumulative impact of cuts to welfare and social services on the most vulnerable
- the highest-ever levels of personal indebtedness<sup>1</sup>

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<sup>1</sup> The top ten primary debt types include personal loans, utilities, credit cards, mortgages, hire purchase loans, overdrafts, rent arrears, catalogues, fines, and sub-prime loans. (Comptroller and Auditor General, 2009 Annual Report 2008)

- growing levels of inequality

In particular, we are acutely aware that vulnerable people and people experiencing discrimination and inequality have already been severely affected by cutbacks in public expenditure on services and supports.

The extent of deprivation already being experienced by vulnerable people is apparent when we consider that:

- 13.9% of people are at risk of poverty with incomes below €11,800 for a single person or €27,200 for a family of four.
- More than one third of all the households at risk of poverty today are headed by a person *with* a job.
- A further 40% are headed by a person *outside* the labour force (i.e. older people and people who are ill, have a serious disability or are in caring roles) and are totally dependent on social welfare.
- Additionally, 23.3% of unemployed people, 36.4% of lone parents and 21.6% of those not at work due to illness or disability are at-risk-of-poverty.
- Children continue to be the age-group most at risk of poverty, with 17.4% of children at risk of poverty in 2008.
- 10.0% of older people are at risk of poverty after all benefit transfers are included whereas 86% are at risk *without* any state transfer.
- In the past 4 years the rate of unemployment (ILO basis) among people aged 20-24 has soared from 7.1% to 24.9%.

However, while we face a range of interrelated crises it is important to realise that:

- Ireland is not a poor country.
- Ireland's total tax-take is one of the lowest in the developed world and continues to fall *as a percentage of GDP*.
- It is both essential and possible to protect the vulnerable in the choices Government makes.
- An integrated approach to tackling the country's current problems is essential if they are to be addressed successfully.

The 17 members of the CV Pillar are clear that an *integrated social and economic recovery strategy* is urgently required to which all sectors of society should contribute if they can - but two vital principles must be respected:

- People who can afford to should contribute more to the recovery.
- Vulnerable people must not pay the price of recovery.

Those who are most vulnerable in Irish society - long term unemployed people (and importantly those now at risk of becoming long-term unemployed), vulnerable

women, the working poor, children and young people, disabled people, older people, Travellers and members of other ethnic minority groups - must not be sacrificed to budget stabilisation measures.

### **Budget 2011: A Challenging Exchequer Position**

The scale and composition of the decisions Government are to make in Budget 2011 are clear - indeed they are clearer than has been the case for any Budget over the last two decades.

In the 2010 Budget the Minister for Finance published a detailed set of Budgetary parameters to which he committed to adhere over the course of the next few years. These commitments were made to convince the public, investors, international lenders, the European Commission and the European Central Bank of Ireland's commitment to address over five years its fiscal problems and return the exchequer to within the rules of the EU Stability and Growth Pact.

Recent public discourse has focused almost exclusively on cutting public services, increasing the tax paid by those on low incomes and bringing those on the very lowest incomes into the tax net. This approach is totally unbalanced and, if implemented, will mean that the adjustments are being borne disproportionately by the vulnerable and the poor in Irish society. Such an approach is totally unacceptable to the 17 organisations in the Community and Voluntary Pillar.

As regards Budget 2011, the Government committed to reduce its budget deficit by €3bn. It noted that €2bn of this would come from adjustments in current expenditure while €1bn would come from capital expenditure. However it did not specify whether the adjustments to the current budget deficit would be achieved by increasing taxation or by cutting expenditure.

While there are very difficult decisions to be taken in achieving these proposed outcomes, the focus of debate and discussion on the budgetary process should be on these targets and how they are to be achieved.

The Minister's figures also indicate that Budget 2011 will produce a current budget deficit of €13.8bn, a capital deficit of €4.2bn, an overall exchequer deficit of €18bn and a General Government balance of -10% of GDP.

### **Total Tax-take plummets towards record low: Reform Required**

Despite significant increases in the tax-take from the PAYE sector in recent Budgets, the scale of collapse in Ireland's tax revenues has been dramatic.

National taxes (those announced in the Budget and collected centrally) have fallen by over €16bn since 2007 with the largest fall in areas such as capital gains taxes, stamp duties, corporation taxes and VAT. Despite the new income levies, the total

income tax take has fallen from €13.6bn in 2007 to the projected level of €11.5bn in 2010.

When other tax sources including revenues to the social insurance fund and local government charges are included Ireland's tax take as a percentage of national income will be 29.4% of GDP in 2010 according to the Government's forecast in Budget 2010. The same table in the Government's budget documentation states that the total tax-take in 2008 was 30.8% of GDP. The most recent figures published by Eurostat puts this number at 29.3%. This compares with an EU average of 39.3% of GDP. Only Latvia, Romania and Slovakia take a lower percentage of GDP in taxation than Ireland. The implications for our public services will be severe if this low-tax approach is maintained.

While a proportion of the tax decline is related to the recession, a large part is structural and requires attention.

Budget 2011 should take initiatives to support this process. Over the next few years policy should focus on increasing Ireland's tax take to 34.9% of GDP, a figure defined by Eurostat as 'low-tax' but a level sufficient to ensure that Ireland delivers appropriate public services. While Ireland should remain a low-tax economy, Irish society cannot expect to have efficient European style public services unless we collect sufficient taxation.

### **An Integrated Social and Economic Recovery Strategy is required**

While the Minister for Finance has stated that the scope for further tax increases is limited and should principally be focused on increasing the tax paid by those on low incomes the CV Pillar is adamant that if we are to protect vulnerable people and fund services during the adjustment we require a:

**Five-point integrated recovery strategy** consisting of a combination of

- Increasing the tax take while keeping Ireland a low tax country (through broadening and deepening the tax base and addressing tax-breaks as recommended by the Commission on Taxation).
- Securing better value for money in the delivery of our public services.
- Reforming the public sector (by implementing the recommendations contained in the report of the OECD).
- Targeted expenditure cuts where required but ensure that vulnerable people are protected. A good starting point would be the elimination of waste identified in the Comptroller and Auditor General's reports.
- Focusing expenditure on the common good to provide required infrastructure and public services.

### **1. Increasing the tax take while keeping Ireland a low tax country**

The issue of taxation is central to budget deliberations and to policy development at both macro and micro level. It plays a key role in shaping Irish society through: (i) funding public services; (ii) supporting economic activity; and (iii) redistributing resources to enhance the fairness of society. Consequently it is crucial that clarity exist with regard to both the objectives and instruments aimed at achieving these goals.

At present Ireland's total tax-take is very low by EU standards despite the fact that those paying income tax have made substantial increases in their contribution to the total tax-take recently. Ireland's total tax-take could be raised while still maintaining it at a low level. This should be done by, for example, broadening the tax base and addressing tax breaks, thus making the tax system fairer. This could be done without raising the income tax rate.

Implementing the recommendations of the Commission on Taxation report in relation to the 111 identified tax breaks (which benefit well off people) would make the tax system fairer and would be a good start to delivering an integrated recovery strategy.

We profoundly disagree however with the Commission's position that Ireland's total tax-take should not increase - we must increase the tax take as well as broaden the tax base if we are to protect vulnerable people from paying the price of adjustment. We note that the Commission terms of reference restricted its capacity in this area as they insisted that the overall tax burden be kept low.

The pillar does not agree however with the proposal to tax child benefit. To tax or means-test Child Benefit would demonstrate a failure by Government to recognise its unique value to children and families. The Child Benefit payment is a clear statement by the Irish State that it values all children in Ireland equally. Taxing or means-testing this payment would demonstrate that it does not. Particularly now, in difficult and uncertain economic times, a regular, reliable payment to families is of critical importance.

The Pillar does not accept that targeting Ireland's lowest earners is the best or fairest way to widen the tax base or increase the tax-take. Other, fairer options exist and should be taken up by Government.

The Pillar also insists that measures to protect vulnerable people must accompany carbon or property taxes. In this regard the Pillar notes that the Commission on Taxation itself stated in their report (p. 329) that "any increased revenue from carbon and property taxes should be used to improve the situation of the less well off". This recommendation has not been followed by Government. Instead we note that while Government introduced a carbon tax in Budget 2010 it failed to protect low-income households and rural dwellers from the excessive burden they bear as a result of the new initiative.

## **2. Securing better value for money in the delivery of our public services**

It is clear that the resources available to Government have fallen dramatically. In this context it is crucial that the best possible value for money be secured for all public expenditure. In seeking to maximise value it is crucial that Government ensures it maintains a long-term focus. The temptation to take initiatives which may have short term gains but long-term negative consequences should be resisted. Before cutting services, the cost of providing the services, both pay and non-pay, needs to be addressed.

## **3. Reforming of the public sector**

Many of the people represented by CV Pillar organisations find themselves in situations where they have to engage with a wide range of different government agencies e.g. health, education, welfare, housing etc. to access their entitlements.

A more integrated structure is required which puts the person at the centre of its activities. This approach was accepted in the *Towards 2016* national agreement but it needs to be implemented now. In the long run such an approach would lead to savings in public expenditure and increased outcomes.

Reform of the public sector has been proposed for some time. The OECD has published a detailed study of the Irish public sector *Towards an Integrated Public Service* and made detailed recommendations. These recommendations should be acted on immediately to ensure the public sector's efficiency, effectiveness and relevance.

Reform of public services delivery requires better partnership working between the statutory and community and voluntary sectors. Given a collaborative environment, non statutory organisations can bring their significant resources to bear in facilitating effective provision of services.

## **4. Carefully targeting expenditure cuts where required – while ensuring that vulnerable people are protected**

Community and Voluntary Pillar members recognise full well that the country's finances are in bad shape and need to be rectified. However, Ireland is in this situation because of the activities of bankers, politicians, speculators, developers and many economists. Who should pay for the misdeeds of these people?

The authors of the *Bord Snip* (McCarthy) report provide a clear answer: from their perspective the vulnerable, the disadvantaged and those living in remote communities should be the hardest hit! The CV Pillar totally rejects this approach.

Cuts in welfare rates and in many services will mean that those who are vulnerable will bear the brunt of Government's latest attempts to balance its budget.

**The CV Pillar** rejects this conclusion totally.

Government Departments must not contemplate any cuts to services on which the most vulnerable are dependent before they have considered all the other possible options and the social impact of cumulative cuts taking place across government.

In this context it is important to realise that tax 'breaks' are in fact Government expenditure and are recognised as such in the Budget process where these breaks are called tax expenditures.

The first expenditure cuts Government should make should be on these tax expenditures. The Report of the Commission on Taxation has produced much detailed material to show Government how it should proceed in this area.

#### **5. Focusing expenditure on the common good to provide required infrastructure and public services**

In the present situation it is also important to realise that actions can be taken that could simultaneously *promote the common good* and *assist economic recovery*. Ireland's infrastructure and public services are far from being at the level that could have been achieved if the fruits of the 'Celtic Tiger' had been used more sensibly. They are also far from the level Irish people would desire.

It is important that the forthcoming Budget ensure that investment is focused on the common good. One very obvious area where this could be done would be in tackling the social housing problems that Ireland currently faces with 60,000 households on waiting lists. There are many other examples. What is essential is that Government recognises the need for investment in infrastructure and services and that these investments must form an integral part of any credible, integrated recovery strategy.

Investments already made to improve social inclusion in the provision of education, health, housing, public transport and other services will pay long lasting dividends. It makes no sense to demolish such valuable infrastructure now.

Without an integrated recovery strategy designed to fairly share the burden of adjustment, vulnerable people will pay the price of adjustment and state investment made to date will be wasted

#### **Will this alternative approach work?**

The answer is yes – if we recognise that the social and economic aspects of our lives cannot be separated from each other – we need high levels of social investment and services if we are to have a healthy economy and vice versa.

We can have a fair and equal society, with an adequate income and meaningful work for all, where everyone has a good standard of living and everyone can participate freely.

We can have a society where efficient and effective services are available to everyone on the basis of need - and not on the basis of their ability to pay.

Most importantly, we can have a society where all this activity is supported by a strong and sustainable economy, where everyone pays their fair share - so that we never face a crisis like this again.

We can achieve all of this if we focus on achieving the goals contained in the framework action plan **Towards 2016**, with its vision of public services tailored individually to each of our unique needs. **Towards 2016 is clear that we can have an Ireland:**

- where children are respected as young citizens with a valued contribution and a voice of their own;
- where all children are cherished and supported by family and the wider society,
- and where they enjoy a fulfilling childhood and realise their potential.
- where all people of working age have sufficient income and the opportunity to participate as fully as possible in economic and social life,
- and where all people and their families are supported by quality public services to enhance their quality of life and well being.
- which provides the supports, where necessary, to enable older people to maintain their health and well being, as well as to live active and full lives, in an independent way in their own homes and communities for as long as possible.
- Where people with disabilities have, to the greatest extent possible, the opportunity to live a full life with their families as part of their local community, free from discrimination

**If we follow the five-point integrated recovery strategy set out in this document, we can create the Ireland that we want to live in, an Ireland where all of us are valued and supported as individuals and members of families and communities.**

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## **ABOUT THE COMMUNITY AND VOLUNTARY PILLAR**

The Community and Voluntary Pillar is one of the five pillars of social partnership alongside the Employers Pillar, the Trade Union Pillar, the Farmers Pillar and the Environmental Pillar. The Pillar consists of seventeen organisations invited by Government to provide voice and representation for vulnerable people and communities in developing Ireland's social and economic policies.

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