



Response to Spring Statement April 2015



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***Social Justice Ireland* response to Spring Statement – Key Points**

The Spring Statement lacks a clear guiding vision of where Ireland should be by 2020. It also lacks clear policy commitments that would move Ireland towards being a just society. While some of its proposals are welcome, the basic thrust of the Spring Statement leaves a great deal to be desired.

Some of its proposals are profoundly **unfair** for example:

- The decision to split available resources on a 50:50 basis, between tax cuts and investment in services, is profoundly unfair. As a ratio of 2:1 was applied in imposing austerity, surely the very minimum that would be expected would be that this ratio should also be used when resources become available, i.e. to apply one-third of the additional resources to tax reduction and two-thirds to expenditure increases.

Some of its proposals appear to be **contradictory**. For example:

- Promising quality services while overall tax and expenditure are to fall to record levels suggests that Government policy is contradicting itself.

Some of its targets for 2020 are **disappointing**. For example:

- Accepting that the number of people unemployed will still be 160,000 in 2020 suggests a real lack of commitment to taking the necessary action in this area.

Social Justice Ireland **welcomes** some of the proposals contained in the Spring Statement for example:

- The proposal to have a National Economic Dialogue in July and it looks forward to playing a full part in that process.
- The proposal to establish an Independent Budget Costings Office. However, we are disappointed that Government believes that consultation will be so lengthy that the proposed Office “will only be fully in place after the next election”.

However, many major policy areas are missing from the Spring Statement including; for example, there are no proposals for increasing public investment, addressing the social housing crisis, tackling the mortgage crisis, reducing poverty, expanding primary care etc.

1. Introduction

While the Spring Statement is most welcome it provides no guiding vision for Ireland and leaves a great many key policy questions unanswered.

Where should Ireland be in 2020? The Government's answer to that question is not very clear despite the many pages of documentation made available as part of the Spring Statement. In this response *Social Justice Ireland* considers what Government is proposing under five key headings – macro-economic stability, taxation, services/infrastructure, governance and sustainability. These are the five key components of *Social Justice Ireland's* 'Policy Framework for a Just Ireland' set out, most recently, in our annual Socio-Economic Review published in April 2015.¹

Social Justice Ireland believes that Ireland should be guided by a vision of becoming a just society in which human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected. The core values of such a society would be human dignity, equality, human rights, solidarity, sustainability and the pursuit of the common good. The policy framework we propose is aimed at providing an integrated approach across all main policy areas towards moving Ireland towards such a future. Table 1 below reproduces *Social Justice Ireland's* proposed integrated policy framework and sets out key issues we believe should be addressed if Ireland is to become a just society.

It is time to have a real debate about Ireland's economic and social priorities in the years ahead. Policy decisions should flow from a clear understanding of where we want Ireland to be and how we propose to get there. Such clarity is missing from the Spring Statement. While there is welcome recognition that Ireland is more than an economy and that major challenges must be addressed in areas ranging from education to climate change, from employment to government debt, the Spring Statement provides no comprehensive statement on where Government wishes Ireland to be in 2020 nor on how it proposes to ensure that destination is reached.

Table 1 - A policy framework for a Just Ireland

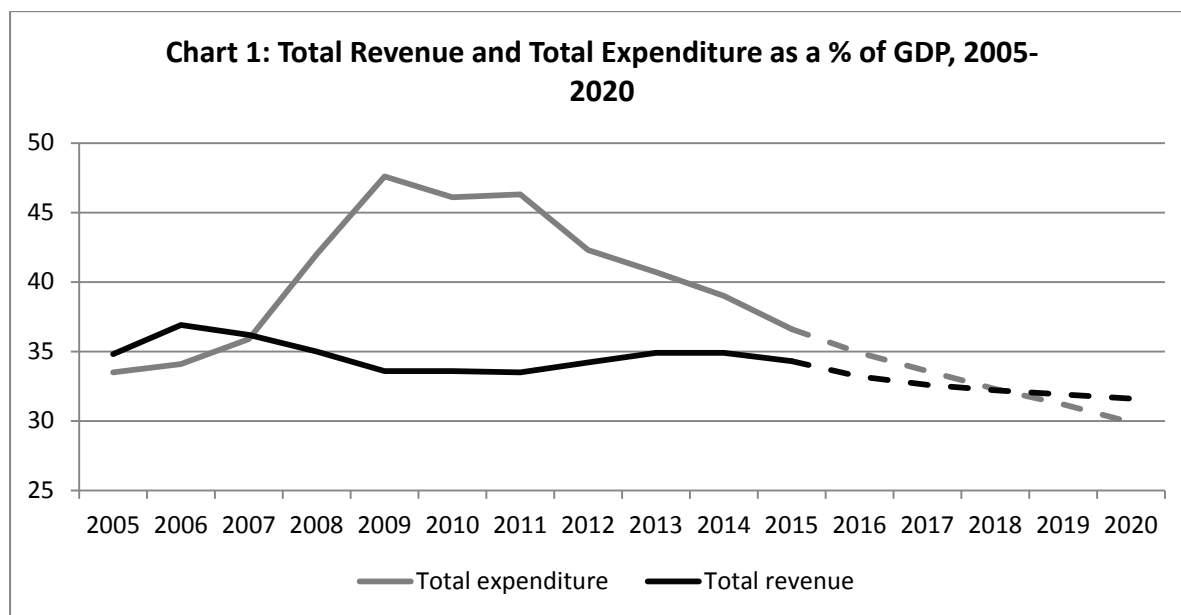
Macro-economic stability	Just taxation	Decent services	Good governance	Real sustainability
Debt sustainability	Bring Taxes towards EU average	Secure services and social infrastructure	Deliberative democracy & PPNs	Promote climate justice and protect the environment
Fiscal and financial stability and sustainable economic growth	Increase taxes equitably and reduce income inequality	Combat unemployment & underemployment	Reform Policy Evaluation	Balanced regional development
Investment programme	Secure fair share of corporate profits for the State	Ensure seven Social, Economic and Cultural rights are achieved	Social dialogue – all sectors in deliberative process	New indicators of progress and new Satellite National Accounts

¹ *Towards a Just Society: Securing Economic Development, Social Equity and Sustainability*, chapters 1 and 2 (available at www.socialjustice.ie)

2. Macro-Economic Stability

Promising quality services while overall tax and expenditure are to fall suggests Government policy is contradicting itself. The decision to split available resources on a 50:50 basis between tax cuts and investment in services is profoundly unfair.

➤ Tax and Expenditure projections



Source: Eurostat (2015) Department of Finance (2015)

Notes: *Figures to 2014 are taken from Eurostat. **The cost of recapitalisation of banking institutions is not included
 *** Figures from 2015 to 2020 are taken from Stability Programme Update, Table A8

The current trajectory of government policy is for a reduction in total expenditure (including interest payments) and a reduction in total revenue (of which tax revenue is by far the largest component) to 2020. The Department of Finance's Stability Programme Update shows total revenue falling to 31.6% of GDP and total expenditure falling to 29.9% of GDP by 2020. These projected figures in 2020 for both expenditure and revenue as a percentage of GDP would be the lowest ever recorded figures by Eurostat for Ireland (starting from 1995). By comparison, the EU was estimated to have total revenue of 45.3% of GDP and total expenditure of 47.9% of GDP in 2013 (Eurostat, 2015). The other economies in Europe are collecting a greater proportion of their economy in taxation.

How can the Government provide high-quality public services while allowing total Government income and expenditure as a percentage of GDP to fall to historical lows?

Given the operation of the Fiscal Compact, any increase in expenditure above the benchmark by Ireland would require revenue increases. Therefore, *Social Justice Ireland* believes a new policy framework is required; one that recognises the need to increase taxes towards 34.9% of GDP in order to fund the public services that the country desperately needs.

➤ **Irish Water**

In the SPU (page 15), Irish Water has been provisionally classified as being ‘within government’, pending the anticipated agreement of Eurostat to regard its transactions as being ‘commercial’. The net impact on the General Government Balance is c. €380m on average from 2104 to 2020. If Eurostat agrees to classify the operations of Irish Water as commercial, this will reduce further the projected Government expenditure and add to the lack of realism in the proposed budgetary expenditure figures– see Chart 1 above.

➤ **50:50 expenditure : tax split is wrong direction**

The Proposed 50:50 split between expenditure increases and tax reductions is a poor use of any available resources. Austerity, amounting to over €30bn, was introduced in successive budgets from 2009 to 2014. Two-thirds of the adjustment took the form of expenditure reductions while one-third consisted of tax increases. These expenditure reductions caused serious damage to many services and imposed much hardship on many citizens. *Social Justice Ireland* has documented the impact of these measures on Ireland’s most vulnerable people. It should be a priority now to begin to reverse some of the cuts to essential services. As a ratio of 2 : 1 was applied in imposing austerity, surely this ratio should also be used when resources become available, i.e. to apply one-third of the additional resources to tax reduction and two-thirds to expenditure increases.

➤ **Government debt is still a major problem**

The SPU (page 22) shows the General Government Debt increasing from €203bn to €209bn over the period 2014 to 2020. While this level of debt is extremely high, the key Debt-to-GDP ratio is projected to decline from 110% to 85% over the same period. However, this projected decline is dependent on the expected increase in GDP, which in turn is highly dependent on export growth. At present conditions are favourable for such growth, given low oil prices and favourable exchange rates; however, these may not endure for the forecast period. In addition, current very low interest payments are projected to decline somewhat despite rising debt. *Social Justice Ireland* believes that a substantial break on the national debt is still required. Irrespective of the improving debt picture, a large proportion of this debt derives from the transfer of banking collapse liabilities onto current and future generations of Irish society, and the size of the debt entails significant risks to economic growth. An EU-wide agreement to reduce this inappropriate burden is long overdue.

3. Just Taxation

➤ **Policy should favour fair changes to income taxes**

Reducing income taxes is not a priority for Social Justice Ireland either in the forthcoming Budget 2016 or any future plans for taxation policy reform. We believe that any available money should be used to improve Ireland's social services and infrastructure, reduce poverty and social exclusion and increase the number of jobs. However, if the Government is to allocate some resources to this

area, as they have indicated in the Spring Economic Statement, we believe that these funds should be used to favour fair changes to income taxes.

As part of our recent Socio-Economic Review 2015, we examined the distributive impact of a series of taxation policy choices available to Government. The analysis highlights the distributive impact various income tax choices can have and the potential that policy has to pursue both fair and unfair outcomes. It found that three income tax changes would produce a fair outcome: increasing the personal tax credit; reducing the 1.5% USC rate; and reducing the 3.5% USC rate. However, four options would produce an unfair outcome where the benefits are skewed towards those with higher incomes: reducing the top tax rate to 39%; reducing the standard tax rate to 19%; increasing the standard rate band; and reducing the 7% USC rate. If fairness is a priority, then policy should favour fair changes to income taxation.

4. Decent Services

➤ Unemployment set to be still unacceptably high in 2020

Even if the forecasts of the Spring Economic Statement are achieved there will still be 160,000 people unemployed in 2020. We would expect Government to be far more ambitious in its targets to reduce unemployment. The rapid growth in the number and rates of long-term unemployment since 2007 is a serious concern. The experience of the 1980s showed the dangers and long-lasting implications of an unemployment crisis characterised by high long-term unemployment rates. It remains a major policy failure that Ireland's level of long-term unemployment has been allowed to increase so rapidly in recent years.

Furthermore, it is of serious concern that to date Government policy has given limited attention to this issue. Previous experiences, in Ireland and elsewhere, have shown that many of those under 25 and many of those over 55 find it challenging to return to employment after a period of unemployment. This highlights the danger of the aforementioned large increases in long-term unemployment and suggests a major commitment to retraining and re-skilling is required. In the long-run Irish society can ill afford a return to the long-term unemployment problems of the 1980s. This Spring Statement is a missed opportunity to put a special focus on the issue of long-term unemployment.

➤ Infrastructure and Services receive insufficient focus

Social Justice Ireland welcomes the short references by both Minister Noonan and Minister Howlin to the fact that the economy is not an end in itself but a means to provide better living standards for all in society. However the rhetoric is not matched by a commitment to improve these living standards.

While we welcome the reference to investment in infrastructure we are concerned about the vagueness of the statement. As already noted the commitment by the Minister for Finance to divide available resources in a 50/50 split between tax reductions and service provision shows that the commitment to recovery is not going to match the severity of the cuts which were two thirds of the adjustment needed at the time. Social infrastructure needs much greater investment if it is to recover and provide the services Irish people need and expect. In late 2013 *Social Justice Ireland* outlined a proposal for a €7bn investment stimulus focused on 'growth, jobs and recovery'. It

argued for a multi-annual programme targeted on nine key socio-economic areas: renewable energy; social housing; primary care facilities; energy efficiency; education facilities; early childhood care and education; community nursing facilities; non-motorway roads; and water services.

Government should commit to adopting this programme, which is superior to the smaller long-term plan currently in place.

➤ **Limited focus on the poor**

Social Justice Ireland regrets that there was no reference to poverty and social exclusion in the documentation published (except for the mention of poverty as one of the National Reform Programme (NRP) targets in Annex 2 of the Stability Programme Update). In a context where there are almost 700,000 people at risk of poverty and of those, over 218,000 are children, we would expect a greater focus on poverty and social exclusion. These are the people who have suffered most during the recession.

➤ **Demographic challenges noted**

Social Justice Ireland welcomes the recognition that age-related expenditure (mainly on pensions, healthcare and education) is projected to increase steadily as a proportion of GDP right out to 2060, from 22.1% in 2013 to 22.9% in 2020 and to 23.9% in 2060 (SPU page 44). Indeed, Minister Howlin stated that an additional €200m per year will be required to meet demographic changes in the health area alone. However, how can these realities be reconciled with a total revenue which is projected to fall as a proportion of GDP from 34.9% of GDP in 2014 to 31.6% in 2020 (SPU page 50)?

5. Good Governance

The proposed National Economic Dialogue is welcome but requires real openness from Government and real participation from all sectors.

➤ **National Economic Dialogue**

Social Justice Ireland welcomes the proposal to establish a National Economic Dialogue in July of this year. We have long argued that Ireland urgently needs to set a course for the future that will secure macroeconomic stability, a just tax system, strengthened social services and infrastructure, good governance and a real commitment to sustainability. Such a social dialogue process, that includes all the stakeholders in Irish society, can go a long way towards achieving such a future.

It will be important, however, that the dialogue is real, with a singular focus on the wellbeing of society and be evidence-based. *Social Justice Ireland* looks forward to participating in the National Economic Dialogue.

➤ **Independent Budget Office**

Social Justice Ireland welcomes the announcement that “Government will examine the possibility of establishing an Independent Budget Office”. This Office would have an important role in ensuring that policy options are costed before they are introduced. However, we are disappointed that Government believes that consultation will be so lengthy that the proposed Office “will only be fully in place after the next election” (SES p.41). We believe that the early establishment of this Office is a priority, which would enable political parties, civil society organisations and the electorate to have good information on the costs of all policy proposals which are being considered or advocated. However, we do not think that a lengthy process would be required to establish this Office and suggest that this Office should be established and be fully operational in advance of the next general election.

6. Real Sustainability

Ireland needs much greater focus on sustainability – economic, social and environmental

The World Economic Forum in its latest Global Competitiveness Report notes that those economies that have been balancing economic progress with social inclusion and good environmental stewardship will be better placed to maintain high prosperity for their citizens even accounting for external shocks².

It is clear at a global level that those countries which have been promoting sustainable development and which have been investing in medium to long-term policies whilst moving society to a more sustainable footing will be best placed to meet future challenges. It is also clear that in order to live within the means of the planet whilst producing the kind of society in which we want to live, a sustainable development framework (involving economic, social and environmental sustainability) should be at the centre of national policy making.

Earlier in this document we expressed our disappointment about the lack of mention of social exclusion. Social and community development are critical aspects of sustainable development. In the light of this, new indicators must be compiled measuring both well-being and sustainability in society; these should be used to monitor progress in society beside the traditional measures of GNP and GDP. These indicators should help in ensuring that issues such as climate justice and balanced regional development are prioritised.

In this context *Social Justice Ireland* welcomes Minister Howlin’s reference to a ‘proactive approach to dealing with climate change and its future impact’. Climate change remains the largest long-term challenge facing Ireland today. The challenge of reducing Ireland’s fossil fuel emissions should not be postponed in the face of current difficulties. The failure to tackle climate change now will have significant impacts into the future, including on food production, regional and global ecosystems, and on flood prone regions. We look forward to the rolling out of the proactive approach to which the Minister referred.

² World Economic Forum 2014:73

Social Justice Ireland is an independent think-tank and justice advocacy organisation of individuals and groups throughout Ireland who are committed to working to build a just society where human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected.

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