



# Analysis of Budget 2017

Oireachtas Committee on Budgetary Oversight



## Introduction

*Social Justice Ireland* welcomes the invitation to address the Oireachtas Committee on Budgetary Oversight. Our opening statement is based on the comprehensive analysis and response to Budget 2017<sup>1</sup> which has been circulated to all members of the committee. Budget 2017 contained a number of welcome initiatives which will see most people benefit to some degree, with the working poor gaining the least.

Most people on social welfare received an increase for the first time in seven years, ranging from €5 a week for pensioners to €2.70 for jobseekers aged 18 to 24. These increases are welcome, even if they don't go the full way to retrieving the value lost through inflation in recent years.

The new childcare programme is also a positive development. We welcome this universal subsidy that will be available to parents in all income groups and we also welcome the support for service providers as a means of improving quality. It is important that sufficient resources are allocated over time to childcare, after-school care and early-years education and that families can avail of the childcare arrangements that are most suitable for them.

### **Tax changes could be so much fairer**

*Social Justice Ireland* is very disappointed with the choices Government made in cutting the Universal Social Charge and income tax. These changes are unfair and provide larger gains to those on higher incomes compared to those on lower incomes. For example, a single person earning €25,000 gains €127.60 per annum while a single person on €75,000 gains almost three times more (€352.82 per annum). For the same amount of money (€383m) Government could have made tax credits refundable (thus tackling the working poor issue) and given every tax-payer an additional tax credit of €100 per annum. In practice this would have meant that everyone would be €100 better off while the working poor would gain a little more (page 6).

Budget 2017's lack of strategy can be seen in its failure to address the long-range challenges facing Irish society. In his Budget speech, Minister for Finance, Michael Noonan, TD, acknowledged that "climate change is the global challenge of our generation". Yet the Budget contains little to address this challenge.

Another unaddressed challenge is in funding education. Ireland's ratio of spending on education (as a percentage of overall government expenditure) to population under the age of 19 is the lowest in the European Union, and Budget 2017 does very little to change that.

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<sup>1</sup> <http://www.socialjustice.ie/content/publications/budget-2017-analysis-and-critique>

At the opposite end of the lifecycle, there will be almost a million people over-65 in 15 years time (up 86%), of which 136,000 will be over-85 (up 132%). The increase in the state pension is most welcome. However, little is being done to invest in the services and infrastructure required to care for the increasing population of older people.

Add to this the challenges Ireland faces in financing local government, repairing and modernising our water infrastructure, paying our (rising) EU contribution, funding pollution-reducing environmental initiatives that are required by European and international agreements, and building an infrastructure for rural broadband. It is clear that Budget 2017 failed to address many long-term challenges. But this wasn't all - the Budget also lacked coherence.

### **Budget decisions lacked coherence**

Government's social housing policy lacks coherence on two fronts. Firstly, while the long-range housing plans (to build 47,000 homes by 2021) are welcome, it is clear they will be nowhere near the scale required to eliminate the current waiting list of 89,000 households, and they make no provision for the increased demand for social housing that demographic developments will require (page 7).

Secondly, the assistance being granted to first-time house buyers in Budget 2017 is short-sighted and will do nothing to tackle the cause of the current housing crisis i.e. shortage of supply. In effect it is pointless. Whatever resources are available should be allocated to increasing housing supply. This would certainly make more sense than granting tax breaks that will mainly serve to increase the cost of homes (page 15).

There is a similar lack of coherence in the Budget's decisions on healthcare. Additional resources are being made available to address waiting lists, to provide medical cards to all children in receipt of Domiciliary Care Allowance, to promote health and wellbeing and to assist older people and people with disabilities. However, sufficient funding has not been provided to maintain the existing level of service. This makes no sense (page 18).

Aid to developing countries increased by only €10.2m on 2016; the total budget is now down to 0.30% of national income. In addition, nothing has been done to change the fact that Ireland is acting as a tax haven, depriving those same developing countries of an opportunity to broaden their own revenue base and exit the cycle of dependency in which many find themselves (page 24).

### **Tax-take**

There has been a significant increase in the tax-take from households (both directly and indirectly) over the past eight years. Despite this, the level of revenue (i.e. total tax-take) raised by the Irish

exchequer remains one of the lowest in Europe (page 9).

Budget 2017 does little to address this fact, and on a no-policy change basis, Ireland's tax take is set to remain at its current low level over the next few years, proportionate to the size of the economy.

This low-tax model is not sustainable, and means that Ireland does not have sufficient resources to provide the social and economic infrastructure that should be expected in a developed European nation.

Budget 2017 failed to substantially broaden the tax-base, which is the essential pre-requisite to increasing the country's total tax-take in a fair manner. (page 15)

A policy that focused on increasing Ireland's tax-take to 34.9 per cent of GDP, a figure defined by Eurostat as 'low-tax', would yield an increase in revenue which could be used to tackle poverty, mitigate our social housing crisis, increase capital investment, or develop an effective climate mitigation plan.

### **Greater public investment required**

Government is claiming that Budget 2017 has been "Brexit-proofed". While the immediate impact of Britain voting to leave the EU was not as severe as feared by many, a further weakening of the UK economy and sterling is a major risk to the Irish economy.

*Social Justice Ireland* believes that the best way to Brexit-proof the Irish economy is to invest in the infrastructure Ireland so desperately needs. This would be good for the economy and good for society.

Budget 2017 does not address the fact that Ireland has one of the lowest levels of public investment in the EU. While the resources available for distribution were relatively small, Government chose to spend some of these meagre resources reducing the tax-contribution of the better off in Irish society.

Having raised taxes equitably, the net 'fiscal space' available should have been put into public investment. Government should also have sought adjustments to the fiscal rules which are blocking the investment Ireland so badly needs if it is ever to address its infrastructure deficits in areas such as social housing, rural broadband and water.

### **Budget proofing ignored**

The response to the economic crisis has had a devastating impact on poor and vulnerable people. There is an urgent need to ensure that the annual Budget does not increase inequality, but rather reduces it—in particular that it reduces poverty among all groups living in this situation.

Budget 2017 has not taken any significant initiative to measure whether or not poverty and inequality will fall rather than rise as a result of the overall impact of the decisions taken.

Budget proofing should be an integral part of all future Budgets in Ireland. This means that efforts must be made at policy level to ensure the desired outcomes are achieved. This, in turn, requires resources and commitment particularly from the Government of the day but it should be a priority for all members of the Dáil and Seanad.

### **Conclusion**

In Budget 2017 Government took a series of decisions that ensured most people gained something. Some of the decisions made are welcome. But overall, Budget 2017 failed to tackle major challenges and lacked coherence. It was a missed opportunity. Ireland now has choices to make. The resources and the capacity exist to build a fair and just future for everyone in Irish society. Such a future would be welcomed by a large majority of Irish people. A new approach is required. Planning for Ireland's future requires that decisions are made that give priority to long-term policy outcomes (page 24).

### **Budget 2018 and beyond**

A new **policy framework** is required - one that rejects the failed approach of focusing on the economy and assuming everything else will follow. Instead it is critical to recognise the importance of an integrated approach that seeks to deliver five outcomes simultaneously:

1. A thriving economy;
2. Just taxation;
3. Decent services and infrastructure;
4. Good governance, and
5. Sustainability.

These five policy areas are interdependent. All must be focused on in tandem if Ireland is to achieve its long-term economic, social and environmental policy goals. This **integrated approach** also recognises the need to plan now to ensure Ireland has the required infrastructure in place to provide for its growing population. **Planning for Ireland's future requires that decisions are made within a framework that gives priority to long-term policy outcomes.**

It is not possible to achieve every policy outcome in a single Budget; however it is possible to lay the foundations of a vibrant, just and sustainable economy and society by introducing a coherent package of measures. Decent services and infrastructure, just taxation, good governance and sustainability are essential if the economy is to be stable and vibrant, and grow in a way that is suited to the development of a society characterised by justice, equality and well-being.

It is very important that politicians and policymakers, when engaged in the budgetary process for 2018, consider where they believe Ireland should be in ten years' time, and what measures should be taken to ensure we get there. There are many points to consider, but five key questions must be answered:

- Where should Ireland be in ten years' time?
- What services and infrastructure are required to reach that destination?
- How are these to be delivered?
- How are these services and infrastructure to be paid for?
- How can we maintain a vibrant and sustainable economy and society while travelling towards that destination?

Priority in the Budget process must be given to medium and long-term outcomes. To this end, multi-annual budgeting is essential, as is a constant focus on medium to long-term policy goals.

### **Good Governance**

The commitment to improve the level of engagement of the Houses of the Oireachtas in the budgetary process and to improve the transparency of the budgetary process in the Programme for Partnership Government is very welcome. The programme identifies a fully resourced independent Budget Office within the Oireachtas available to all members as integral to this reform. This is key to making the functioning of government more effective and more transparent while giving the Dáil greater say in the development of Budgets and Deputies greater opportunity to propose substantive changes.

**To this end Government should ensure that the proposed Independent Budget Office is sufficiently resourced in order to fulfil its function effectively.** The Independent Budget Office is a very important component of the OECD proposals for reform of the budgetary process in Ireland. It will enable all members of the 32<sup>nd</sup> Dáil to become much more informed about budgetary decisions and policy implications. A fully resourced Independent Budget Office is key to ensuring that the Oireachtas Committees which are now tasked with assessing policy proposals can do so with all of the relevant information available to them.

### **Fiscal Rules**

Ireland's investment as a percentage of GDP has been among the lowest in the European Union for several years (Eurostat, 2015). Such a position cannot be allowed to continue. Expenditure policy for investment will be severely constrained in the years immediately ahead, not least because the EU's fiscal rules now require that additional discretionary expenditure must be funded by additional discretionary revenue.

The rigidity of the fiscal rules in the Stability and Growth Pact are preventing Ireland from investing in areas where investment is urgently needed, areas such as education. *Social Justice Ireland* has consistently argued that public investment in areas such as education, healthcare, childcare should be excluded from the budget deficit calculations. We welcome the recent OECD recommendation that public investment be treated more flexibly within the Stability and Growth Pact.

### **Future taxation needs**

Government decisions to raise or reduce overall taxation revenue needs to be linked to the demands on its resources. These demands depend on what Government is required to address or decides to pursue. The effects of the recent economic crisis, and the way it was handled, carry significant implications for our future taxation needs. The rapid increase in our national debt, driven by the need to borrow both to replace disappearing taxation revenues and to fund emergency 'investments' in the failing commercial banks, has increased the on-going annual costs associated with servicing the national debt. National debt has increased from a level of 25 per cent of GDP in 2007 - low by international standards - to peak at 123.3 per cent of GDP in 2013. Despite favourable lending rates and payback terms, there remains a recurring cost to service this large national debt – costs which have to be financed by current taxation revenues. The estimated debt servicing cost for 2017 is €6.1 billion. Furthermore, the erosion of the National Pension Reserve Fund (NPRF) through using it to fund various bank rescues (over €20 billion) has transferred the liability for future public sector pensions onto future exchequer expenditure. Although there will be some return from a number of the rescued banks, it is likely to be small relative to the total of funds committed and therefore will require additional taxation resources.

These new future taxation needs are in addition to those that already exist for funding local government, repairing and modernising our water infrastructure, paying for the health and pension needs of an ageing population, paying EU contributions and funding any pollution reducing environmental initiatives that are required by European and International agreements. Collectively, they mean that Ireland's overall level of taxation will have to rise significantly in the years to come – a reality Irish society and the political system need to begin to seriously address.

Suggesting that any country's tax take should increase often produces negative responses. People think first of their incomes and increases in income tax, rather than more broadly of reforms to the tax base. Furthermore, proposals that taxation should increase are often rejected with suggestions that they would undermine economic growth. However, a review of the performance of a number of economies over recent years sheds a different light on this issue and shows limited or no relationship between overall taxation levels and economic growth. If we expect our economic and

social infrastructure to catch up to that in the rest of Europe, how can we do this while simultaneously gathering less taxation income than it takes to run the infrastructure already in place in most of those other European countries? In reality, we will never bridge the social and economic infrastructure gaps unless we gather a larger share of our national income and invest it in building a fairer and more successful Ireland.



**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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