Irish Congress of Trade Unions

A Better, Fairer Way

2011 Pre-Budget Submission

Fairness is not only morally better, it is economically superior as well

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The National Economic & Social Council (NESC) points to five interlinked crises: economic, social, banking, reputational and fiscal. In this submission, we will deal with all of these but our primary focus is on mass unemployment, the fiscal and the banking crisis.

This will be the harshest budget in the history of this state. The real challenge is to ensure fairness in the Budget's *distributional effects*.

Executive Summary

Extend the Adjustment Period, Focus on Growth

From early 2009 Congress warned that that the economic choices made by this Government – austerity as opposed to stimulus – were a recipe for disaster. We said they would depress demand, cause job losses and retard prospects for growth.

To date, we have seen three deflationary budgets that have taken some €14.5 billion from the economy. Yet our budget deficit is now higher than when the austerity programme began and we have mass unemployment. That is not a sign of success, by any standard.

It is now clear that we will not meet the target of reducing our budget deficit to 3% of GDP, by 2014. That target is arbitrary and artificial. If Government persists in trying to reach it, it will likely cause deep and lasting damage to our economy and society. It will devastate lives and communities.

The key to success is a credible plan which demonstrates how we will grow our economy into a sustainable recovery. This would carry far more weight with the investors in the international bond markets than experimenting with unprecedentedly dangerous austerity plans.

Congress believes that we should extend the adjustment period to 2017, thereby allowing growth a chance to take hold. The key to that growth is investment and we have set out a number of proposals on this, in our submission. Deficit reduction can be achieved through the taxation of latent sources of revenue and by achieving savings by means that do not entail taking large amounts of money out of the economy.

Ultimately, the key is job creation and growth. Austerity is not a credible plan for economic growth.

The liberal economic model has failed. Yet, by pursuing austerity, our Government appears to be still in thrall to it. As Keynes said: “Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist.”

Economic Impact of Congress Proposals

The economic impact of the proposals in our submission would be to provide a small stimulus overall to the economy. In contrast, the Government’s proposed cuts will deflate it substantially further. If their measures are in the order of €4bn they will deflate the economy by an additional 3%. A precise figure depends on where the cuts and taxes are imposed.

Our submission contains a broad menu of proposals and alternative options, so it is not possible to determine their precise impact on the economy. Congress would almost certainly prioritise some tax rises over others, in ways which would be far less deflationary. Appendix I of our main submission contains a menu of areas where revenue of up to €2.1 billion could be raised.

Job Creation & Protection

We need new initiatives and greater urgency on job protection and creation. A sum of at least €2bn per annum for three years should be invested immediately in suitable projects to promote growth and leverage investment thereby facilitating job creation, job retention and upskilling. This can be done in a manner that meets Eurostat criteria. Some immediate job creation ideas suggest themselves:

- **New Water & Waste Network** Efficient use of water will generate considerable long-term environmental savings and could create over 30,000 jobs during delivery stage and some 12,000 permanent jobs.
- **Retrofit Energy Inefficient Buildings** Comhar estimates the number of energy inefficient homes at 700,000. This work is labour-intensive and has major downstream benefits (materials, manufacturers, suppliers etc).
- **Next Generation Broadband (NGB)** The Telecommunications & Internet Federation say €2.5 billion would bring a modern NGB network to 90% of all homes and buildings. The benefits for employment and future competitiveness are clear.
- **Education** Third level institutions require investment to accommodate the surge in student numbers - new buildings, facilities, refurbishment etc.

There is also great scope for investment in: national and secondary roads, green energy, electricity grid upgrade, development of natural resources (peat, forestry), conservation technologies, reskilling and upskilling our labour force, return to education, public transport, urban regeneration and flood defences.

NPRF monies could also be used to incentivize the development of new enterprises (or the extension of existing ones) through risk sharing with private investors.

Government should adopt - as a matter of urgency - the model of 'job protection' so successfully implemented across the EU. This provides state support to viable jobs threatened by the downturn and makes solid social and financial sense.

New Ideas on Public Investment

- Money from the **National Pension Reserve Fund** should be utilised to invest in addressing our infrastructural deficit and jobs crisis. Over time, this could rise to €6 billion that would be invested in Ireland's future, rather than in bank subsidies or foreign equities.
- Start **auto-enrollment in the state pension fund** immediately, which will result in substantial flows of funds to the Exchequer.
- Introduce amending legislation to provide for **investment in Sovereign Bonds by Pension schemes** as called for by Congress, IBEC, IAPF and others.
- Encourage **PRSAs to invest in the state pension scheme**. If 20% invested next year, this would provide around €1 billion.
- Increase the interest on the **National Solidarity Bond** (an idea originated by Congress) and hypothecate the investment into designated projects and market it as such.
- The key role of state enterprises in our recovery must include the establishment of a State Holding company as a new, commercially-focused structure.

Contribution from the Corporate Sector

We should extend the **income levy to corporate profits**, in this time of national crisis, until the 3% budget deficit target is reached. Only companies making a profit would pay.

Multinationals could also **defer repatriation of a portion of their profits** and set up a fund to invest in new or existing Irish-based enterprises and infrastructure. Such a fund could amount to billions of euro and could make a significant contribution towards economic renewal and development.

Banks & Bondholders

Government must act in the interests of its people, not the markets. It must force down the value of all bondholders' holdings - which they risked in recklessly-run, private banks - to 10% of their nominal value. This could see a saving of up to €24 billion for taxpayers.

Tax Measures

The tax system is **rife with exemptions and reliefs**. Their combined impact narrows the tax base. Unless there is a proven benefit to the taxpayer, they must be closed.

A rise in the general **rate of DIRT to 30%** would raise an additional €75million.

The **minimum tax for high earners** - using avoidance schemes - should be increased to 35% and the threshold reduced to €100,000. There should be a limit on earnings for pension purposes of €100,000.

The beneficiaries of **capital gains** are better placed to meet tax liabilities than those on minimum wage. In the U.S., capital gains are taxed as income with lower discounted rates on long-term gains. We should do likewise.

The current **threshold for inheritance** from parents (€414, 799) is far too high and should be reduced. Specific protections might be required in cases of people living in inherited property, where these beneficiaries are on low incomes.

Place a **(temporary) wealth tax** on wealth above €2 million, wealth being defined as current value of all assets, including the excess of €1m in the value of private houses.

Reduce the 183 day test for **tax residency purposes** to at least 90 days, as obtains in the UK. Where a **tax exile's** main centre of vital interest is here or if they are assessed on a permanent home test, they should pay tax here.

If it is intended to merge the **income and health levies** it is vital this is done in a way that ensures equity.

The **minimum funding standard** must be eased to help occupational pension schemes which are under great stress, with most defined benefit schemes in deficit.

Congress believes a **12.5% oil and gas royalty tax** - on production and profits - should be reintroduced.

Social Welfare

No **further cuts** to social welfare rates. Welfare recipients will be badly affected by the recent 5% increase in electricity prices. The price of liquid fuel has also increased (by 26.8%), placing struggling households under further pressure.

We should **reform social welfare rules** which discourage employment: allow people who work reduced hours more than three days in the week to be able to claim jobseekers benefit for the time they are not working

Tackle **poverty traps**, such as the loss of medical card entitlement for low-income earners which discourage people from taking up work.

Introduce compensation to help mitigate the problem of **fuel poverty** and broaden fuel allowance coverage to households in receipt of Family Income Supplement.

We remain opposed to means testing of **child benefit** in the absence of an adequate state supported child care system.

Congress supports the Nordic **'flexisecurity'** model of robust social protection and strong active labour market policies to promote employment.

Privatisation

Privatising valuable state assets for short-term gain would be a grave mistake, especially when asset prices are very low. The record is not good. The Eircom debacle greatly delayed the roll out of fast universal broadband.

Corporate Governance

Company laws must be radically reformed with a shift from the narrow interests of shareholders to the broader stakeholder model.

Community Employment

Congress supports the campaign of SIPTU, OPEN, Mental Health Ireland, the Irish National Organisation of the Unemployed and Inclusion Ireland to protect the conditions of people with disabilities and lone parents on Community Employment (CE) schemes.

International

Congress recognises the critical role played by **Overseas Development Assistance** in driving towards the realisation of the Millennium Development Goals and as a stable source of funding for poorer countries. We support the introduction of a **Financial Transaction Tax (FTT)** which could raise between €160 and €700 billion (more than 3 times the current levels of international aid). It would also tackle corporate tax evasion and ensure more effective regulation of banks

Introduction

Ireland has three interlinked economic problems:

1. Mass unemployment
2. A fiscal crisis
3. A banking crisis

There is little focus on the unemployment crisis. Address this and we will go a long way towards resolving the other problems. Pursuing cuts and bank bail-outs without carefully factoring in their impact on employment levels will lead to a downward deflationary spiral.

Historical evidence informs us, bluntly, that after a major financial crisis, it takes a long time for economies to revert to normal economic growth. The projections for Irish economic growth from the Government, ESRI, Central Bank and most economists are very optimistic, particularly as they are all hell-bent on deflating the economy even more.[1]

1 ESRI forecasts 0.25%, 2.75% for GDP, Central Bank at 0.2% and 2.4% and Government at -1.3% and +3.3% in 2010 and 2011. The Government then hopes that GDP will rise to 4.5%, 4.3% and 4.0% in the subsequent three years, in Budget 2010.

1 Economic Problem One: Mass Unemployment

Investment is vital during a period of deflation as a stimulus and in to assist future economic growth and well-being. Borrowing for investment is good economics. This is particularly correct now. Economists agree on borrowing for investment. Where they disagree is where and how the money should be spent. Such debate is healthy, but in the meantime, a major jobs intensive investment programme should be the priority of Budget 2011.

Cutting investment is merely postponing it and spending today, when jobs are desperately needed, will stimulate the economy

Congress said that cuts in the National Development Plan - from €56.6 billion to €39 billion - could have been worse. However, it is our view that the investment package should be much bigger. Ireland has a serious infrastructural deficit, mass unemployment and the wider economy needs a greater boost than this reduced package will deliver. Our suggestion of taking two billion euro from the Pension Reserve Fund per year for each year of the next three years and investing it in the real economy is actually modest. There could be a case for increasing it, on analysis of investment needs and on the returns and multipliers. (Subject to the availability of sufficient suitable projects).

On the other hand, deep cuts – now understood to be well over €3 billion - in public spending will exacerbate the deflationary spiral which has already taking hold.

While a lesson has been learned from the savage cuts in capital investment in the 1980s - which delayed recovery for years - a bigger spend today could stimulate the economy now, when it is most required.

Congress is highly critical of all the taxpayers' euros which are being poured into the black hole that is the Irish banking sector. This vast sum has been borrowed or taken from our members' Pension Reserve Fund. This vast "pseudo-investment" in the banks funds no jobs, no schools, no hospitals, no clinics, no trams, no buses. The only jobs are for an overpaid professional elite of bankers, accountants and solicitors who are still being paid excessively.

Minister Lenihan said: "Tender prices for construction have fallen very considerably: in fact they have fallen by 30%. Lower prices coupled with improvements in public sector procurement procedures (such as fixed price contracts) will afford greater opportunities for value for money than existed during the boom years. Government Departments are already benefiting from these changed market conditions."[2] Congress agrees and accepts that there is more value for the investment today with lower tender prices, but that is precisely why we should have increased investment now, when it is cheap.

Congress again calls for all stops to be pulled out to ensure that all money allocated is spent and that planning and bureaucratic obstacles are removed urgently.

2 On 26th July 2010.

Cutting the general government deficit in the absence of promoting economic growth is a self defeating policy. Already we have taken some €14.5 billion out of the Irish economy over the last three budgets and we are still facing a similar general government deficit as we had in 2009. This does not include the bank recapitalisations. The fiscal consolidation plan in its current form is not a plan but a series of targets. They will not be reached unless a serious and credible strategy for growth is put in place. Current growth forecasts are grossly optimistic, particularly as they are being undermined by large cuts.

Last December, the Government forecast that the Irish economy would emerge from recession in the second half of 2010 and would record 3.3% growth in 2011 and an average rise in GDP of 4.3% in the years thereafter, based on the over-optimistic notion that Ireland could effectively piggy back on the growth in our trading partners. These projections appear all the more fanciful now with the latest OECD forecasts projecting that the US is set to record its slowest rate of quarterly growth in the last quarter of 2010 since emerging from recession in Spring 2009. Similarly for the EU, the most recent European Commission interim forecasts suggest that the second quarter of 2010 was better than expected due to a pick up in temporary factors i.e. inventory and construction, but that the euro area is facing into a soft patch over the second half of the year.

Manufacturing output did enjoy a good 2010, thanks to pharmaceuticals and chemicals and while there are tentative signs of strong growth for overall industrial output and exports this year, there are two main concerns with regard to the future of Irish economic growth;

(a) the spillover effect of such growth on tax revenues, additional job creation and local economy procurement is minimal due to the capital intensity of the projects and transfer pricing arrangements and

(b) more importantly, there is now a grave concern that the sources of this growth are becoming increasingly concentrated.

Pharmaceutical and chemicals now account for almost half of the value of all output in the Irish economy in 2010, up from a share of over one-third in 2008. This is due in part to the large fall off in electronics and computer processing in this country. With the Irish pharmachem sector industry set to face a major shake-up in competition in future years, with the expiry of some notable blockbuster patents such as Lipitor in 2011, the need for a broad-based recovery across the traded and non traded sectors of the Irish economy is all the more urgent, if the general government deficit as a share of GDP is to be reduced.

Jobs – The Priority

Officially unemployment is close to 14%. By the CSO's S3 measure unemployment is 17.9%. If this is adjusted to the then higher participation rate of 2007, the numbers of people who want to work but cannot find jobs was almost 21% at mid 2010.

The number of young people out of work is growing rapidly.

The number of long term unemployed is rising fast.

Emigration is soaring.

In our ten point plan, *'There is a Better Fairer Way,'* the first point made was on job protection. We argued that the social welfare system must be radically altered and integrated with skills enhancement, education and training. We suggested that this can be augmented with additional funding from the Public Capital Programme.

Almost two years ago we had sought a €1 billion investment in a jobs plan but Government would only agree to a far smaller initiative. We called for greater ambition in a major drive for jobs and employment protection, as the crisis worsened.

Congress reiterates our calls for greater initiatives and urgency on job protection and on job creation. The one billion to be taken from the National Pension Reserve Fund should be invested immediately in job creation, job retention and upskilling. The German job retention scheme has worked very well. The Government jobs initiative announced at the end of September seems to be more aspirational than realistic.

Imaginative but prudent initiatives are required around employment retention. For example, it would be far better to increase funding to the Arts Council for employment intensive areas, rather than paying unemployment benefit to those who are made redundant because project funding has been cut. While it is regrettable that many working in the Arts are not well paid, this means that the net cost to the state in maintaining and indeed boosting employment in the Arts is marginal. Further, the employment and artistic work generated brings pleasure to many.

In our May 2009 *Job Creation & Protection Plan* we had sought investment of €1 billion in jobs. We argued that employers should discuss alternatives to redundancy with workers and their unions and where workers agree to options such as short time working then the social welfare system should support this move by providing payment to compensate for the 'off time'. In turn, workers would agree to engage in training during any such 'off time'. Where there is a cost associated with the training, financial support should be available to cover this from the programme.

We propose, for example, four jobs initiatives to be led by the state:

- **A State-of-the-Art Water & Waste Network** would cost €4.2 billion. Efficient use of water will create considerable long-term environmental savings and will have the capacity to create over 30,000 jobs during delivery stage and up to 12,000 permanent jobs. If this network was placed in a national agency, it would secure considerable savings in scale, planning and procurement, while reducing future maintenance costs (currently, our water network is divided up among over 30 local authorities and much of the cost is spent on band-aiding a Victorian-age system).[3]
- **Retrofit our Energy Inefficient Buildings** this could help create an €8 billion industry. Comhar estimates the number of energy inefficient homes at approximately 700,000. Not only is this work labour-intensive, it has considerable downstream benefit (materials manufacturers/suppliers, transport of materials, etc.). In addition, energy-efficient buildings consume less fossil-fuel imports, thus reducing our import bill. This will

3 NewERA, Fine Gael, 2010: http://www.new-era.ie/NewERA2010.pdf

increase non-energy consumer spending and investment resources as a result of decreased energy costs. This will help the large number of unemployed building workers and employment for early school-leavers could be combined with part-time training/return to education.[4]

- **Next Generation Broadband (NGB)** the Telecommunications and Internet Federation has estimated that it would cost €2.5 billion to bring a modern NGB network to 90% of all homes and buildings. Two-thirds of this cost would be taken up with civil engineering works while the supply-side benefit would persist for many years after.[5]
- **The Higher Education Authority**[6] estimates that third level institutions will require €4 billion investment to accommodate the surge in student numbers - new buildings, facilities, refurbishment, etc.).

These are just four examples. Given that Ireland's infrastructural capacity ranks as one of the poorest in the European Union 15, there is welcome scope for a sustained investment programme: the postponed national and secondary roads programme, green technology, electricity grid upgrade, development of natural resources (peat, forestry, etc.), conservation technologies, human resources (reskilling and upskilling our labour force), return to education, public transport and rail, urban regeneration programmes (social housing, leisure facilities), flood defences, etc.

Congress proposed many initiatives around protecting jobs[7] including a) welfare reform to coordinate it with employment; b) redundancy rules which need to be reformed to ensure that workers do not lose out on redundancy payments by agreeing, for example, to engage in short-term working for a lengthy period of time, as redundancy is calculated by reference to final wages; c) a social innovation fund; d) linking education to employment; e) a training guarantee that would support workers learning and provide access to training and provide minimum training rights, such as a guaranteed number of paid hours for up/reskilling and vocational training; improve standards in employment; etc.

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4 Towards a Green New Deal for Ireland, Comhar, 2010: http://www.comharsdc.ie/_files/2009_TowardsGNDIreland_rpt.pdf

5 Building a Next Generation Access Network for Ireland: http://www.tif.ie/Sectors/TIF/TIF.nsf/vPages/Broadband~Publications~building-a-next-generation-access-network-for-ireland-16-04-2010/$file/TIF%20Report%20%27Building%20a%20Next%20Generation%20Access%20Network%20for%20Ireland%27%20Final.pdf

6 http://www.irishtimes.com/newspaper/frontpage/2010/0428/1224269223516.html

7 Eg http://www.ictu.ie/download/doc/protecting_and_creating_jobs.doc

2 Economic Problem Two: The Fiscal Crisis

There is something deeply wrong in Ireland. There is an obsession about an 'adjustment' of first €3 billion, then €4 billion, even €5 billion plus, in Budget 2011, while many more billions have been poured into the banks. There have been no benefits from this 'sinkhole' investment.

- The markets are not impressed and our borrowing costs are still high
- The cost of the bank rescue is staggering
- It may undermine the real economy
- Deflation is making matters worse by:
  - Slowing the recovery by years
  - Increasing unemployment
  - Reducing tax revenue
  - Shattering business confidence
  - Reducing needed public services
  - Hurting the poorest most
  - Cutting needed investment
  - Reducing future prosperity

A: Austerity Vs Stimulus

The Irish Congress of Trade Unions has been deeply opposed to the broad thrust of Government economic policy since the Crash of 2008. It is deflationary and is prolonging the recession, dampening domestic demand, reducing tax revenue, destroying jobs and hurting the poorest most.

The economic policies which underwrote the domestically generated boom were based on tax-cutting, tax-shifting, and de-regulated financial markets. Free market economic fundamentalism ruled and it failed, spectacularly. The tax-cutting policies to the late 1990s were reasonable for a few years, a) when personal taxes were high, and b) when they were not pro-cyclical. But by 2001, tax cutting, even with large surpluses, was the wrong policy for the Irish Government to continue to pursue. However, it was in the grip of a pernicious economic philosophy. These policies fuelled the boom and led to a far greater bust.

Congress was highly critical of Government fiscal policies in the past decade and we were correct and perhaps we are again today. It seems that even the 'markets' think so. More and more are coming to our point of view, including even stockbroker economists.

Government polices over the last decade largely destroyed a fine economy by pursuing essentially liberal, pro-cyclical, tax-cutting policies. It is pursuing pro-cyclical spending cuts now. When Congress opposed the tax-cutting, de-regulation, tax subsidies policies of the noughties, we did not realise how destructive they were – destroying so much value within the Irish economy.

While this government has a credibility problem, it is exacerbating it with deflationary policies. There is no comfort for praise for its macho 'austerity' policies from the likes of the *Wall Street Journal* and right-wing think tanks. On the other hand, much of the foreign media which had applauded the rapid pursuit of austerity is now questioning if "the harsh medicine is killing the patient".[8]

8 Lex column in Financial Terms, 15 June 2010, "But the process of fiscal adjustment … is so arbitrary, so uncoordinated, and – in countries like Ireland and Greece – so savage that the cure is as likely as is the disease to kill the poor patient."

The international media has been increasingly critical of Irish fiscal policy as deflationary and wrong-headed. The *Financial Times* has had many critical articles including its lead editorial on 22nd September - the same day as the *Guardian* warned against the folly of following Ireland's Austerity programme[9]. Adam Posen, a US economist who is an external member of the Bank of England's MPC has warned against austerity too, calling for central banks to "undertake more monetary stimulus."[10]

He also warned of the dangers of what the wrong fiscal policy can do to a country. In the case of the lost decade in Japan, he said "Japan's Great Recession was the result of a series of macroeconomic and financial policy mistakes. Thus, it was largely avoidable once the initial shock from the bubble bursting had passed."[11]

Professor Skidelsky, who spoke at a Congress lecture on October 12 last has warned that the fiscal hawks risk undermining any potential recovery by cutting too much and by slavishly following a arbitrary timetable.

Nobel Prize-winning economist Joseph Stiglitz said in an interview on Morning Ireland: "Cutting back willy-nilly on high-return investments just to make the picture of the deficit look better is really foolish." European governments made a "wrong bet" by pushing for austerity after the global recession, resulting in slower economic growth for the region and the US.[12]

"Ireland's struggle to revitalize its economy after the country's worst recession on record shows the risks of focusing on deficits," Stiglitz said. "Because so many in Europe are focusing on the 3% artificial number, which has no reality and is just looking at one side of a balance sheet, Europe is at risk of going into a double-dip."

He has long argued that: "In a recession, you want to raise (or not decrease) the level of total spending… However, state spending reductions have the opposite effect: each dollar

9 4"Irish woes should give pause to the cutting coalition in London. There are important differences, of course, for both the bubble and the bust overwhelmed the republic more comprehensively than the broader-based economy here. But that did not stop rightwing pundits hailing Ireland's early move to meet the maelstrom with masochism as an example for Britain. Nor should it stop the rest of us from learning lessons about what happened next, after the early cuts. The private sector did not immediately rush to fill the gap left by the public, and by the sluggish summer of this year the government's creditworthiness was being called into question not so much because it was spending too much, as because of fears that the economy would soon be too small to sustain the debt being racked up." Guardian 22nd Sept 2010.

The Financial Times (22nd Sept 2010) editorial urged the Irish government to cut the ground from the banks' bondholders and to cease its obsession with cutting public spending - "a course that anyway might further harm a growth path that looks set to lag the government's own projections". The editorial began by also saying that "It would be better if Irish deputies focused less on his (the Taoiseach's) alleged tipsiness, and more on his misguided strategy for dealing with the country's banking sector.

FT, 19th September 2010, Munchau "the economic malaise in Ireland, whose crisis is growing worse by the day,

FT 25th September; "Investors are still nervous about whether Ireland's fiscal adjustments will see the country turn.."

FT 30 June 2010; "Paul Krugman the Nobel-laureate economist, argued last week that Ireland had seen little reward for its brave fiscal measures - "Virtuous, suffering Ireland is gaining nothing,"'

FT 29th September, 2010 "Is Ireland restaging Greek tragedy" where it asked if "the country has been too austere in its effort to reduce debt at the expense of growth."

10 Speech called "The case for doing more" Hull, 28th Sept 2010 and Daily Telegraph, 30 June 2010

11 THE REALITIES AND RELEVANCE OF JAPAN'S GREAT RECESSION, London School of Economics, 24 May 2010

12 RTE Radio 24 August 2010 quoted on Bloomberg 7th Sept. and in Economic Times on 25th August.

less that the state spends generally reduces consumption by the same amount."[13]

The blind faith in the capacity of Ireland's private sector to make up for the huge cuts in public spending would be misplaced in a normal economy, but Ireland has a unique "private enterprise deficit." It was not just the banking sector that failed itself and failed Ireland, but all of the banks' boards were filled with the so-called "enterprise leaders" of Ireland, from all sectors. As the banks bosses, they were all property speculators and not real entrepreneurs. Therefore it is naïve to expect the private sector to fill the huge gap left by cuts in public expenditure in this country for some time.

There have been major debates over the Austerity vs Stimulus in other countries, but it has been muted here. Congress recognises that the majority of mainstream economists have, to date, supported the Government's austerity programme. But that does not make it correct. Most of them were either wrong or silent[14] during the boom, when we were a lone voice against direct tax-cutting and de-regulation. The unexpected fall in GDP of 1.2% in Q2.2010 underlines the policy failure.

As Martin Wolf of the Financial Times has regularly argued, there are "two huge threats in front of us. The first is the failure to recognise the strength of the deflationary pressures. The danger that premature fiscal and monetary tightening will end up tipping the world economy back into recession is not small, even if the largest emerging countries should be well able to protect themselves. The second threat is failure to secure the medium-term structural shifts in fiscal positions, in management of the financial sector and in export-dependency that are needed if a sustained and healthy global recovery is to occur."[15]

Wolf also warned of over-dependency on exports. This is a serious issue for Ireland. While a small economy with good export performance through popular exports (food and drugs) at present, we are nonetheless vulnerable. The deflationary policies being pursued are squashing out domestic demand – which makes up around 70% of GDP.

Cutting the general government deficit in the absence of promoting economic growth is self-defeating. Already we have taken some €13 billion out of the Irish economy over the last three budgets and we are still facing into a similar general government deficit as a share of GDP in 2010 as we had in 2009, excluding the bank recapitalisations. The fiscal consolidation plan in its current form is not a plan but a series of targets, which will not be reached unless a serious and credible strategy for growth is put in place.

The Illusion of Future Growth

Last December, the Government adopted the over-optimistic notion that Ireland could effectively piggy-back on the growth in our trading partners. It forecast that the Irish economy would emerge from recession in the second half of 2010 and would record 3.3%

13 Tax Policy Center: April 27, 2003.

14 Silence makes them eequally culpable, particularly if they were silent because they were supporters of the tax-cutting which contributed so much to the Crash of 2008,

15 FT, 14 July 2010.

growth in 2011 and an average rise in GDP of 4.3% in the years thereafter.

This strategy is very dubious now with present fears that the advanced Western economies are heading for a double dip recession. The latest OECD forecasts envisage the US recording its slowest rate of quarterly growth in the last quarter of 2010 since emerging from recession in Spring 2009. Similarly for the EU, the most recent European Commission interim forecasts highlighted that the better than expected second quarter of 2010 was due to temporary factors i.e. inventory and construction, and that the euro area is facing into a soft patch over second half of the year.

In spite of the evidence, those on the ideological Right remain wedded to the notion of 'expansionary fiscal contraction', whereby purging the economy will ultimately make way for economic renewal. However, proponents conveniently play down the crucial impact of exogenous monetary and fiscal shocks on the Irish economy when the country emerged from its last economic recession. An 8% devaluation of the punt in 1986 was followed by the 1987 global stock market crash which led to an overall decline in international interest rates. This, combined with the Lawson boom in the UK which was prompted by large tax cuts, brought about a revival in global demand and provided the context for a 10% jump in the rate of growth of Irish exports in 1987 alone.[16] Exports recorded a cumulative increase of 16% in the subsequent two years. On the fiscal side, EU transfers to Ireland covering structural and cohesion funds and payments under the CAP jumped 44% in a single year in 1990 and increased by 27% in the following year.

Rather than waiting for economic growth to return, the time to get more enterprise up on its feet is now. Such proposals do not always involve the State providing the money for investment from its own savings and also funds can also be harnessed and encouraged from the corporate and household sector, as we suggest elsewhere.

B: Domestic Demand Is Vital

The Government is over-reliant on exports to lead Ireland out of the recession. It is not neglecting domestic demand, but it is undermining it. It is not plausible to argue that in a small open economy domestic demand is unimportant. It makes up some 70% of GDP. The Government's near total dependence on exports is misplaced. It is correct that when world exports declined dramatically, ours continued to perform well and very well in recent months. But the source of our best performing exports is highly capital intensive and low in employment content. Economic policy is reducing domestic demand and may push Ireland into a long deflationary spiral, similar to Japan.

Demand is made up of private consumption expenditure, public current expenditure, exports and investment. Investment is made by the state and the private sector. Personal consumption by people is way down and is being pushed further down by cuts in public spending. It fell by almost 7% last year and will fall again this year. Retail sales are down and those with money are saving hard, with

16 Bradley J and K Whelan (1997), "The Irish expansionary fiscal contraction; a tale of one small European economy". McAleese D. and FD McCarthy (1989) "Adjustment and External Shocks in Ireland."

the savings ratios up by 50%. The growth in unemployment is a major cause of the downturn in personal consumption, but so is high personal debt; cuts in *weekly* earnings in the private sector (where hourly earnings have actually continued to rise, until recently, over the past two years); much more substantial cuts in earnings in the public sector; uncertainty allied to lack of confidence and the belief that fiscal policy is failing and things are getting worse.

Businesses are neither hiring nor investing as credit is difficult to access; demand is way down; cuts to public spending, more important to many businesses than one might believe, are taking their toll; domestic demand is also down in an economy one-fifth smaller than just three years ago and confidence is gone. Investment has imploded not just in construction but in most other sectors too.

So that leaves Government as the remaining component of demand. With cuts of around €4 billion in current spending since 2008, its contribution to domestic demand has been reduced too. The public capital programme is also being reduced to 'contribute' to the deficit reduction, but such cuts are sucking demand out of the economy, when so much remains to be done. On top of this, the Government is pouring money into the banks. There is no increase in demand from this activity. Its impact on the real economy is nil.

Therefore, 'adjustment' must be not made up only by cuts in public expenditure, but more judiciously, in ways which best maintain and even stimulate domestic demand and employment.

C: New Ideas On Funding Public Investment

To avoid further deflation, Congress proposes:

- No cut of €1 billion in investment as the Government proposes. Take €2 billion from the National Pension Reserve Fund.
- Start auto-enrollment in the state pension fund immediately. This will give substantial flows of funds to the Exchequer.
- Provide amending legislation to provide for investment in Sovereign Bonds by Pension schemes as called for by Congress, IBEC, IAPF etc.
- Encourage PRSAs to invest in the state pension scheme. If 20% invested in it next year, it would provide around €1 billion.
- Increase the interest on the Solidarity Bond (an idea originated by Congress) and hypothecate the investment into designated projects and market it as such – good value savings and patriotic domestic lending to Ireland, in a time of crisis.
- Establish the State Holding Company which would attract pension funds into investing in these companies and into much needed public infrastructure[17].
- Multinational companies could help Ireland and themselves by deferring the repatriation of some of their profits for a period and to set up an investment fund, on a commercial basis, to invest in new or existing Irish based enterprises and infrastructure. Several such companies would set up this fund, amounting to billions and it would make a significant

17 See section on External Equity p7 of Congress' A new Governance Structure for State Companies, 2005.

contribution towards economic renewal and development (see "corporate contribution" below) outside G&SP.

- Extend the income levy to corporate income (profits) in this time of national crisis, until the deficit is reduced to 3% of GDP.
- Increase other taxes as set out in Appendix I.

D: Cuts And Taxation

Congress recognises that there cannot be a *major* stimulus introduced successfully by a small open economy, particularly in the absence of stimuli in trading partner countries. In the austerity/stimulus debate, the correct policy for Ireland is not at the extreme of austerity. This is where we are today. It is clearly not working. The correct macro policy today is to move quickly from the extreme of austerity. This failing policy has been pursued unsuccessfully for three years in Ireland. The pro-cyclical, cost-cutting policies are tax-revenue reducing, growth-reducing, employment-reducing, confidence-reducing, while they increase poverty.

There are calls for even harsher cuts in this Budget, what is euphemistically called 'front-loading', but should be called 'blanket bombing' of the Irish economy. This savage approach - always advocated by those who will suffer least - is likely to ensure that the much sought after 'green shoots' will be few and far between. Furthermore, the proponents of austerity, most of whom called it wrong during the boom, argue that any investment will 'leak out' into imports. Yet effective investment in infrastructure and in skills retention and enhancement can and will generate excellent returns.

The intellectual justification for austerity comes largely from a recent Harvard University paper by Alesina and Ardagna.[18] They argued that austerity can even boost growth in the short term, as savers feel more certain once a programme is put in place and so go out and spend. And they claim austerity works even in the short run.

However this paper has been challenged by, of all people, the International Monetary Fund (IMF). In its *Outlook* of October 2010[19], the IMF criticised the methodology used by Alesina and Ardagna as "flawed." The IMF study found that austerity of 1% of GDP generally leads to on average fall of 0.5% in GDP after two years and to a rise in unemployment of 0.3%.

While the IMF paper argued that spending cuts do less damage than tax rises (a point which many economists dispute)[20], this was because cuts are associated with larger falls in interest rates. However, as interest rates are low and unlikely to fall further, this impact is negated. Further a rise in net exports due to depreciation helps too – not an option for Ireland.

18 Large Changes in Fiscal Policy: Taxes Versus Spending", by Alberto Alesina and Silvia Ardagna. NBER Working Paper No. 15438, revised January 2010

19 "Will It Hurt? Macroeconomic Effects of Fiscal Consolidation". Chapter 3 of the IMF's October 2010 "World Economic Outlook"

20 the oft cited assertion by conservatives that spending cuts do less damage than tax rises is of course just an opinion. It depends on where the cuts are made and where taxes are levied. Further this is recognised in the paper, where tax rises can be inflationary eg VAT and so Central Banks act, dampening demand and thus the recovery. But in Ireland's case, there is not an independent central bank governing monetary policy, inflation is currently non-existent and the tax rises proposed by us would have no inflationary impact.

Furthermore, as the deficit in rich countries averaged 9% in 2009 and the average debt to GDP will be 100% by end 2010, most are attempting to cut their deficits in tandem, thus the impact of a fiscal contraction is amplified. Therefore a cut of 1% of GDP actually leads to a reduction of 1%, not 0.5% as had been thought by the proponents of austerity.

The Government said in its Stability report, in Budget 2010:

"The path that has been set out to bring Ireland out of excessive deficit has been adhered to in terms of the identified correction for 2010, i.e. adjustments amounting to €4 billion or 2½% of GDP have been delivered in Budget 2010. The scale of future adjustments will not now be as large as previously thought. For 2011, it is estimated that the necessary adjustments will be of the order of €3 billion, with €1 billion already identified and incorporated into the capital expenditure forecasts taking account of revised investment priorities reflecting the changed economic environment. The remaining €2 billion will be achieved through a series of further expenditure and taxation measures as signaled by the Minister for Finance in his Budget day speech."

At the end of the day, there was a carbon tax and some progressive changes in CGT and inheritance taxes but with cuts in excise duty, the net effect was that, overall, no additional tax revenue was raised. Thus all of the 'adjustment' in 2010 was imposed by cutting spending. The employers' body IBEC is thus incorrect when it asserted, that: "To date the balance of adjustment in the public finances has been excessively on the taxation side."[21]

Now there are leaks that the 'adjustment' in 2011 must be over €3 billion, with the former Chairman of BP and current chair of Goldman Sachs International (the bank which helped Greece fiddle the books), Peter Sutherland, calling for €5 billion cuts in 2011[22]. Mr. Sutherland is also a former chairman of AIB.

Congress recognised the huge gap between Government revenue and taxation of around €18.8 billion projected in the Budget for 2010. The adjustment must not be made only by major reductions in public spending. Taxation has a major role in bridging the gap and in doing so in a fair way. Congress supplied a list of major taxes that could be raised in 2010 - with minimum deflationary impact. This was largely ignored in favour of cuts in 2010. All of the adjustment was in cuts, none was in taxation. While it appeared to bring the books closer to balance, the overall impact on the real economy has been to depress activity substantially.

It would be totally unacceptable if the adjustment in 2011 was not to include substantial revenue from judiciously applied progressive taxes.

The Governor of the Central Bank, Patrick Honahan, called for the 'adjustment' to be increased because the cost of borrowing has risen and markets are unhappy with the Irish government's response. But the cuts are deflating the economy and making it worse.

21 IBEC, Pre-Budget Submission October 2010, p1.

22 Irish Times 8th October 2010.

He is in danger of falling into the trap of what economist Joe Stiglitz called "appearances" – where it appears to look good to cut to apparently meet a deficit target. But in the real, dynamic economy, such action can deliver the opposite results. That is what is happening. Paul Krugman in a one liner response to Prof Honahan said "Don't cry for me Argentina." He referred to a BBC story which listed how its 2001 austerity programme led to resignations and a general economic collapse, ending with "President de la Rua reportedly charged with treason for unlawfully renegotiating the country's external debt."[23]

A great deal of Irish taxpayers money is going to foreign bondholders who invested in Anglo Irish Bank and the other banks. They should have lost all of their investment, as all the banks collapsed. However, the Government, on our unwilling behalf, decided to rescue them with a blanket guarantee.

E: What Should Be Done On The Adjustment?

The Government and most Irish commentators must end their self-delusion on the crisis. They are fooling themselves if they think the artificial 3% target can achieved over four years if we inflict hard pain on ourselves (or rather on others); that austerity works and leads to growth; that exports alone will lead us out of recession; and most importantly, that growth figures projected for Ireland are not from the Wizard of Oz.

The EU Commission says that Ireland cannot extend the period of adjustment beyond 2014. Congress reiterates the view that Ireland simply cannot meet that artificial target. It will not work. Even the most brutal slash and burn programme, as advocated by more extreme elements on the right, will not work. It is not a simple arithmetical adjustment, but represents real hardship for many people.

The fact that the 'adjustment' figure is moving rapidly upwards from €3 billion to €3.2 billion, to €3.5 billion, to €4 billion and now to €5 billion plus shows the level of delusion and confusion gripping the body politic!

Congress disagrees on:

a) level of cuts;

b) on the level of taxation and

c) cutting capital expenditure, when so much remains to be done and the economic and social returns are good.

Congress also disagrees on the original target of a €3 billion adjustment. Markets will not be appeased by further deflationary action. The fall (again) in national income of both GDP and GNP in 2010 (Q2) shows how the deflationary policy is failing. Citizens are unimpressed and it will be they who bear the brunt of the cuts. Market are also unimpressed.

23 http://news.bbc.co.uk/2/hi/business/1721103.stm

The solution has three components

First, we must recognise the immense difficulty – near impossibility - of reducing the deficit to 3% of GDP by 2014. Thus Ireland should realistically extend the period of recovery further, but to emphasise that we are on the difficult road to deficit reduction. Congress had said the initial target of 2013 was totally unrealistic. It is now clear that the target of 2014 set by the EU is too short. Thus the proposed Four Year Plan cannot work. Further, with the massive cost of the banks' bailout, this target, in reality, will take much more time to achieve.

Congress believes the adjustment period should be extended to 2017.

It will be argued the any delay will spook international bond markets. But these people need to see a feasible plan. They would prefer one which will work, rather than an aspirational target which fails, as it deflates economic activity and thus shifts the target backwards.Empirical studies on sovereign risk premia across a number of countries suggest that it is not the value of the total debt but a country's capacity to service its debt that is the strongest influence on the cost of borrowing to the Irish State[24]. Meeting that debt servicing obligation without the spill over benefits from a growing economy will ultimately prove an intolerable burden.

Cutting the general government deficit in the absence of promoting economic growth is a self- defeating policy. Already we have taken some €14.5 billion out of the Irish economy over the last three budgets and we are still facing into a similar general government deficit as a share of GDP in 2010 as we had in 2009, excluding the bank recapitalisations. The fiscal consolidation plan in its current form is not a plan but a series of targets, which will not be reached unless a serious and credible strategy for growth is put in place.

Hans Blommestein, head of bond markets and public debt management at the OECD (who should know a bit about public debt), warned that "there was a danger that some governments might go too far with austerity measures as they sought to reassure investors that they were talking their deficit problems. That in turn could jeopardise their economic recovery."[25]

Blommestein, cited peripheral countries, including Ireland, where "the markets are creating a situation where countries could be forced to retrench too far and introduce austere fiscal policies that are not good for their economies as its risks stifling growth."

The EU's 3% target may have been a reasonable target in normal times. These are not normal times, especially for Ireland.

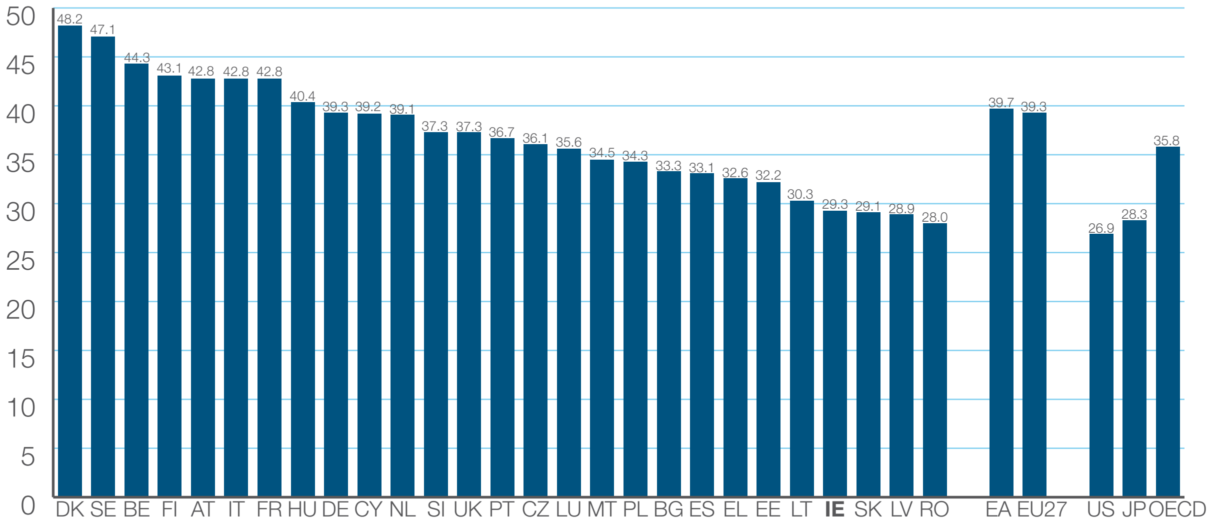
The theoretical budget deficit is 32% of GDP when the bank bailouts are added in – more that ten times the EU Growth and Stability target. We should not delude ourselves that we can reduce the real deficit rapidly.

24 Haugh D, P Ollivaud and D Turner (2009), "What drives sovereign risk premiums…" (OECD).

25 Financial Times, front page, "Eurozone investors accused of overreacting to sovereign risk." 11 October 2010.

26 Is it "realistic" to talk of cuts of such staggering magnitude when every year since the 1930s public spending has increased. It starkly reveals the gross mismanagement of the economy by the pursuit of liberal economic policies.

Graph 2.1: Overall tax-to-GDP ratio (incl. SSC) in the EU, US and Japan - 2008, in%



Note: Data for Japan and the OCED refer to 2007. Figures for US are provisional.

Source: Commission services for the EU countries, OECD (2009) for the US and Japan

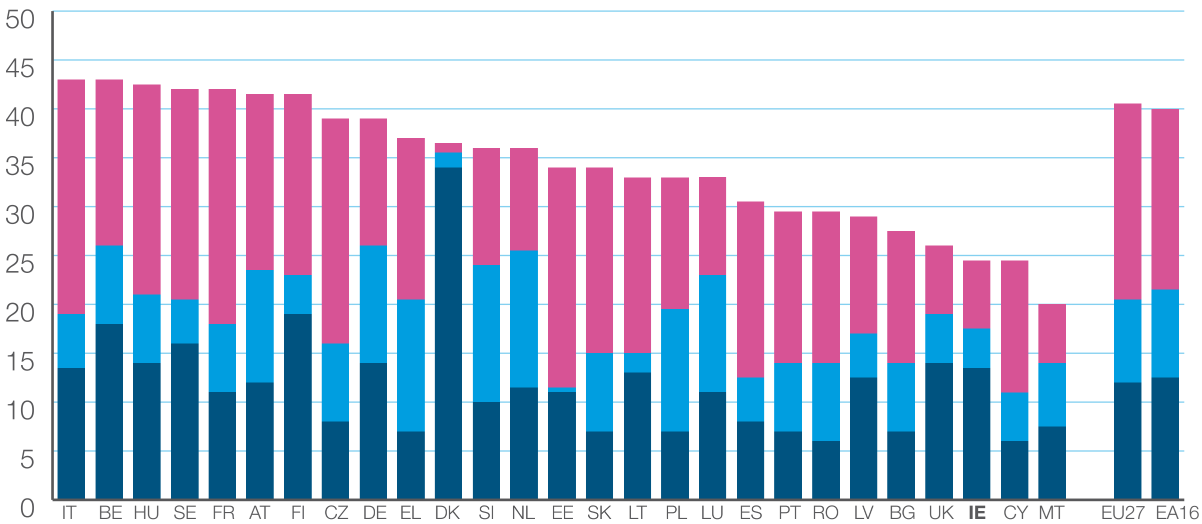
Secondly, any cuts in public spending, must be targeted and restricted to realistic levels[26] of between €0.8 and €1.2 billion. As stated above, we have had three years of Austerity and pay cuts. We have had cuts totaling €3 billion in 2010 on top of deflationary cuts in 2009 and in 2008. Any cuts must be aimed clearly at those with the broadest shoulders. We would make judicious cuts, such as considering the phasing out the €100 million to private schools over time, ensuring education grants are based on *both* wealth and income (to reduce the bias against PAYE workers and towards the self-employed and farmers), cutting all subsidies to private healthcare, to high earners' pensions and ending all property tax breaks.

Third, the 'adjustment' of the tax and cuts must include carefully considered tax increases of between €0.8 and €1.2 billion[27]. These taxes can be taken from the list in the menu Congress published last year as a supplement to our budget submission (Appendix I).

It is a principle of taxation that income from all sources should be taxed in the same way. The Government agreed to this in a national agreement some years ago. It has gone somewhat towards executing this major reform of taxation by increasing inheritance taxes and CGT in recent budgets, so that their rates are closer to the effective rate of income tax which is around 30%. It can be seen from the graph above that Ireland was a low tax economy in 2008. This is changing rapidly, but there is clearly room for increases, but thoughtful new taxes represent an opportunity to make our system more equitable in the crisis.

27 In addition to any increase in tax, with fiscal drag (i.e. an additional €1.7 billion was listed for 2011 with no changes in Budget 2010, table 1b).

Graph 2.13: Decomposition of the implicit tax rate on labour, 2008



Note: The ITR on labour is calculated as the ratio of taxes and SSC on employed labour income to total compensation of employee.
Source: Commission services

The above graph shows taxes on workers wages in many countries, broken down by personal income tax, employers and employees contributions.

Congress also proposes that there be no cut in public investment, i.e. in capital expenditure, at all, next year. The €1 billion that is planned to be cut should not occur. Instead, €2 billion should be taken in cash and drawn down as projects ratchet up, from the National Pension Reserve Fund's €24.1 billion which is our 'rainy day' fund (largely invested in equities and bonds of other countries). It could be invested through the State Holding Company to meet EU rules. Alternatively and/or simultaneously, the establishment of a state bank which would get credit flowing to SMEs and new start ups as well as investing commercially in infrastructural projects, should be considered.

This investment may require time to ratchet up, but we suggest a further €2 billion would be invested from the Fund in 2012, which gives certainty to addressing Ireland's infrastructural deficit and assists in building a large jobs-centered investment programme over time. Then a further €2 billion would follow for projects in 2013. Thus a total of €6 billion would be invested in Ireland's future, rather than in bank subsidies or foreign equities. (The €30m it is investing in Venture Capital firms (October 7, 2010) is welcome but the sum is inadequate in this crisis).

Indeed subject to the availability of suitable projects, a greater amount than €2bn could be expended in years one and two thus frontloading investment to partially offset the effect of cuts elsewhere.

The EU criteria for meeting the terms of the Growth & Stability Pact are restrictive and can be perverse when it comes to sovereign wealth funds such as the NPRF in the attainment of the debt/GDP ratio criterion because it considers gross, rather than net national debt. It therefore totally excludes the Funds' substantial €24.1 billion value in assessing Ireland. Nevertheless, money from the Fund can be invested provided it meets three criteria. The first way is by showing that the investment is 'commercial'[28] and this is strengthened when there is third party involvement in projects. The Fund, plus all other state monies (including grants), must amount to under 50% of the project. The second factor is that the Government, while having a proportionate influence in projects, must not have controlling direction of them. This in turn can be strengthened if there is a separate board, an existing state company to make it more an arms length relationship. Thus, the SHC would be useful on meeting this point in undertaking such investment. The third is that the private sector must take the full risk on its investment. In other words, private investors cannot be bailed out by the taxpayer. This means that the EU insists on reversion to the old rules of capitalism, which were abandoned by the Irish Government during this crisis. Judicious investment of the Fund's money can meet these criteria, while other 'less commercial' investments can be made from existing NDP exchequer funds.

Congress envisages many potential uses for funds from the National Pensions Reserve Fund (NPRF) in supporting the Government's capital programme. The use of the fund will allow for projects to be progressed which otherwise might fall foul of the reduction in capital expenditure. One project which seems ideally suited to such an approach would be the modernisation of the water supply infrastructure. Congress would support the use of funds from the NPRF to upgrade the water supply infrastructure by the creation of a National Water Company. This new state owned company would have the current water supply infrastructure vested in it and would be given capital from the NRPF to invest in an upgrade of the infrastructure and to develop a means by which the new company could be remunerated on a commercial basis for supplying water.

Risk Sharing for Enterprise & Innovation

In addition to the above, NPRF monies could be employed to incentivise the development of new enterprises (or the expansion of existing ones) through risk-sharing. The funds channeled through the State Holding Company, or state investment bank, could take up to 49% of the equity, thus greatly reducing entrepreneurial risk. The project company could be structured to enable the majority shareholder to buy out the state investment at a commercial price within a set time frame.

In short, utilising the resources of the NPRF is easily achievable within the criteria of EU rules on excessive deficit procedure. However, the Government must want to do so. It or its agencies could present obstacles if it so wishes, but they can quickly be removed. The NPRF is our members' fund and it is being raided without any proper strategy to bail out the failed private banks. The use of its assets to bail out the failed banks is, in the

28 Yet this "commercial" criterion is met if the Fund is investing in shares such as those of AIB and BOI, as the Fund is doing, which a prudent private investor would eschew!

view of Congress, through to the purchase their shares, a cynical interpretation of what is "commercial" as their shares are almost worthless. It can best be seen as a job maintenance fund of the last resort.

As the largest civil society group in Ireland and the recognised representative body of employees in Ireland, the Irish Congress of Trade Unions has the greatest degree of legitimacy to speak about this fund, after the elected Government. But the Government must listen to Congress, as our members have contributed more to the Fund than any other representative body – by a very long way. This fund is best used to boost employment and maintain jobs in this unparalleled crisis rather than invested in the shares of foreign multinationals. This additional €2 billion must be put into jobs, in job retention, in upskilling, training and in physical infrastructure and thus will boost the real economy.

Why borrow money when we have it in our own National Pension Reserve Fund? This is the rainy day fund and it is pouring.

F: Fairness: The Corporate Contribution

Ms Catherine Day, an Irish born senior EU official, recently drew attention to the dilemma posed for Ireland by its policy of low corporation tax.[29] She was quoted in the *Irish Times* of 7th October, 2010 as saying: "So if Ireland decides it wants to keep a low corporation tax, it has to deal with the deficit in some other way and we'll be saying, 'ok that's your choice. If you don't deal with it that way, how are you going to do it'".[30]

This observation reflects a long held European antipathy to what is the cornerstone of Irish industrial policy. It also reflects the extraordinary vulnerability of that policy which locks us into the semi-periphery of the world production system. Recognising the reality of our dependence on FDI, particularly at this time when investment in the economy is so crucial to recovery, is one pole of a dilemma and distributional unfairness is the other. This is because unless it can be shown that the sacrifices of the citizens are matched in some way by the contribution of corporate Ireland, then any distributional settlement built around fiscal adjustment is unlikely to endure. Based on previous statements the Government will be anxious to avoid any signs which imply policy change in this area. One way of avoiding that and yet providing for the corporate sector to make a fair contribution to fiscal recovery would be to leave the corporation tax structure intact but to extend the levies introduced in earlier budgets to corporate income on a temporary basis, specifically until the target of reducing borrowing below 3 per cent of GDP is achieved.

Another way the multinational companies earning profits from their Irish based operations could further help the country would be to defer the repatriation of a portion of their profits for a period and to set up an investment fund, operated by them on a strictly commercial

29 Irish Times, 7th October 2010.

30 **Rates of Corporation Tax in Other Countries**

Ireland	12.50	Singapore	17.00	Russia	20.00	Switzerland	*21.00
China	25.00	Netherlands	25.50	UK	28.00	Luxembourg	28.59
Germany	*30.20	France	33.33	Belgium	33.99	India	33.99
Brazil	34.00	USA	*39.10	Japan	41.00		

Source: IDA Ireland.

basis, to invest in new or existing Irish based enterprises and infrastructure e.g. broadband provision or in the State Holding Company. This could be done by a number of such companies coming together to set up this fund. Such a fund could amount to billions of euro in size and could make a significant contribution towards economic renewal and development. This fund would not be under government control, would not require any government support or guarantee and would therefore not add to national debt, and would be designed to not alone recover the original sums invested but to also make a modest profit.[31]

It is noteworthy that several of the eight largest technology companies, which have about €200 billion in what is called "trapped cash"[32]- Microsoft, Google and Apple - have major operations in Ireland. Their advisors, like JP Morgan, are seeking a 'tax amnesty' from the US Government to allow them repatriate the cash and pay less than the tax of 25-35% which they should pay. However, it is highly unlikely that the Obama administration will allow this, as skeptics feel it will probably be paid to shareholders rather than to create jobs in the US.

G: A Fiscal Council

Congress views with some reservations the idea of an office to oversee budgets. Whatever our politicians' faults they are elected by the people and are responsible to them. An office of technocratic economists, especially those who believe that economics is a 'science' would be immensely dangerous for society. It would also be essentially undemocratic as they would be unaccountable, without strong rules on its governance.

An 'independent' Fiscal Council would be fine provided its terms of reference included assessing fiscal policy together with employment and social inclusion as major complementary targets to achieving fiscal balances. It should be as independent as possible, but advisory. To give such a council powers to oversee budgets would be dangerous, especially if it were to bring us back to the 1930s economics of balanced budgets.

31 In 2009, the figure for profits in the BOP a/cs was €32.6 billion and 15.4 was in dividends or distributed branch profits.

32 FT 19th October, 2010.

3 Economic Problem Three: The Banking Crisis:

Negotiate With The Bank Bondholders

It is disappointing that the Minster for Finance, representing Irish taxpayers says that "he is still opposed to senior debtholders having to accept any losses as part of the €50 billion bail-out."[33] The only implication is that the innocent taxpayer will pick up *all* of the senior debt bill run up by the Golden Circle of the Irish bank boards - the apex of the *private* sector.

The Government must be run in the interests of its people, not the markets. It must force down the value of all bondholders' holdings - which they risked in what were *recklessly-run, private* Irish banks - to 10% of their nominal value. This could see Irish taxpayers being saved up to €24 billion[34].

Congress demands that all bondholders share the cost of the total collapse of Irish private sector banking. All would have received nothing without the taxpayer rescue. All should be grateful with 10 or 15% of their investment in what were *private* companies. Congress does not accept that there is not a clear distinction between sovereign debt of a government and debt run up by reckless private bankers.

In the words of one commentator, Wolfgang Munchau,[35] who cannot understand why all the bondholders are not sharing in the burden: "My concern is that Dublin is overburdening the taxpayer and might worsen the downward spiral" …. and he wonders if Brian Lenihan's "monumentally unfair taxpayer bailout will "bring down Ireland."'

Congress demands that all bondholders, including senior debt holders, not just taxpayers, share the pain. All stakeholders in banks must take a haircut before the taxpayer. It is disgraceful that the Irish Government has pursued the policy of not imposing a share in the risk with all the bondholders for two long, uncertain years. Why the long delay in even tackling the junk bondholders. Why are the other bondholders not being hit now?

The way forward is to withdraw the guarantee from all (not just new lenders) lenders in Anglo Irish Bank, and Irish Nationwide (the really bad banks) and so drive down the price of the bonds. But Government should not then turn the bondholders into equity but buy them out when the bonds have collapsed, to say 10% of nominal value. Bondholders in Eurotunnel took huge write downs and it is common in business collapses.

The inability to deal effectively with the bondholders and the banks' bosses appears to be driven by an awe of free-market economics

33 FT, 12 October 2010.

34 The bonds in Anglo Irish Bank were at €18.8 billion on 31 August 2010; INBS would be in the order of €4 billion; and a competent Government negotiator would also deal with the bondholders in nationalised AIB on behalf of the taxpayer. A 90% haircut on the three state bailed-out banks would thus give a saving to Sean and Mary Citizen of the order of €20 billion to €24 billion. The question has to be asked why this has not already been done, already? Fear of the Bondmarkets? If a competent government shaved even part of this sum off in negotiations with the bondholders - who know that they took out bonds in failed banks and are thus lucky to get anything – then surely Ireland's credit rating would improve and rapidly?

35 Financial Times, 4 October 2010

in the Irish administration. Yet its policy on the banks to date has been the antithesis of free market, liberal economics. It has turned risk and reward on its head, by bailing out the most reckless and risky lending ever undertaken by banks.

Negotiating with the bondholders of Anglo Irish Bank and achieving a write down of its debt per its 2009 balance sheet would reduce these liabilities by a massive €15.6 billion. This is far greater than the €3 or €4 billion 'adjustment' we are all talking about, but Anglo must not be allowed to redeem bonds as it has done to date. Negotiation down to 10% is a good deal for the bondholders, compared to a liquidation.

A 90% haircut on *all* the bondholders of the three state bailed-out banks would deliver savings to our citizens of the order of €20-€24 billion.

In time, this *reduces* Ireland's risk premium and lowers borrowing costs.

Why this has not already been done, already? Why have we wasted two years, adding to uncertainty?

Contrary to the self-serving propaganda of bondholders, bankers and their commentators, there is a clear distinction between debt run up by a sovereign government and that run up by a private bank, Anglo. They allege that there will be reputational damage to Ireland.[36] On the contrary, there would be an enhancement of Ireland's reputation as we will have reduced our debt overnight to a fraction of the current cost of the banks' bailout! It is common to negotiate with bondholders. Depositors can be protected separately. The main depositors are the Central Bank and ECB.

It is inconceivable that every cent of our members taxes - and all other taxpayers - *for the next four and a half years* will go wholesale to the bondholders, junk or senior, of Anglo Irish Bank. But this is what is currently being planned.

The rescue of what were *private* banks by the taxpayer means that the nature of risk/reward in capitalism has changed radically in Ireland. Irish company law and corporate governance must be radically altered to reflect this. It is deeply regrettable that this important issue was not even properly discussed until recently.

36 That this gained serious currency shows how weak some financial commentary has been and the power and reach of the bondholders in Ireland. It also shows how weak government policy for two long years after the bailout has been in this area. Only now is it moving on the junk bondholders and it is still hesitating on negotiating with the others.

4 Taxation – Addressing Social, Economic & Fiscal Crises

A) Income Tax And Levies

Our regime of low corporate tax rates, combined with a refusal to treat capital gains as income, a continued refusal to treat much property or wealth as tax sources have resulted in an over-dependence on income tax, (36% of tax income), and consumption taxes, (VAT is 32% of tax income while Excise duties make up 14% of tax income). Yet tax based incentives have greatly narrowed the income tax base.

Government announcements regarding possible changes in the 2011 Budget appear to rule out, yet again, any attempt to encompass charges on domestic property assets. This has led, in turn, to suggestions that 'broadening the base' amounts to merely reducing the entry point for liability for income tax.

In principle, all income should be taxable. There has to be a fundamental overhaul of our entire tax system, which includes implementing this principle. The extraordinary and unnecessary profligacy of the Government between 1998 and 2002 undermined the tax base. It culminated in the then Minister announcing in 2001 his intention to reduce personal taxation that year by £1,231m which, he boasted, was nearly three times what was agreed under the Programme for Prosperity and Fairness (PPF).

It is essential that PRSI continues to be a social insurance contribution with benefits flowing as a right to contributors who satisfy the contributions requirements. A merger of PRSI, Health Contribution and Income Levies as proposed by Government could create confusion and undermine the social insurance system.

It is likely that any merger of the Health Contribution and Income Levies could entail a reduction in the exemption limit to that applicable to the Income Levy or similar. This would mean a disproportionate increase in payment for those currently earning between the different exemption limits. This would have to be taken fully into account in any proposal to reduce the effective income tax thresholds. Likewise, any attempt to reduce the PAYE tax credit as well as the personal tax credits would amount to a double reduction in workers' pay. It should be noted that workers paid below the effective income tax threshold may not pay income tax but they do pay a range of other taxes (e.g. VAT, excise duties, carbon taxes), as well as a range of local and other changes.

Income Tax Measures Required

1. The existing tax system is overloaded with exemptions. It is not argued here that each and every such exemption is without merit, in itself, but the combined impact of 'incentives' through the use of the tax system narrows the tax base. In the 2010 Finance Act, at a time when the public finances were/are in crisis, it is notable that many new and additional exemptions were granted. As the vast bulk of exemptions do not benefit those on PAYE, the effect is to dump a disproportionate share of the income tax burden on those on PAYE--above 80% of income tax--and to create a requirement for high levels of consumption taxes that are regressive in impacting disproportionately on those with low

incomes. A major overhaul of exemptions designed to rebalance the tax system and to remove these distorting impacts is required.

2. A rise in the general rate of DIRT to 30% would raise an additional €75m. High rates of consumption taxes and low rates of savings taxes amount, in effect, to the transfer of the taxation burden onto those on low incomes. VAT accounts for 32% of total tax receipts and Excise duties make up 14%. By contrast DIRT raised 2% of total tax receipts in 2008.
3. Our income tax system allows some self-employed persons to pay far less income tax than they should. Audits by Revenue not only have the capacity to raise €300m plus in a given year, they also give confidence to compliant tax payers that it is a fair system. We totally reject any reduction in the PAYE allowance which tacitly redresses the imbalance somewhat between employees and those on Schedule D.
4. The minimum tax for high earners (using avoidance schemes) should be increased to 35% and the threshold should be reduced to €100,000. Further, there should be a limit on earnings for pension purposes of €100,000. The combined value of such changes would be €103 - €107 m for the Exchequer.
5. If it is intended to merge the income and health levies into the tax system, it is vital that this is done in such a way as to ensure equity.
6. We must reduce our current 183 days test for tax residency purposes t o, at least, the UK equivalent of 90 days, but probably substantially more. Furthermore, as the Commission on Taxation has recommended, where a tax exile's main centre of vital interest, is in Ireland or if they are assessed on a permanent home test, then they should be obliged to pay tax here. It is difficult to estimate the value to Revenue, (likely to be €50m+), but it makes it clear that taxes also apply to the rich.
7. The taxation of Child Benefit is a very difficult issue. Last year Congress said that there is a strong case in equity for such a tax with this costly state benefit also going to the highest earners. Child Benefit is used for a range of costs in relation to children - food, clothing, school books, uniforms and childcare. We concluded that in the absence of a properly supported and resourced childcare system in Ireland - local crèches, early education, etc.- added to the fact that the payment is made directly to women, Congress could not support the taxation of Child Benefit.
8. Last year, we said that while there is a strong case for a top rate of tax of around 49% for those on high incomes, with the many levies it is best to wait till the crisis is over to reform the income tax system.
9. Occupational pension schemes are under great threat due to losses in the investment market in recent years with most defined benefit schemes being in significant deficit. The minimum funding standard must be eased. There are also some changes that could be made to reduce the benefits of pension schemes as tax avoidance measures. For example, the rate of accumulation of the overall pension fund (€5m plus) could be

restricted based on age[37], and/or by the maximum tax free amount that an employer could include in any year as a contribution towards any individual scheme members benefit, whether on termination or otherwise. Likewise, a cash cap could be placed on the maximum lump sum payable, while leaving the general limits of 1.5 salary or 25% of the fund value in place. The annual minimum distribution (3% at present) for Approved Retirement Funds could be increased for larger funds e.g. 3% on the first €250,000, 5% on the next €250,000 etc. The Commission on Taxation recommended a hybrid tax rate of 33% for pension contributions. There is some concern that if implemented this might have implications for defined benefit schemes. Accordingly, the Government should amend existing legislation which restricts trustees from investing other than at AAA rated bonds for purposes of security in the event of a winding up situation to meet the funding standards, to provide for the utilisation of an average figure, which would be based on a basket of European bonds. Then, on that basis, the Commission on Taxation's recommendation of a rate of 33% should be implemented.

The Government's stated intention is to lower the income tax entry point in Budget 2011. As the income distribution is pyramid shaped, lowering the threshold yields substantial revenue from all, including low and high comes. Yet many 'tax units' are part timers and earn very, very little at all. Congress is opposed to this move. It's not just unfair, but bad economics. It will deflate the economy further.

A 5% reduction in allowances and credits would raise a substantial but deflationary (as it hits all those on low incomes) €0.6 billion in a full year, tax revenue that a 2% levy on corporate incomes would raise without any deflationary impact.

B) A Financial Transaction Tax

A Financial Transaction Tax (FTT) makes good economic sense and it is also a matter of justice and equity. G20 leaders agreed at their September 2009 Summit in Pittsburgh that the financial sector should "make a fair and substantial contribution" to pay for the extraordinary cost to taxpayers of bank bailouts.

An FTT of as little as 0.05% could raise between €160 billion and €700 billion (or more than 3 times the current levels of international aid) depending on the way it is structured. Congress believes that putting an FTT at the centre of an overall package of measures which would also tackle corporate tax evasion and ensure effective regulation of banks and finance would help in achieving the Millennium Development Goals.

Congress and Global Unions support the FTT because it will generate important revenues needed to fill the fiscal gap created by the financial crisis and ensuing global recession, along with development assistance and climate-change finance commitments. The European Parliament and the intergovernmental Leading Group on Innovative Financing for Development have issued reports that recognize the positive role an FTT could play.

37 This could be similar to the age related maximum annual contribution limits but could be done in a manner that allowed for the "evening out" or "averaging" of contributions by those with "volatile" incomes that differ greatly from year to year.

Although the IMF's main report for the G20 on financial sector taxation expressed preference for other options, it concluded that "sufficient basis exists for practical implementation of at least some form of FTT".

A number of civil society organizations, governments and business leaders have supported the idea of an FTT. Along with its revenue-generating capacity, an FTT could contribute to reducing ‘short-termism’, asset-price bubbles and recurrent financial crises, and instead encourage productive job-creating investments in the real economy.

C) Other Tax Measures

1. Extend temporary income levies to corporate income.
2. It is noted that a ‘site value tax’ forms part of the Programme for Government. Congress supported this last year and takes the view that there is no long term solution in relying on transaction taxes for sustainable revenue when there is an urgent need to widen the taxation base.
3. There is no logical explanation for treating beneficiaries of income derived from investment more favourably than those who derive their income from labour. The beneficiaries of capital gains are better placed to meet tax liabilities than those on minimum wage. In the U.S., capital gains are taxed as income with lower discounted rates on long-term capital gains. We should do likewise.
4. The current threshold for inheritance from parents of €414, 799 is far too high, especially in this crisis and should be reduced. Specific protections might be required in cases of people living in inherited property, where these beneficiaries are on low incomes.
5. In our submission on the 2010 Budget, Congress proposed a temporary wealth tax on those with wealth above €2 million, with wealth being defined as current value of all assets, including the excess of €1m in value of private houses. Congress suggested that this could raise over €30 million annually. If, as Government has hinted, the entry point for income tax liability is to be lowered, it needs to be accompanied by a clear intention of immediately obliging those who can afford to do so, to pay more.
6. While the introduction of higher taxes on oil and gas profits in 2007 was welcome, a tax on production would be more transparent and efficient. Congress believes that the 12.5% royalty tax - a tax on production, as well as on profits - should be reintroduced. It gives a definite return to the owners of the resources, the Irish people. Further, if there is a worldwide oil and gas shortage, and Ireland has gas and oil resources, it could still be pumped out of Ireland to other markets and we would have no say in the matter. EU law does not prevent Ireland ensuring any oil or gas found here is offered for sale first in Ireland, rather than on the international market. We should have the right of first refusal on our own gas and oil in such circumstances.
7. Finally, in the long history of Irish tax evasion it is clear that there is a great deal of hidden money out there. Ireland’s wealthy have a long record of tax avoidance, aided and abetted by the Government over many years. There is still money out there to be

taxed. Those who sold land before the crash made money and most still have it. It is one reason why the saving ratio rose by 50% in recent times.

D) Tax Breaks

Congress has the strongest record of opposition of any organisation to many to the tax breaks especially around property. These many uncosted tax breaks led to the near bankruptcy of this economy, distorted the market, provided rich people with many tax avoidance loopholes, cost the state a fortune and had many unintended consequences. For example, the Irish hotel industry is in deep trouble due to gross overcapacity, in turn because of the mess of tax breaks granted to new investors. Many decent, hard working hoteliers faced unfair, tax-subsidised competition.

Congress was relentless in our opposition to tax breaks, even appealing to the EU Commission in December 2006 against the extension of the BES scheme. We appealed in order to highlight the extent and costs of these breaks and the lack of prior Cost/Benefit Analyses before all tax breaks were introduced.

The publication by the Department of Finance in July 2010 of a new Report on Tax Expenditures is most welcome. It is published under Section 1 of the Finance Act 2010, which requires that a cost/benefit analysis of tax breaks is laid before the house, within three months. This has been long sought by Congress. We had success with the publication of the Indecon and Goodbody Reports on property breaks back in 2006, but these reports, while recommending abolition of nearly all property tax breaks, left the health sector out of the terminations. Further the Minister left a long termination period of seven years for existing tax avoiders.

What was a real surprise was that the Report on Tax Expenditures listed 18 tax breaks introduced or amended in Budget 2010 - in the middle of a deep fiscal crisis! At over 100 pages this long document refers only to the new tax breaks in Budget 2010. For all the promises of the need to widen the tax base by abolishing tax breaks, this document is revealing.

The One51 patent tax dodge only came out into the public view when there was an internal row in the company. Some €2 million (of €4.9m) was paid out to nine top executive share tax-free payouts in 2008 and 2009. Congress has always been skeptical of such tax breaks, which generally benefit ‘senior executives’ and the better off and have dubious economic benefits. Many tax breaks around patents and other areas must be curtailed. They must be cut, not just because they are being abused, but also because they distort the market and make it unfair for hard working firms in related but uncovered areas to survive.

Congress was highly critical of government policies in the over recent years. As we stated last year and in our detailed submission to the Banking Enquiry of 2010, if we were at fault, it is that we were too mild in our criticism of the liberal tax cutting policies and of the pursuit of growth for growth’s sake.

E) End Evasion & Avoidance

The forthcoming tough Budget has to be accompanied by a strong drive against evasion and avoidance with large investigations. The crackdown must be real and sustained… not a PR exercise.

A tough regime of audits will pay off, with strong enforcement. It will be well received by hard-pressed PAYE workers who are bailing out the banks with higher taxes.

Taxes must now be seen to be collected as soon as possible.

Progressive taxation in the crisis can have a demonstration effect which will reduce the political impact of cuts.

5 The Privatisation Board: A Panic Response

Ireland has a serious shortage of enterprising leaders and of enterprises. Many of the best firms here are foreign owned and many of the leading Irish firms were failed banks or failed property tycoons. That leaves some fine competitive, Irish firms. But not enough of them. Within that small important group are the state owned firms. Why sell them off to foreign multinationals which will then ship key functions abroad?

The private banking system in Ireland has collapsed. It is being bailed out at great cost by the taxpayer. No state company ever received anything near the money being poured into the private sector by this Government. All the companies are commercially run. It is possible that the Minister meant to say that overall, it will be both sectors which will work to create jobs.

Last year we warned against a panic response to the crisis by resorting to short term solutions like privatisation. Poorly thought out terms of reference lead to poor policy. This is costly. Three of the four terms demand sell offs in one form or another. This is pernicious.

Congress opposes privatisation and to even consider it for apparent short-term financial gain would be a grave mistake, especially when asset prices are very low. The knee-jerk liberal response towards privatisation as a 'solution' to fiscal problems in this era of wholesale nationalisation is ironic. And it demonstrates a paucity of imagination and slavish adherence to a failing ideology.

The state's record on privatisation is not good. The privatisation of Eircom greatly delayed the roll out of fast universal broadband and makes a mockery of the drive for a 'Smart Economy.'[38]

The privatisation of the state banks, ACC and ICC, both of which served the nation well, was ill-timed, coming before all the private banks failed. Ireland could have done with at least one well-run bank. The privatisation of Aer Lingus did nothing for its performance, perhaps hindering it. It certainly did not serve the interests of an island economy.

A) The State Holding Company

The key role of state enterprises in our indigenous contribution to our recovery must include the State Holding Company as a new commercially focused governance structure, out of the hands of civil servants. Congress suggested in our last two pre-Budget submissions that the shareholding in the banks be invested in a State Holding Company, similar to UK Financial Investments (UK FI). Congress has argued for the establishment of a State Holding Company (SHC) since 2005.[39] The body would be a passive investor in the commercial state companies providing an opportunity for Pension funds and others to invest in them and to provide additional capital for their expansion. The €2 billion from the NPRF would be channeled through the SHC into commercial investments to comply with EU rules.

38 See forthcoming pamphlet on The Debacle of Eircom's Privatisation from Congress, 2010.

39 A New Governance Structure for State Companies, Summer 2005, Congress.

The SHC is a good vehicle for storing the banks' shares and for re-investing the money if and when it is repaid to the state.

The Review appears to be a simple reaction to the crisis by selling off the state's most productive assets. This is not a serious review of the potential of the companies, which would see these major companies as developmental, from a long term perspective, not for some short term cash in a fire sale. Their potential for jobs, and wealth creation and strategic development has never been so vital now that many leading private sector indigenous companies have imploded.

To sell off public monopolies would be a double disaster. The ESB, BGE, DAA, An Post, RTE in many areas and Coillte have monopoly operations which must be regulated not privatised. In 1999 the FF/PD government privatised the fixed line monopoly Eircom, with disastrous consequences. As a largely state owned company Eircom was debt free, profitable and investing heavily in broadband and in its mobile arm. Privatised, it was asset stripped and is now a shadow of its former self.

Today the Irish economy is in deep crisis. We pointed out in our submission to the Banking Enquiry that 17 of the original directors of both AIB and BOI refused to resign and were still 'running' the banks and drawing their fat directors' fees in 2008. Their myopia and greed led us into this crisis. Their continuing deep influence is disturbing.

Thus new forms of enterprise are needed, including state owned, public-private partnerships, mutuals and cooperatives (as in the food sector) etc.

B) After The Crisis: One State Owned Bank

Last year, we said that one Irish bank must continue to be held in majority state ownership, when the crisis is over.

Even the most fervent free market fundamentalist can no longer say that the private sector banking is in any way superior to publicly owned banks. We had two good state development banks which were recently privatised, ACC and ICC. However, the independence of the new state bank from the political process must be guaranteed by proper structures and a representative and competent board.

While the new oversight of banking should include good regulation, majority ownership of a major credit institution is essential to keep credit flowing, just like the ICC and ACC did for many years as state developmental banks. It also allows the state to have professional insider-knowledge of banking and its current practices.

6 Reputational Reform - Better Corporate Governance

This deep crisis is due to the major failure in Corporate Governance in the Private Sector, inspired by the 'shareholder value' model of capitalism underwritten by Irish company law. It was especially so in banking, assisted by poor regulation. It is beginning to look as if we will see a return to 'business as usual' in the private sector and especially in management of the banking sector. This is deeply disturbing.

It is our view that Irish company law must be re-written. The 'free market' no longer exists and thus the rules of 'free' market economics must be re-written. Company laws must be radically reformed and there must be a shift from the narrow interests of shareholders, i.e. the 'shareholder value model' to the broader stakeholder model, as in Germany, the Nordics or even Japan.

The Father of Shareholder Value - Jack Welch - admitted that the whole basis of company law, based on shareholder value was wrong. He said that "shareholder value is the dumbest idea in the world". Welch now admits that employees, customers and products matter. Ireland's company laws must now reflect modern capitalism.

Irish company law must be reformed sooner. Congress called for this in last year's submission and nothing has been done. Debate is muted. There has to be a more inclusive corporate governance – where the wider interests of workers, consumers, suppliers, women, the communities and the environment must be considered for inclusion on company boards, under law. The farce where boards are 'elected' by shareholders, in essence, self-perpetuating cliques of elites must be addressed by Government.

Congress calls on the Government to move immediately to reform Irish company law away from the Anglo-American Shareholder value mode to a more inclusive European style stakeholder interest model. We also seek wider, more diverse representation on supervisory/ regulatory and state boards from employees, consumer interests, to many more women.

The governance of all financial services companies at board level and at regulator level must be changed by law, not by supposed 'best practice' engineered by the 'Big Four' accounting firms.

7 Tackling Inequality

It has recently become possible to compare the scale of income disparities in different societies and see how the fabric of society is affected by the level of inequality. Wilkinson and Pickett[40] demonstrated that problems more common among the least well-off are worse in societies with bigger income differences.

Congress notes the recent coming into force of 90% of the provisions in the Equality Act 2010, in the UK, which contains many excellent measures. But the section of the Equality Act relating to income inequality - the provision known as the socio-economic duty on public bodies - was missing from the list. Congress believes that the inclusion of a socio-economic ground in our own equality legislation could have both symbolic and practical impact. If we are to tackle inequality in our society in a concerted and sustained way, we will need to think strategically about what more can be done to address socio-economic disadvantage. Only then will we see real change with tangible, measurable outcomes. We urge the Government to strongly consider such a move in order to help fulfill this important ambition.

Congress has repeatedly made the case for gender equality to be a core component of any national recovery plan. If the Government continues on its current course, the economic crisis will jeopardise fragile gains in empowering women.

Urgent measures are needed to address the accumulated and persistent disadvantages of working women, because they have the majority of precarious jobs, they have lower pay and lower social security, and they have the greatest responsibility for care of children and dependent family members – they were already hit hard before the crisis and they may be among the last to benefit from any recovery. We need to create equal opportunities for women and men in education and skills training, sharing family responsibilities, remuneration of work, formal economy jobs and entrepreneurship development and in exercising their rights at work.

Congress supports the SIPTU, OPEN, Mental Health Ireland, the Irish National Organisation of the Unemployed (INOU) and Inclusion Ireland campaign to protect the conditions of people with disabilities and lone parents who work on Community Employment (CE) schemes.

‘An Bord Snip’ recommended that welfare payments to lone parents and people with disabilities who work on Community Employment Schemes should be stopped. Department of Finance officials recently stated that the withdrawal of these payments to Community Employment workers was under active consideration. There are over 20,000 Community Employment Workers including 5,045 lone parents and 5,057 people with disabilities. CE supports a wide range of community services and programmes, including: childcare, eldercare, youth work, drug rehabilitation, environmental work, and ‘meals on wheels’. If these cuts are made lone parents and those on disability payments will not be able to work on CE, which will have a huge impact on their families and also on their communities, which could lose more than 10,000 workers.

40 “THE SPIRIT LEVEL, Why More Equal Societies Almost Always Do Better” by Richard Wilkinson and Kate Pickett, Penguin 2009

'An Bord Snip Nua' also recommended that the funds flowing from the Dormant account fund no longer be ring-fenced for use by the Community and Voluntary sector for their work with disadvantaged areas and persons, but be allocated into the general Exchequer funds. At a time when severe cuts have already been imposed on the sector and when more are pending, this particular source of funding should not be cut off and Congress calls for this recommendation not to be implemented.

Congress demands that the proposed cuts are not implemented. The provisions which mean that lone parents and people with disabilities can retain a portion of their social welfare payments were put in place to respond to the specific 'welfare to work' needs of those groups. These needs have not changed and therefore there is no rationale to withdraw such supports.

We are of the view that national recovery can not be achieved at the expense of dismantling hard-won protections for the rights of the vulnerable and weakest in our society, or of those institutions that combat discrimination and promote equality and human rights.

8 Recommendations On Social Welfare

- No further cuts to social welfare rates. The cuts to date have exacerbated the level of inequality in Ireland. 16% of the population was 'at risk of poverty', i.e. below 60% of median income in 2008 and 4.2% were living in consistent poverty ('Measuring Ireland's Progress', 2009, Central Statistics Office). The Government has signed up to play a role in reducing poverty in the EU by 20 million people by 2020 under the 'Europe 2020' Strategy. This commitment must be honoured. The cuts to social welfare rates in previous budgets threaten to worsen the situation of vulnerable households and any additional reductions in Budget 2011 risk further endangering basic living standards. Welfare recipients will be particularly affected by the 5% increase in electricity prices effective from October 2010. Moreover, the price of liquid fuel increased by 26.8% in August 2010 compared to the same month in 2009, placing struggling households under further pressure.
- Reform social welfare rules which discourage employment e.g. allow people who work reduced hours more than three days in the week to be able to claim jobseekers benefit for the time they are not working.
- Tackle poverty traps, such as the loss of medical card entitlement for low-income earners which discourage people from taking up employment.
- Introduce compensation to help mitigate the problem of fuel poverty which has been exacerbated by the regressive effect of the carbon tax on low-income households.

Furthermore, broaden fuel allowance coverage to working poor households in receipt of the family income supplement.

- We reiterate Congress's opposition to the means testing of child benefit in the absence of an adequate state supported child care system.
- Congress supports the Nordic 'flexisecurity' model of robust social protection and strong active labour market policies to promote employment.

9 Overseas Development Assistance

We know that 2010 is a crucial year for tackling extreme poverty and hunger - a key foreign policy priority for Ireland - as this is the year the world's nations take stock of a decade's efforts to progress towards achievement of the Millennium Development Goals. Official Development Assistance (ODA) is essential for development, with the current economic crisis having shown that it functions as a safety net, proving a stable source of financing at a time when private flows are much diminished. ODA allows developing countries to maintain basic social services, general functioning of the state and basic economic activity and is a good investment in regional and global stability, as recognised by the European Commission.

10 Conclusion

This is a jobs crisis, a fiscal crisis and a banking crisis. They all interact with each other. The 'fiscal hawks' now want bigger cuts in public spending than the €3 billion that were originally proposed. This is on top of the savage cuts of the past three budgets. The budget adjustment must pass three tests:

- **Is it necessary?**
- **Is it equitable?**
- **Will it lead to recovery?**

After two years, it is now clear that deflationary policies are failing and we are in danger of falling into a downward spiral. So we are failing two of the tests. Such cuts may appear to help balance the books, but in the real economy, they are deflationary - they reduce jobs, growth and tax revenue.

This is a very deep economic crisis. It was brought about by very poor governance in private firms, by poor public governance, by a culture of de-regulation, by tax-cutting during a boom, and by many tax breaks for wealthy people. It led to the collapse in the Irish economy, and is spilling into society. Ireland is suffering the biggest collapse in National Income in the world, with a fall of 20% in GNP between 2008 and 2010.

Those who argue for a major, front-loaded assault on the public finances now must realise this ensures 'green shoots' will not be seen for a long time. It is imperative that economic growth is not choked off with saturation bombing of the economy, pushing us into a long, downward deflationary spiral.

This collapse must no longer bear disproportionately on the most vulnerable. If we work together in solidarity to find equitable economic solutions, Ireland can emerge stronger. Together in adversity, we can develop better businesses, more educated and skilled workers, reduce inequality, improve our public infrastructure, protect poorer citizens and solve our immense problems. We can use the crisis to build a genuinely inclusive society and a more productive economy.

As deep fiscal cutting for three hard years has failed so spectacularly, let us now adopt more moderate, inclusive policies which will actually work.

Appendix I

A Menu of Areas where taxes can and might be raised in Budget 2011

Last year Congress was given access to the Department of Finance so that we could quantify the areas where we thought the Government should raise taxes. This year the costings, based on last years, are our own estimates. We provide a menu of taxes where revenue amounting up to a substantial €2.1 billion could be chosen for Budget 2011. From this list we suggest that additional taxes of €1 billion or more be raised in 2011. Choices can be made from this list. While the Government did accept some of our suggestions in Budget 2010, but only to a very limited degree. Overall no additional taxation was raised.

All of the 2010 "adjustment" was regrettably through cuts in public services and in investment.

The Tax on High Income Earners

The minimum tax for high earners was increased last year but it should be increased further to 35% and the threshold should be reduced to €100,000, not rising to €400,000 in full. Further, there should be a limit on earnings for pension purposes of €100,000.
Revenue: The combined value of such changes would be around €100 m for the Exchequer.

A New Top Rate of Tax of 48% – after reform of income tax

Congress has long sought the return of the third, top rate of income taxation. Yet the system now is very complex and distorted. The new levies are progressive and in time should be re-assessed and merged into the tax system at an appropriate time in the future to provide for a new high rate on very high earners. Pending that reconfiguration there is a case in distributional equity for further refining the levy structure as follows:
6% @ €100k
8% @ €125k
10% @ €150k

When a review of the income tax system is completed and the mish-mash of levies and charges are rationalised, after the crisis, the old third rate of income tax should be re-introduced at 48% on those earning over €100,000 each. In the interim, there is a strong case for raising the PRSI ceiling on equity grounds.
Revenue: Raised under the levy on tax avoidance/high earners.

Tax Exiles or Tax Fugitives

Tax Fugitives make huge sums here and pay no tax. While there are 5,867 non resident individuals who file tax return here, many are foreign nationals and many Irish would have genuine foreign domicile. Yet a sizeable number of very wealthy individuals make a lot of their money here – Ireland is the centre of their economic interests. Some of them have the families who live here and children who go to school here. We welcome the introduction of the domicile levy €200,000 last year, but it is not enough.
Revenue: Around €55m for the Exchequer.

Excise Taxes

While we would prefer not to raise indirect taxes, we point out that modest increases in taxes on petrol (10c) and cigarettes (50c) etc. will raise €250m.

Revenue: €250 m for the Exchequer.

A Temporary Wealth Tax

Wealthy people don't spend much of what they earn – they simply cannot. In such a deep crisis, why not have a temporary wealth tax on those with wealth of over say €2m for the next 3 years. Wealth would be defined as current value of all assets, including private homes in excess of €1m value. This should raise €35m or more, annually.[41]

Potential Revenue: €35m

Extend the Income Levy to Corporate Income

Congress called for the temporary levy to be raised on all income in previous Budget submissions. In Social partnership agreements the Government accepted that a basic principle of taxation is that income from all sources should be taxed in so far as possible to taxes in the same way. It has neglected this principle of taxation in the main until recently. This levy was imposed on personal incomes, on inheritances and savings, but not on corporate income. There is an unanswerable case for the additional income levy to be extended to the income of the corporate sector until the 3% deficit target is met. It is utterly is compelling. It would be only temporary and it would only be raised on profits made. A modest increase of 2% was estimated to raise €614m in 2010.

Potential Revenue: €630m in 2011

DIRT Tax

Taxation on savings is levied at rates well below that on tax on work and enterprise. A rise in the general rate to 30% would bring it closer to the effective rate of income tax.

Potential Revenue: around €75m

Tax Evasion

Ireland's elite has a long and inglorious history of tax evasion. Audits are very good at exposing webs of evasion.

Potential Revenue: €300m -€400m

Uncollected Taxes

There are substantial uncollected taxes. A proportion of this is Fiduciary Taxes. While it is recognised that the Revenue is pursing this money routinely more direct action is required. A hard drive would pull in €350 to €450m in 2011 when the money is so urgently needed.

Revenue: €350 to €450m

Capital Gains Tax

The rate of Capital Gains Tax is 25%, whereas the marginal rate of income tax is 41%. The effective income tax rate is around 30%. Last year, we proposed raising the rate of CGT by 5% to 30% in the Budget. This would have raised at least €65m in 2010.[42] We also propose that a proportion of the gains on the disposal of private residences in value of over €1m be subject to CGT and that the normal principle private residence exemption cannot be availed of more than once every 3 years.

Potential Revenue: €65m - €75m

41 Congress' estimate

42 PQ 3rd Nov 09

Capital Acquisition Tax

Capital Acquisition Tax was increased in last two Budget, for the first times ever. Yet it remains low and gives a n unfair start to those who are born sons or daughters of rich people. The reversion to several progressive rates based on rising thresholds (abolished in 1999) should be re-introduced. It was also proposed that the minimum annual distribution for tax purposes of Discretionary Trusts is increased to the same level as that of approved retirement funds.
Potential Revenue: €250m

Or Re-Introduce the Probate Tax

The Probate Tax at 2% of estates was abolished some years ago. Re-imposition at four percent would raise around €110m in 2010.[43] However, if the CAT tax was properly re-structured, an additional tax on probates would not be required.
Potential Revenue: €110m

Personal Tax Deductions

Congress has suggested many detailed reforms to personal tax deductions over the years. Our proposals centered on equity. All would raise additional taxes from wealthy and very high earners. These have included curbing pension allowances for high income earners, a ceiling on artist exemptions, patent royalties and an end to the bloodstock industry exemption. Some have been implemented. All remaining incentives should now be reformed equitably to raise much need cash. These changes could raise tens of millions, say €40-50m.[44]
Potential Revenue: €40 -€50m

Taxes & Royalties on Oil and Gas

While the introduction of a new tax on oil and gas profits in 2007 was welcome, a tax on production would be more transparent and efficient. Congress believes that the 12.5% royalty tax - a tax on production, as well as on profits should be reintroduced. It gives a definite return to the owners of the resources, the Irish people.
Potential Revenue unknown, but around €12m today and growing rapidly once Corrib flows.

Low Earners

Some 1.05m (46%) of the total of 2.29 tax units did not pay income tax in 2007– their income being too low. Many of them are part timers and earn very, very little at all. The Government has signaled (with a megaphone) that it intends to raise tax from those on low incomes, supported by the usual coterie of economic and business reactionaries as it means they may have to pay less.

As there are so many on low incomes, the revenue raised can be substantial overall. Congress is opposed to this move. It's not just unfair, but bad economics. It will deflate the economy further. The more raised from the low incomes,[45] the greater the deflationary impact on the economy. As the income distribution is pyramid shaped, lowering the threshold yields much revenue from all, including low and high comes.

This is a menu to raise additional tax revenue of at least €1 billion in budget

43 Finance

44 Congress' estimate

45 With the exception of households where there are others who earn good incomes.

2011 from a total of at least €2.1billion. Raising some of these taxes would make the tax system more progressive, generate greater levels of income in the future and render many cuts in public services unnecessary.

Appendix II

Additional Ideas for Encouraging Investing in the Economy

There are four pillars to our €2 bn annual, three year additional investment proposals:

1) Supporting the Working Capital of Companies

The first step is to institute a State credit guarantee scheme, which would be operated through Enterprise Ireland and the Dept. of Enterprise, Trade and Innovation financed by part of the €2bn three year, annual investment from the Pension Fund. The State would provide a credit guarantee up to a certain portion of a loan, which in turn the SME could use to get short or medium term financing from any of the main banks operating in Ireland. The Government would impose a limit to the size of loans available and also impose a maximum loan criteria as a share of the business's turnover.

Since the global crisis emerged in 2009, a State guarantee scheme for businesses has been the most widely adopted measure across OECD countries. Here in Ireland, the Government imposed specific targets this year for lending to SMEs by the two main Irish banks worth some €12 billion over 2011 and 2012. But in the absence of clear sanctions arising from the failure to comply, there can be little assurance that the scale of this new lending will occur, particularly at a time when the two main Irish banks will have to contract their balance sheets to improve their overall capital base. While the establishment of a Credit Review Office this year is to be welcomed, its powers are limited to issuing opinions only.

Although the credit guarantee scheme would be much more onerous to operate, it provides those companies who are currently experiencing difficulties but who are potentially viable with a credit rating, which in effect can be used as collateral when approaching any bank operating in this country. Secondly, it brings those particular companies with potential viability into contact with the state enterprise agency where additional supports and sources of funding could also be made available. According to Eurostat's national accounting guidelines for member states with guarantee schemes for business, the contingent liability is not recorded in the national accounts.

2) Citizen's Investment in Innovation

Enterprise Ireland currently participates in venture capital and seed funding worth up to €600m intended for high potential start up business and for existing business engaging in expansion. With significant retrenchment in the global venture capital industry and a retreat to more conservative investment positions, there is a need to harness other sources of funding to support business activities in this country.

The National Pension Reserve Fund already participates in these funds as part of its ongoing investment activities, but in order to attract additional investment, it is proposed that a Government backed **Innovation Fund** would be established to attract individual deposit savers into investing in these venture and seed capital funds. This investment programme could be managed by Enterprise Ireland and would not necessarily be limited to resident persons here, but should be also open to foreign investors. A very low minimum investment threshold would have to be put in place as would a scheme for regular investments into the overall fund, in order to attract individuals from across the income distribution. There would be no guarantee but given that the funds will be diversified across high potential start up and existing companies, investment should prove an attraction proposition.

In order to incentivise individuals into investing in these funds, a number of methods could be considered such as investments in the form of preference loans that are paid back at multiple times the original loan value. This ensures that any dividend tax liability does not arise and gets around the need to grant equity share capital. Alternatively, depositors could be encouraged to invest in venture and seed capital if equity is granted at a multiple of the funds invested in. In other words, for every share bought, two shares could be granted. This funding plus a greater investment allocation from the NPRF would provide a significant boost to funding available for new and innovative or expanding businesses.

3) Restructuring Private Debt

Throughout this economic crisis, a recurring problem amongst so many troubled companies with trade union members has been the crippling indebtedness that many companies now find themselves saddled with. While turnover in a large number of sectors has dipped considerably, in general many viable companies have adapted operations to generate an operating profit. However, excessive gearing has ensured that this profit is quickly wiped out by interest owing on loans outstanding. Companies who can demonstrate their potential commercial viability should be facilitated in restructuring and renegotiating part of their existing debt.

This proposal does not automatically imply a debt write-down or a debt equity swap by the banks, but could also include private equity capital. There is a role for Enterprise Ireland is establishing and overseeing this process. Given the oft negative experience in recent years both here and in the UK of private equity companies in terms of asset stripping and compulsory redundancies, the programme would have to be very tightly regulated.

Just as Congress believes some form of write down of outstanding debt for troubled mortgage holders should be put in place, a parallel scheme for Irish businesses also needs to be put in place in order to secure jobs and kick start domestic consumption.

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