Campaign for
Labour Policies

Growth through Solidarity

Campaign for Labour Policies

Pre-Budget Submission

Three principles for Budget 2013

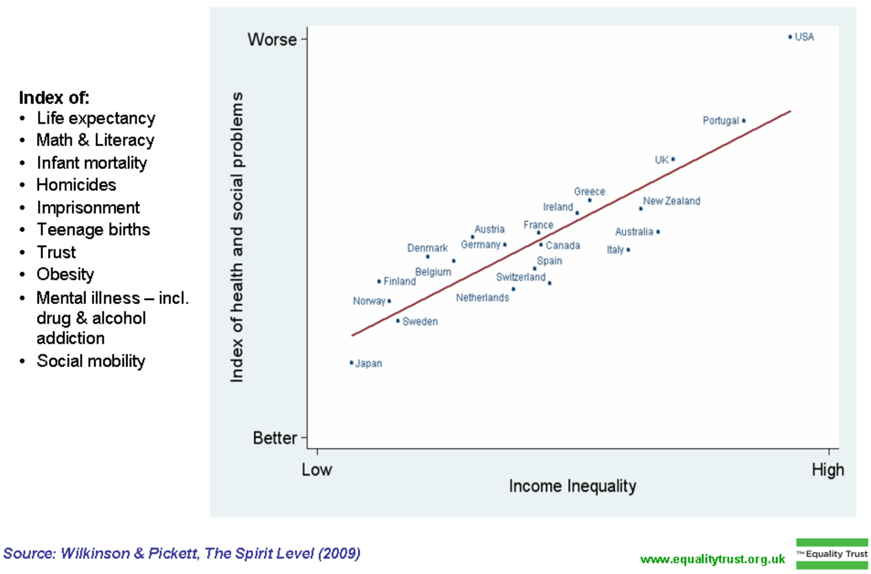
- The Campaign for Labour Policies believes that three basic principles, sorely lacking in previous budgets, should be at the heart of Budget 2013: Promoting equality
- Protecting and investing in jobs and growth
- Building a real welfare state in Ireland.

Equality

Income equality within a society not only has an enormous value in and of itself, but also has many indirect benefits.

Wilkinson and Pickett in their renowned 2009 work, *The Spirit Level,* found numerous social benefits to greater equality in a comparative study of developed countries. These include greater physical health and mental health, better education, greater social mobility, greater child well-being and lower levels of imprisonment, violence, obesity and teenage pregnancies. What is more, these benefits apply to society as a whole, rather than merely its poorer elements.[1]

Health and Social Problems are Worse in More Unequal Countries



Source: Wilkinson & Pickett, The Spirit Level (2009)

[1] Wilkinson & Pickett (2009) *The Spirit Level*

Equality also seems to have a beneficial effect on economic growth and stability. A number of economic studies have pointed to the role of inequality in producing economic crises such as the one from which we are still recovering. Recent IMF research has also shown that equality is linked to sustained, long-term growth prospects.[2] Finally, income equality is extremely important for the health of a country's democracy. It enhances interpersonal trust and community cohesion, improves political stability and enables people to engage participate in politics on a more equal footing. [3]

But Ireland is not in a position to benefit from these equality dividends. On the contrary: income inequality in Ireland, already among the highest in Europe, has been increasing in recent years. The Gini coefficient, the most common international measure for income inequality, rose dramatically in 2010 to 33.9, the latest year for which figures are available – representing its highest level since the measure was introduced in Ireland in 2004. [4] Inequality has also increased dramatically according to other measures, such as the income quintile ratio: the most recent increase in Ireland's quintile ratio represents the biggest single-year increase in income inequality in any EU country since it started since data started being recorded. [5]

According to both these measures, Ireland is one of the most unequal countries in Europe.[6]

The proportion of people suffering from material deprivation has also seen a very significant increase in in the past two years, from 17.1% to 22.5%. [7] According to the latest figures, Ireland currently has the third highest rate of material deprivation in the EU, behind only Portugal and Greece.[8]

We do not believe that the current government's policies so far have done anything to halt this trend, and they may indeed have exacerbated it. In particular, Budget 2012 was a very unequal budget. Its tax, income and public sector pay elements alone imposed income reductions of between 2 and 2.5% on the poorest 40% of households and only 0.75% on the richest 30%.[9] This actually compares unfavourably with the budgets implemented under the Fianna Fáil-Green government.[10]

[2] IMF Working Paper 12/08 *Income Inequality and Current Account Imbalances*; Kumhof & Ranciere (2010) *Leveraging Inequality*

[3] Alesina, Di Tella & McCullough (2010) *Inequality and Happiness*

[4] http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di12&lang=en

[5] Sinead Pentony (October 2012) 'Getting more unequal' in *The Village*

[6] Eurostat

[7] CSO Survey on Income and Living Centre: data from 2009, 2010, 2011

[8] http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tessi082&plugin=1

[9] http://www.esri.ie/UserFiles/publications/QEC2011Win_SA_Callan.pdf

[10] *Ibid*

Jobs and Growth

Budget 2013 should focus on the protection and promotion of jobs and growth.

The ESRI now predicts that the Ireland's GNP will contract this year by 0.2%, a revision downwards from its June predictions.[11] We continue to rely on exports for any semblance of growth, while Ireland's domestic economy continues to perform very poorly.

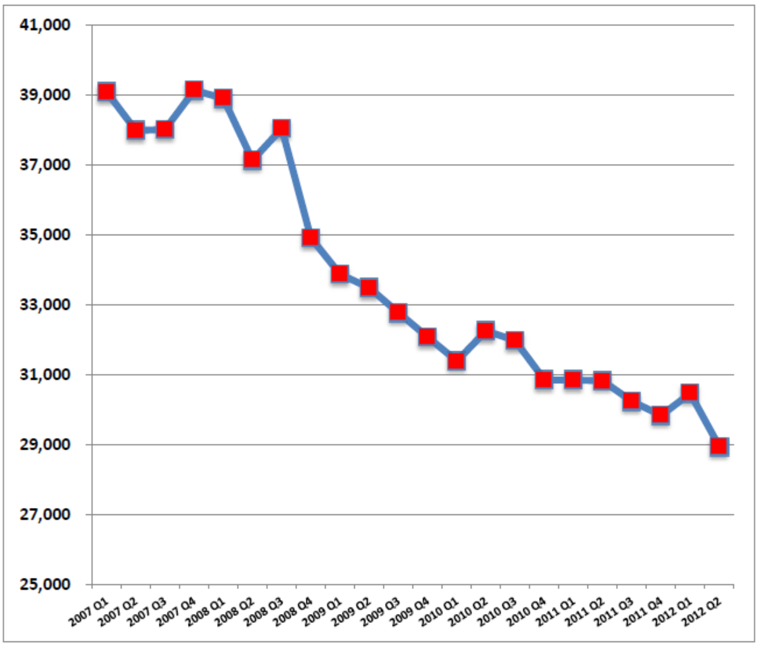


Chart 1 Trends in the real value of domestic demand (Republic of Ireland) – seasonally addjusted quarterly Data 2007-2012 (€m)

Source: CSO: Quarterly National Accounts.
Notes: Total Domestic Demand = Personal Consumption + Government Consumption + Investment + changes in values of physical stocks. Domestic demand chiefly differs from Gross Domestic Product due to the size of net exports = exports – imports.

Source: NERI

As a result, employment has continued to fall this year . Long-term unemployment also continues to rise, now standing at 8.8%, an increase of 1.1% over the second quarter, or 60% of overall unemployed.[12] This means that our economic crisis has rapidly become a social one, as well as a personal one for many people.

A continuing poor economic performance will also continue to negatively affect our ability to reduce the deficit.

[11] ESRI

[12] CSO, Quarterly National Household Survey, http://www.cso.ie/en/media/csoie/releasespublications/documents/labourmarket/2012/qnhs_q22012.pdf

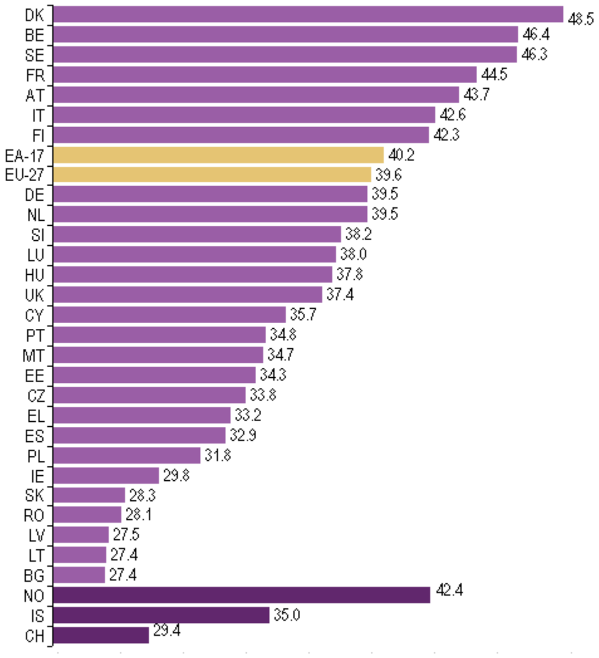
This situation therefore requires real and effective action by the government to deal with the issue. Policymakers also need to pay far more attention to the particularly deflationary effect that further cuts and certain forms of tax increases will have.

The ESRI has twice found that spending cuts have a more deflationary effect on the economy than tax increases. Taxes that hit low-income earners also have a disproportionately negative impact on the economy compared to those which target high incomes, since low-income earners spend much more of their money immediately.

Building a real welfare state

A core aim of the Labour Party should be working towards the creation of a real welfare state in Ireland. Among other things, a decent welfare state requires a substantial level of taxation and public spending. Yet Ireland continues to lag behind the rest of Europe in this respect.

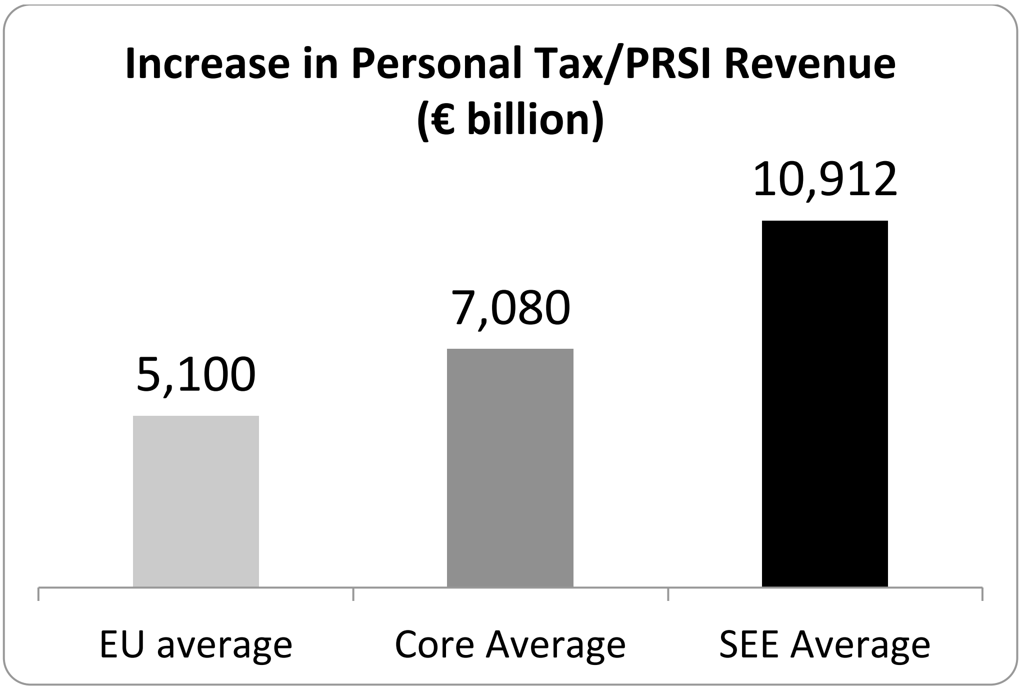
Overall taxation in Ireland is among the lowest in Europe. According to the latest Eurostat figure, Ireland was ranked 22nd out of the 27 EU countries in terms of taxation of a proportion of GDP, at 28.2% compared to an EU average of 38.4%.[13]



Source: Eurostat,

The following graph shows the amount of tax increase which would be needed for Ireland to reach various international averages.

[13] Eurostat

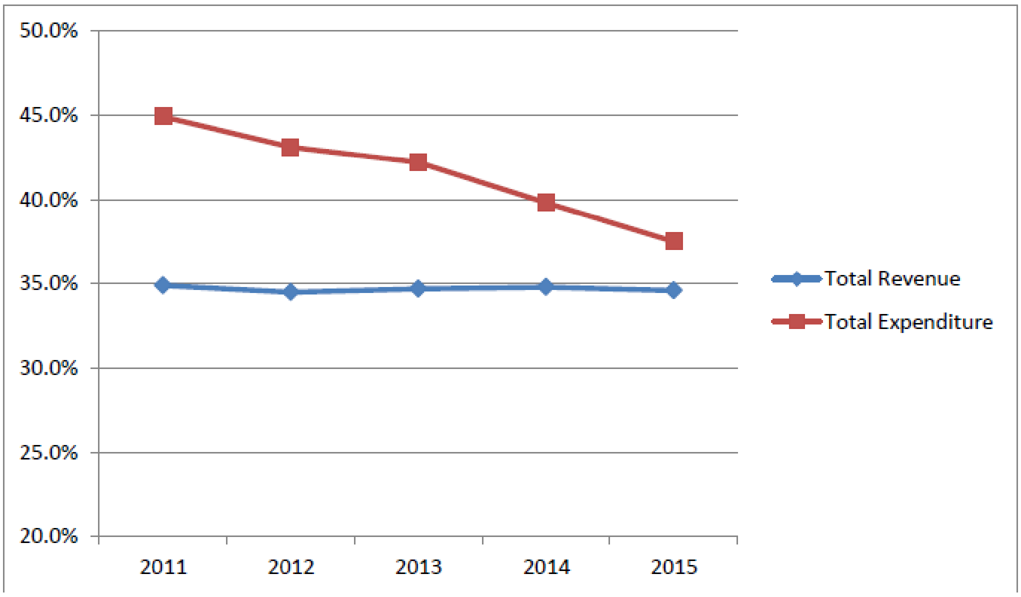


General government expenditure, by contrast, is actually just below the EU average – but this includes 5.6% which is payment of interest on debt.[14] Our level of primary expenditure is 38.4%, which is low by international standards.[15] In fact the government spends €6,400 per capita on public services compared to an EU-15 average of €7,621.[16]

Yet despite this, two-thirds of savings in Budget 2013 are expected to be paid for in cuts to public spending. What is more, the Economic and Fiscal Outlook for Budget 2012 still foresees a dramatic decrease in 7% public spending as a proportion of GDP for 2011-2015 while revenue as a proportion of GDP is expected to stagnate.[17]

[14] Eurostat; NERI
[15] NERI
[16] Eurostat
[17] http://budget.gov.ie/budgets/2012/Documents/Economic%20and%20Fiscal%20Outlook.pdf D.18

Chart: Revenue and Public Spending Levels 2011-2015 (% GDP)



Source: TASC (2011), 'A roadmap to Greater Inequality: Response to Budget 2012

This, to us, makes no sense and is against Labour principles. Since Ireland is currently a disproportionately low-tax, low-spend economy, savings should be paid by increasing taxation levels to international norms and possibly setting the foundations for a genuine welfare state.

What not to cut

We believe that both current and capital public expenditure should be maintained at their current levels. The €3.5 billion adjustment required should instead focus on taxes that have the least possible impact on people on low incomes.

This approach would have a comparatively positive impact on economic growth, reduce income inequality and brings us into line with international norms of taxation and spending.

Proposed changes

Wealth tax

We are calling for a small annual tax to be imposed that is based on the value of a person's assets.

This wealth tax would be based loosely on the French model. In France all *global* assets are taken into account for French residents; for others, the tax is based on assets that reside in France, with the exception of financial ones. Adopting this system has the benefit of stopping

wealthy Irish citizens from simply moving their assets out of the country to avoid the tax, as the wealth tax would *transcend international borders* and rule out the use of tax havens.
As stated earlier the basic assets that make up ones wealth tax liability are housing, bonds, stocks and other such financial assets, businesses, valuable private goods such as art or other collectable goods and returns from financial investments. In principal *all assets* are taken into account.

Such a wealth tax would exempt:

- The *'primary'* family home (up to a value of €1 million);
- Working agricultural land;
- Professional goods such as enterprises (depending on the percentage owned);
- Woods and participation in *forestry* plantations (for 75% of their value);
- Capital value of *pensions* and retirement plans;
- Income obtained as compensation for physical injury in accidents or due to illness;
- Assets inherited by those *under the age* of 18 (excluding assets which generate additional wealth) until they reach adulthood;
- The assets of businesses that provide child minding, respite care and other businesses that provide;
- Services deemed to be of exceptional *social value* to the most vulnerable in Irish society;
- Works of art on public display

An initial system could follow rates for the wealth tax in France, which are as follows;

- €0-800,000 - 0%
- €800,000 -1,310,000 - .55%
- 1,310,000 -2,570,000 - .75%
- 2,570,000 -4,040,000 - 1.0%
- 4,040,000 -7,710,000 - 1.3%
- 7,710,000 – 16,790,000 - 1.65%
- Above 16,790,000 - 1.8%

At present the Central Statistics Office does not have access to sector accounts that classify persons by the categories of wealth they hold. Furthermore, the Revenue Commissioners have no statistical basis for compiling estimates in relation to a potential wealth tax. However, the CSO has commenced a *"Household Finance and Consumption Survey"*, which will collect information on household wealth. The first results of this survey will be available in 2014.

For the next two years, a system of self-disclosure of assets would need to be put in place. Those suspected of knowingly under-declaring their liable assets would have their cases directed to the *Criminal Assets Bureau* for further investigation. Those found to have made false declarations would face stringent financial penalties. Once a clear database has been established in 2014, the system of collection would be more straightforward, since the state would know how much each citizen's tax liability is.

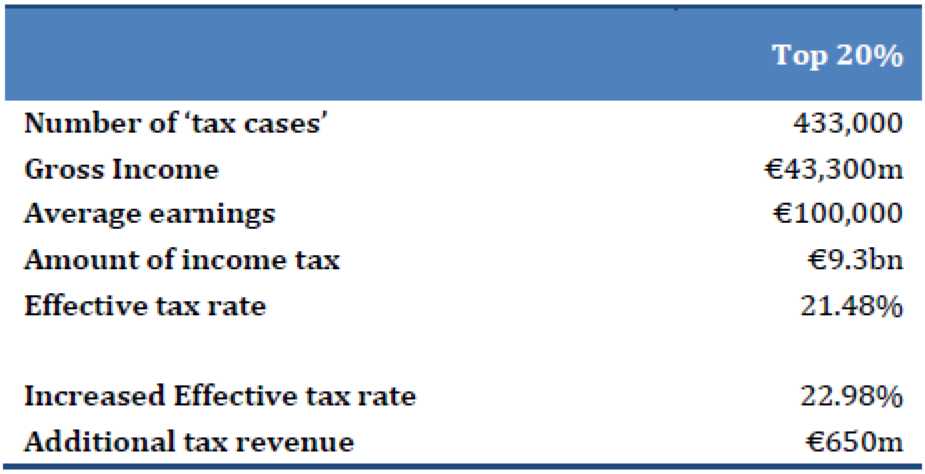
According to an answer from Michael Noonan in response to Dáil questions, a wealth tax based on the French model could yield revenue of between €400 and €500 million.

Increase the Effective Income Tax Rate for High Earners

The Nevin Economic Research Institute, in their most recent Quarterly Economic Observer, estimates that the top 20% of earners only pay an average of 21.48% in income tax, or 33.19% including USC and PRSI.

Given the principle that those most able to afford it should bear the burden of fiscal adjustment, we find this to be deeply unjust.

Imposing an increase of 1.5% in the effective income tax paid by the top 20% would , according to NERI, raise an estimated €650 million.



	Top 20%
Number of 'tax cases'	433,000
Gross Income	€43,300m
Average earnings	€100,000
Amount of income tax	€9.3bn
Effective tax rate	21.48%
Increased Effective tax rate	22.98%
Additional tax revenue	€650m

Source: NERI

Corporation Tax reforms

Despite Ireland reputed corporation tax of 12.5% many corporations pay far less. Our effective tax rate is 7.3% and US affiliates earning more profits in Ireland than in any other country in the world.[18]

With this in mind, NERI proposes a number of reforms to the corporate tax structure, including reform of the manner in which losses can be carried forward, the ability of company directors to maintain undistributed reserves on the company's balance sheets until they take them tax free upon retirement, and the practice of allowing interest paid but not charged as a deduction on tax.[19]

Financial Transaction Tax

The government should support the introduction of a Financial Transactions Tax. This would save the exchequer €130 million a year.

A range of other proposals have the potential to bring in significant revenue without reducing economic demand or growth. These include;

- An extension of USC/PRSI to Capital Acqisitions Tax and Capital Gains Tax
- Reduction in Tax Exemption for Lump Sum Pension Payments
- Abolition of legacy Property Tax Reliefs
- Halving of interest relief for landlords
- Cap tax relief on pensioners for high earners once they reach a pension income of €60,000

[18] Stewart http://www.tcd.ie/iiis/documents/discussion/pdfs/iiisdp375.pdf
[19] NERI

Suggested tax table

Tax	**Estimated Revenue (€ million)**
Carryover in tax from Budget 2012	300
Wealth Tax	500
Extend USC/PRSI to CGT/CAT	240
Increase in Effective Income Tax Rate	650
Reduce Tax Exemption for Lump Sum Pension Payments	65
Abolition of property tax reliefs	350
Halve interest relief for landlords	385
Cap tax relief on pensions	380
Corporation Tax reform	50
Financial Transaction Tax	130
Total	3050

Investing in jobs and growth

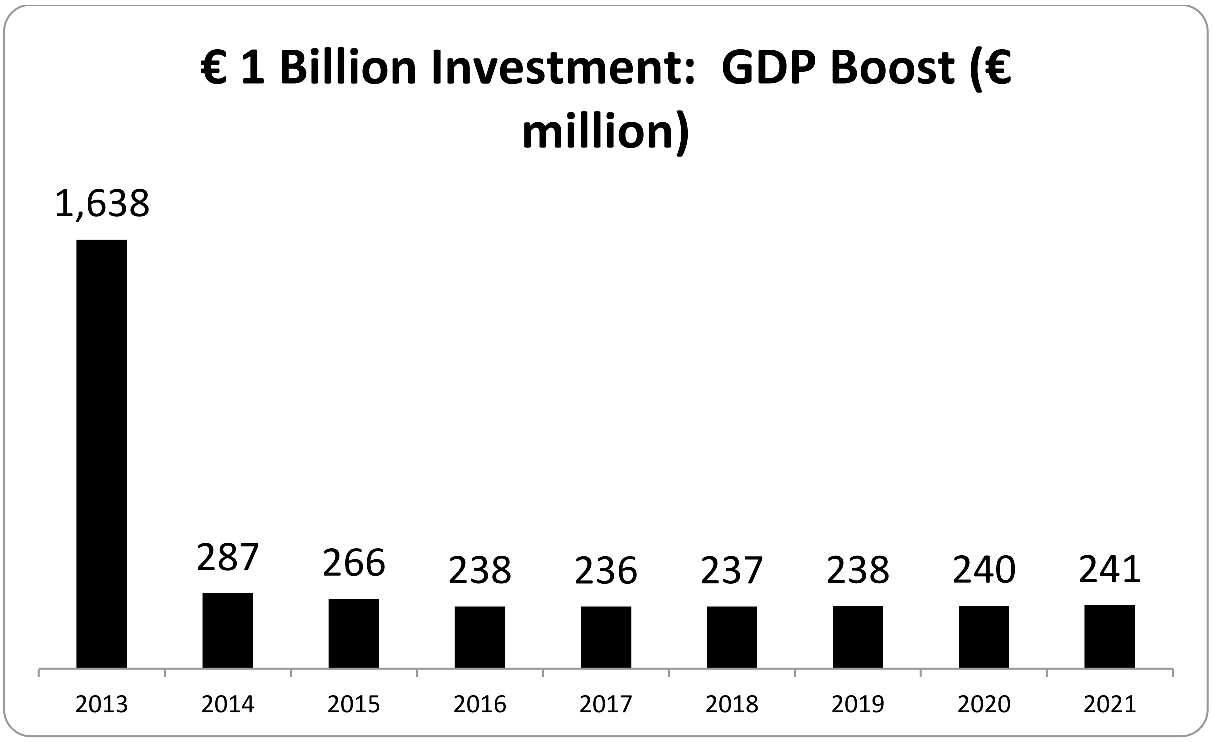
The continuing weakness of the domestic economy demands a substantial investment programme by the government to stimulate investment and growth.

The Government's current stimulus plans rely heavily on investment from European and private sector sources - but much of this will require a long lead-in: it can take the European Investment Bank up to 18 months to approve a project. The current package is also dependent on the sale of state assets, a move which will cost jobs and undermine the government's ability to kick-start our economy.

As a short-term bridge, the State should use its €2 billion own resources in Budget 2013 to fund capital projects that are ready, or nearly ready, to go . The State owns nearly €20 billion in liquid assets - approximately €14.5 billion in cash and €5.5 billion in the National Pension Reserve Fund – that could be used for this purpose.[20] Already, ICTU has identified 17 projects costing €2 billion, and directly employing over 15,000 people – there are many more .[21]

The Nevin Economic Research Institute's estimates for the impact of a €1 billion stimulus next year on GDP growth are shown below:

[21] ICTU (2012) *Delivering Growth and Jobs: Funding a Major New Investment Programme for Ireland*

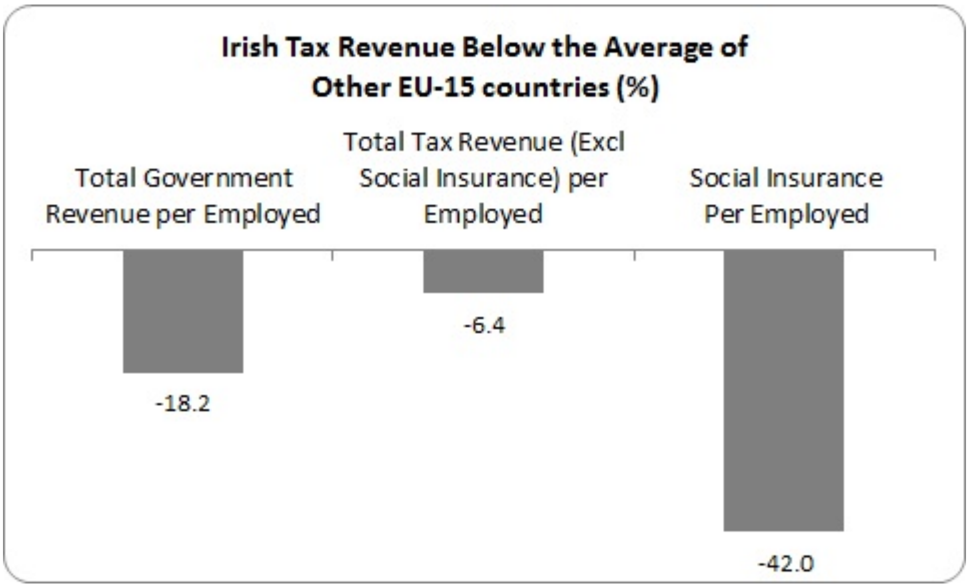


Such a stimulus programme could also be used to bring vital improvements in Ireland's Infrastructure – for example, fibreoptic next generation broadband, a modern waste and water system, and green construction – to name just a few.

A note on Social Insurance

Due to the continuing weakness of the economy and falling employment and the potential impact that such measure could have in these areas, we have chosen not to call for an increase in social insurance this year.

However, it should be noted that in the longer term the current inadequacy of Ireland's social insurance revenue needs to be addressed. A large part of the reason for Ireland's low level of taxation compared to the rest of Europe is its especially low level of social insurance, as seen in the graph below:



Source: Notes on the Front

Future budgets should address this discrepancy.

Equality Auditing

The most recent Labour Party conference committed the government to:

> *"legislate for equality auditing of the cumulative distributional and gender impacts of all proposed budget measures, which must inform final decisions made by Cabinet.*

And called on the Parliamentary Labour Party:

> *"If the Labour Party is unable to secure this commitment…to produce such analysis using its own resources, and to bring this analysis to bear on the Cabinet's pre-budget discussions;"*

We are calling upon the government and the Parliamentary Labour Party to fulfill this democratic mandate from the party's members, which was endorsed by the party leadership during conference, to assess the impact of the budget on gender and economic groups and to structure the budget in such as way that the inequality of the last budget does not recur.

An example of how such equality auditing could be done is can be seen in TASC's assessment of the variable impacts of Budget 2011 depending on gender and income groups.

Conclusion

The economic and political philosophy underpinning recent budgets has failed. They have produced greater inequality while failing to revitalise the economy.

We believe that a new approach is required based on maintaining public services at current levels, revenue-raising through taxation focussed primarily on higher incomes, and investment to generate jobs and growth.