TASC pre-budget submission

Budget Oversight Committee

May 2019

Summary

Additional spending

Social protection, work, and income supports	€900m (400m of which is childcare)
Housing	€900m
Health	€700m
Communities and just transition	€334m
Total additional spending	*€2.834bn*

Additional revenue

Increase Employer's PRSI to 13.75% on incomes over €100k	(€150m)[1]
Net wealth tax of 1% on wealth exceeding €1m	(€248m)[2]
Standardising pension tax relief	(€350m)[3]
Increase in capital gains tax from 33% to 38%	(€178m)[4]
Green initiatives (see final section)	(€334m)[5]
Total additional revenue	*(€1.260bn)*

Net Impact	***€1.574bn***
Projected government surplus under SPU[6]	***(€1.235bn)***
Proposed government deficit under TASC budget	***€339m***

Other: Increase minimum wage from €9.80 to €10.50 per hour.

[1] Based on: https://www.ictu.ie/download/pdf/congressprebudgetsubmission2019_updated_version.pdf
[2] Based on: https://www.nerinstitute.net/download/pdf/a_household_net_wealth_tax_in_the_republic_of_ireland.pdf
[3] Based on Collins and Hughes (2017). See: https://www.esr.ie/article/view/824/174 The ESRI estimate higher savings of €1billion. See here: https://www.esri.ie/system/files/media/file-uploads/2018-05/QEC2018SUM_SA_Doorley.pdf
[4] Based on: https://www.revenue.ie/en/corporate/documents/statistics/ready-reckoner.pdf
[5] Based on ibid.
[6] See Table 10: https://assets.gov.ie/8305/88ffede238074f2cb88fc996854a12b3.pdf

Background and context

According to the Stability Programme Update (SPU) 2019, national income is set to grow by approximately 5% in the coming year (based on GNI*). Personal consumption, which is perhaps a more accurate reflection of activity in the real economy, is set to grow by 2.7% in inflation-adjusted terms, and then by 2.5% in 2020. Employment will grow by just over 2%, and unemployment is expected to be at 5.4% for the year on average. The short-term prospects for the economy are therefore sound.

As the economy continues to improve, albeit a slower rate, storm clouds are beginning to gather. With debt-to-national income exceeding 100%, the Irish state is comparatively indebted. Despite the on-going political impasse, thus far Brexit has not had a noticeable effect on the British economy, and so its impact has been limited here as well. However, the ESRI estimates that in the worst case, no-deal scenario national income would fall by 5%, and whereas a more orderly exit would result in a fall of just over 2.5% over ten years. Coupled to that is increasing dependence on, and ongoing international uncertainty over, corporate taxation.

It is in this context that we assess the scope for budgetary adjustments, through taxation and spending measures. Under fiscal rules Ireland is required to run a so-called structural budget deficit of no more than 0.5%. It also adheres to an expenditure benchmark rule, which says that expenditure growth should not exceed the medium-term growth potential of the economy. The SPU did not provide an estimate of the so-called minimum margin of compliance, namely how much can be spent without raising revenue elsewhere, while also adhering to the fiscal rules. The SPU, however, does note that the economy is not operating above capacity as indicators 'point to an economy that is broadly in balance'[7]. We take this to mean that the headline or actual deficit is a good measure of the structural deficit given the unsuitability of the common, EU methodology in an Irish context, and given that the expenditure benchmark is the more binding measure in terms of the available fiscal space. Using GDP as baseline measure of national income, this would indicate scope for €3.2billion in unfunded tax reductions or spending increases. Because of the well-known distortions to GDP caused by the presence of multinationals, GNI* may be more meaningful. This results in an available fiscal space of €1.9billion[8]. Given Ireland's continued high levels of indebtedness, and the uncertainty surrounding the economy, TASC proposes a budget that is close to balanced.

[7] Stability Programme Update page 3. See: https://assets.gov.ie/8305/88ffede238074f2cb88fc996854a12b3.pdf

[8] Based on SPU, the general government balance is estimated for 2020 to be 0.4% of GDP, while GDP is estimated to be €352,850 million. Given an allowable budget deficit of 0.5%, this implies a fiscal space of 0.9% of GDP, or €3.2billion. Using GNI* (€211,490), this falls to €1.9billion.

Ireland is a comparatively low tax and low spend economy among EU comparators. The lion's share of Ireland's comparative revenue deficits lie arise from low social insurance contributions, especially from employer's social insurance contributions[9]. Ireland also raises comparatively little taxation from capital[10]. It is with these factors in mind that the above revenue-raising measures are being advocated. Given that the ongoing housing crisis has resulted in a significant transfer of income and wealth in recent times, and the highly progressive nature of capital taxation, TASC deemed the above mix of revenue-raising measures appropriate. The latter is also necessitated by the fact that much of the revenue raising from greening the economy is less progressive or, in some cases, regressive.

Social protection and low-income supports

By international standards, Ireland has a redistributive welfare state. This is necessitated by the fact that inequalities generated by the market are very high here. Most (over 70%) of Ireland's redistribution comes in the form of transfers with the remainder arising from a system of progressive taxation[11]. The Irish welfare state is geared at providing protection to the poorest elements in society, and rather weak on the provision of universal services. TASC's view is that Ireland's protection of the poorest needs to be safeguarded but that it is preferable to move towards a system of universal provision. This provides a more solid basis for political support of the welfare state, and also reduces complexities and anomalies.

Childcare is one area where the negative effects of under-involvement by the state is apparent. A recent report by the National Competitiveness Council (NCC) highlights how prohibitive Ireland's childcare costs are. Gross full-time childcare fees for two children is 39% of the average wage for a couple. When transfers, subsidies, and so on are accounted for, net childcare costs still come to some 28% of average earnings for a couple. Only the UK has more expensive childcare costs in the EU[12]. As well as putting severe strain on families and likely adding to future demographic problems, it also acts as a barrier to employment, especially female participation.

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[9] See: https://www.nerinstitute.net/download/pdf/taxation_and_revenue_sufficiency_in_the_republic_of_ireland.pdf

[10] Ibid.

[11] This can be seen from the difference between market, gross, and disposable income inequality, but which excludes the effects of VAT, which is particularly regressive in Ireland. See OECD income distribution statistics: https://stats.oecd.org/Index.aspx?DataSetCode=IDD#.

[12] See NCC here: http://www.competitiveness.ie/Publications/2019/Cost%20of%20Doing%20Business%202019%20Report.pdf

According to the OECD's Education at a Glance 2018, Ireland was by some distance the lowest spender on Early Childhood Education in EU, and also the lowest in the OECD in 2015, the latest available year for data[13]. Using the more relevant base of GNI*, Ireland's spending improves[14], but would still have some way to go before it reaches the standards enjoyed by most other countries. To gradually reach the UNICEF international target of spending 1% of national income TASC recommends that childcare spending increase from the projected level of 0.3% of GNI* for 2019 to 0.5% for 2020. This constitutes increased investment of approximately €420m, of which TASC recommends €400m be spent. The government has, to date, chosen to provide supports through the subsidisation of childcare providers through the Affordable Childcare Scheme, the Early Childhood Care and Education Scheme, and similar initiatives. TASC deems it preferable to move towards a system in which the state and third sector have greater involvement in the provision of childcare services, but nevertheless recognises the logistical difficulties in such large-scale transformation.

Regarding social protection payments, average incomes by definition increase as an economy expands. Unless social welfare payments keep track with the overall growth rate of the economy, the poorest fall further behind, as happened in Celtic Tiger years of the 1990s as poverty rates increased. It is therefore important to index social welfare payments with earnings[15]. The ESRI expects nominal annual earnings to increase by 3.4% in 2020[16]. That would constitute extra social protection spending of in excess of €700m. Given the tight budgetary situation, high levels of indebtedness, and that a large part of inflation has been driven by house price increases, from which much of the poorest and oldest segments of society are insulated, TASC deems extra spending of €500m to be prudent. In addition to a broad indexation policy, we suggest that significant focus be on phasing out the youth rate of jobseekers allowance and expanding parental leave.

Finally, TASC is of the view that, insofar as is practically possible, paid employment should be sufficient to provide an acceptable standard of living and decent working conditions. Tax relief from trade union membership should also be restored, estimated to cost €26.7m[17]. TASC has also recently made representations to the Low Pay Commission on raising the minimum wage. Though some sectors, namely hospitality, suffer from low profitability and so care must be taken in offsetting

See also OECD:
[13] See OECD page 178: http://www.cnedu.pt/content/noticias/internacional/Education_at_a_glance_2018.pdf
This result also holds for 2014, before the upward revision to GDP in Ireland. See Nugent: https://www.nerinstitute.net/download/pdf/the_affordability_of_childcare_in_ireland.pdf
[14] See Sweeney: https://www.tasc.ie/blog/2018/10/30/public-spending-and-services-in-the-years-to-come/
[15] See SJI: https://www.socialjustice.ie/sites/default/files/attach/publication/5752/2019-03-26-indexationandsocialwelfarerateswithcover.pdf?cs=true
[16] As inflation is forecast to be only 1.4%, after rounding real wages are also expected to increase by 3.4%. See ESRI: https://www.esri.ie/system/files/publications/QEC2019SPR.pdf
[17] See: https://www.nerinstitute.net/download/pdf/congressprebudgetsubmission2019_updated_version.pdf

adverse employment effects of wage increases, we believe that a gradual move toward the living wage is both desirable and feasible. TASC therefore proposes to increase the minimum wage from €9.80 to €10.50. Age-based minimum wages should also be phased out. In some limited circumstances exceptions can be made to full elimination, such as for trainees.

Housing

The failure to contain rapidly rising costs of accommodation has had obvious adverse social and economic consequences. Recent official figures indicate that over 10,000 people are homeless in the state, which may underestimate the true figure by some 5,000[18]. Dublin had an estimated 156 rough sleepers in winter 2018[19]. Economically, in 2015 alone, the NCC noted that mortgage and rent affordability in Dublin was significantly less than most of the major comparator international cities[20]. Since 2015, rents have increased by almost 40% nationwide[21]. The failure to address the economic and social problems associated with rising land and accommodation costs has led to large transfers by the state to private landlords in the form of HAP payments, a rather inefficient use of public funds.

It is generally accepted that the recent surge in prices has been driven by a lack of supply, given the prevailing level of demand. The most recent Daft report contests that Dublin needs 80,000 rental homes as soon as possible[22]. Though supply-demand imbalances are driven by a complex interplay of forces, including a lack of affordable, one-bed apartments in the capital, the withdrawal of the state from the provision of public housing has undoubtedly play a role as well. In 2008 almost 7,000 social houses were completed whereas in 2015 only 476 were built[23]. Part of the solution, therefore, is to scale-up the building of public housing, social or otherwise.

Things have been improving in recent years as just under 2,300 social houses were built in 2017 and 4,251 were built last year[24]. This does represent a significant improvement but it is still inadequate given the scale of the problem. State capital spending on housing is set to remain at 1% of

[18] See: https://www.irishtimes.com/news/social-affairs/total-number-of-homeless-closer-to-15-000-says-fr-mcverry-1.3841749
[19] See: https://www.homelessdublin.ie/content/files/RSC-Winter-2018.pdf
[20] See NCC: http://www.competitiveness.ie/Bulletins/Housing-affordability-bulletin.pdf
[21] See: https://tradingeconomics.com/ireland/housing-index
[22] See page 3: https://www.daft.ie/report/2019-Q1-rentalprice-daftreport.pdf
[23] See Hearne: https://www.tasc.ie/download/pdf/a_home_or_a_wealth_generator_inequality_financialisation_and_the_irish_housing_crisis.pdf
[24] Rebuilding Ireland Action Plan: https://www.housing.gov.ie/sites/default/files/publications/files/social_housing_report_2018.pdf

national income (GNI*) in the coming years[25]. Given the magnitude of the affordability problem the country faces, that figure should be increased significantly. The government should aim to approximately double its output of public housing. TASC recommends additional capital spending of €850m. This would be allocated to traditional social housing builds but also to the building of affordable homes. These could then be rented to tenants whose incomes pass the threshold for traditional social housing. Other areas of housing need which would benefit from increased current and capital spending include asylum seekers, travellers, and victims of domestic violence. Greater inspections of private rental accommodation need to be made, more homeless support should be also be allocated, and the government should increase funding for the housing adaptation grant. This brings total additional spending on housing to €900m.

Health

Recent TASC work[26] adds to a large body of research that finds that national health systems which provide universal healthcare can reduce health inequalities. Investing in preventative care is also more cost effective given that treatments are likely to be administered before illnesses deteriorate, while non-market processes reduce incentives to order unnecessary procedures. In Ireland the dual compensation structure for consultants creates incentives to focus on private patients while the co-location of private beds in public wards clogs up the public system. TASC advocates moving to a public universal system as outlined in Slaintecare and proposes allocating €700m to an implementation fund, which includes two of the most pressing policies detailed below.

The Slaintecare Report provides a ten year plan for health service reform. Central to this reform is the need to establish a universal single tier healthcare service where patients are treated on the basis of need rather than ability to pay. As part of this reform, the Committee proposes the expansion of primary care services to include investment in community diagnostics, counselling services and GP care. Since the publication of the Slaintecare Report, the government has produced a number of further documents[27] which outline plans to review the current eligibility framework and to develop policy proposals and options for achieving universal eligibility in 2019. While this is important, TASC urges the government to commit to the original Slaintecare goal of extending access to GP services without charge to the whole population, on a phased basis, in the first 5 years of Slaintecare.

[25] See: https://www.tasc.ie/blog/2018/10/30/public-spending-and-services-in-the-years-to-come/
[26] See: https://www.tasc.ie/download/pdf/18456_health_inequalities_finalweb.pdf
[27] See: https://health.gov.ie/wp-content/uploads/2018/08/Sl%C3%A1intecare-Implementation-Strategy-FINAL.pdf and https://health.gov.ie/wp-content/uploads/2019/03/Sl%C3%A1intecare-Action-Plan-2019.pdf

The Committee estimated that extending access to an additional 500,000 people per year for five years would cost an additional €91m per year. Given the delay in its implementation, TASC recommends allocating €160m to provide for free-at-the point-of-access full universal GP coverage.

While moving towards universal healthcare is a medium-term goal, there are a number of current and related challenges in the system that need urgent addressing. Under the National Development Plan the government has committed to providing an additional 2,600 beds[28]. The Department of Health, however, has estimated a need for around 7,000 and 9,000 additional beds under the current model, but this is much reduced if the Slaintecare move to primary care centres is implemented[29]. Based on the Department of Health Review and commitments under the National Development Plan, ICTU calculates the shortfall between beds needed and beds committed to be 2,400. TASC proposes allocating €160m this year to tackle the trolley crisis by opening up 500 new beds[30]. The remaining €380m of the fund is to be allocated to implement remaining areas of Slaintecare. This includes the reduction of prescription fees, gradually eliminating in-patient charges, and the expansion of social care and mental health services.

Communities and the just transition

Last week, at the time of submission, Ireland became the second country in the world, after the UK, to declare a climate and biodiversity emergency. It followed a UN report[31] on climate change that made for grim reading. The report, commissioned on the back of the 2015 Paris Agreement warned that global warming caused by humans is speeding up as opposed to slowing down. At the same time Ireland is falling further behind its European neighbours in decarbonising the economy which is likely to have budgetary impacts in the future. This could generate compliance costs of up to €6bn for the period to 2030[32]. In addition to the moral imperative, there is a significant economic case for climate action.

Greenhouse gas emissions in Ireland arise from agriculture (32.3%), energy industries (20.4%), and from transport (20.0%)[33]. Ireland therefore has to focus on one or all of these sectors in order to

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28 See page 11: https://assets.gov.ie/4049/071218131542-81b907e357df447cb8b471788cf6ecfe.pdf
29 See: https://www.irishtimes.com/news/health/up-to-9-000-additional-hospital-beds-needed-review-finds-1.3346369 and https://health.gov.ie/wp-content/uploads/2018/02/71580-DoH-Dublin-Report-v6.pdf
30 It is estimated that it costs €800m to open up 2,500 beds (ibid.).
31 See, for summary: https://www.ipbes.net/news/ipbes-global-assessment-summary-policymakers-pdf
32 See Section 4.4.2: https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-ireland_en.pdf
33 See: http://www.epa.ie/pubs/reports/air/airemissions/ghgemissions2016/Report_GHG%201990-2016%20April_for%20Website-v3.pdf

fulfil its international obligations. A just transition fund should therefore be set up to ensure that Ireland transitions to a greener economy in a way that is both environmentally and economically just. The money should be ring-fenced for policies that green the economy and Ireland, but which can be allocated to conventional departmental policies. This could be funded by increases in environmental-based excise charges and also by increasing the carbon tax. In particular, TASC recommends the carbon tax be increased by €10 a tonne yielding an increase in revenue of €213m. Excise on unleaded petrol and auto-diesel should both be increased by 3c which would yield an extra €121m in total[34].

In relation to transportation, Ireland should aim to reduce its reliance on private cars, and should consider experimenting with 'free' (at the point of use) buses in the major cities, as several other European cities have done. In the interim, bus routes should be expanded in economically-deprived areas and there should be lower bus fares and higher parking fees. TASC proposes increasing the subvention to CIE by €120m. An extra €70m should also be allocated to subsidise electric vehicles and to facilitate greater use of cycling.

To ensure the benefits greening Ireland are regionally balanced, a further €15m should be invested in Local Improvement Schemes to improve rural roads. This would be supplemented by an increase of €5m to the Town and Village Renewal Scheme. TASC also urges the government to ensure that the Action Plan for Rural Development is being implemented.

A number of initiatives should be undertaken to improve Ireland's energy usage. Though transport is by some distance the largest source of energy demand in Ireland[35], the residential sector accounts for a quarter of energy consumption in Ireland, and emits 60% more carbon dioxide that the average EU home[36]. An extra €51m should be allocated to the Sustainable Energy Authority of Ireland to improve the energy efficiency of Irish homes.

In relation to agriculture, emissions come principally from the emissions of cows and sheep through a digestive process known as enteric fermentation[37], though transportation of agricultural produce is a significant source of energy demand[38]. Much of Irish agriculture, especially sheep farming and cattle rearing, would be economically unviable were it not for large transfer payments from the

[34] See: https://www.revenue.ie/en/corporate/documents/statistics/ready-reckoner.pdf
[35] See: https://www.seai.ie/resources/seai-statistics/key-statistics/transport/
[36] See page 2: https://www.seai.ie/resources/publications/Energy-in-the-Residential-Sector-2018-Final.pdf
[37] See: https://www.agriland.ie/farming-news/what-can-irish-agriculture-do-to-reduce-greenhouse-gas-emissions/
[38] See: https://www.seai.ie/resources/seai-statistics/key-statistics/transport/

EU[39]. TASC believes that €70m should be allocated in the form of direct and tax subsidies to encourage innovation in agriculture. This could be overseen by Enterprise Ireland by providing grants to existing businesses and farms to improve their carbon footprint. It should also encourage the development of more environmentally-friendly agricultural start-ups, including organic farming. A further €1m should be invested in the training of apprentices.

Finally, an awareness should be raised through education in schools and public campaigns of the effect of climate change on society and affected communities. TASC recommends the government allocate €1m.

[39] See: https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2018/2018-08-17_an-overview-of-the-common-agricultural-policy-cap-in-ireland-and-potential-regional-and-sectoral-implications-of-future-reforms_en.pdf