TASC

Think-tank for Action on Social Change

Independent research, challenging inequality and promoting a flourishing society

Opening remarks to Oireachtas Joint Committee on Finance, Public Expenditure and Reform, 15 July 2014 by Nat O'Connor, Director, TASC

Thank you for the invitation to address the Committee.

TASC is an independent, progressive think-tank and our core focus is on the growth of economic inequality in Ireland in recent decades, which follows trends in the USA and UK, as described by economists such as Professor Thomas Piketty, who recently spoke at TASC's conference.

Economic inequality is bad for society, but it is also bad for economic growth and stability.

We recently analysed Ireland's tax system and how it interacts with the economy. We present evidence that defending and ultimately growing our level of taxation is essential for economic recovery and to boost job creation, as well as to tackle inequality.

Ireland is caught in a 'low tax triangle': our tax and social insurance take is just three-quarters of the EU average. Low taxes mean lower levels of public services and social transfers. And everyone has a higher cost of living, with more out-of-pocket expenses for services that would be cheaper or free-of-charge in other countries.

As a result, many people do not have enough money for essential goods and services, meaning less demand in the economy and calls for lower taxes.

But this is a downward spiral.

In response to a Parliamentary Question [25164/14], Minister Noonan has confirmed that "Ireland does indeed have the lowest tax wedge of all EU members, for those on average wages".

To be clear, the actual tax and social insurance paid by people on average wages in Ireland, is the lowest among EU members of the OECD, despite the nominally high marginal rate. That is due to higher levels of tax credits and tax reliefs in Ireland.

Recent calls for cuts to Ireland's higher rate of income tax are based on two false premises. Firstly, a cut to the 41% rate will not benefit those on middle incomes. The Minister for Finance has confirmed that only 17 per cent (the top one in six) of income earners pay anything at the higher rate of income tax. The vast majority of people would not receive any benefit from changes to the higher rate or bands.

Secondly, tax cuts in a low tax economy are not the best way to boost growth and job creation. Drawing on recent research by the ESRI and Central Bank, it is highly likely that tax cuts for the higher paid would lead to people paying down debt, not boosting the domestic economy through consumption or investment.

In considering options for Budget 2015, as well as arguing for Ireland's tax base to be defended, we have circulated other tax-related policy briefs to members. We outline TASC's analysis of the inequitable step effect in PRSI: in some cases an employer must pay €1,680 to give a one euro net pay increase. We present the case that cutting VAT would benefit everyone rather than cutting higher income taxation. And we propose raising a third rate of income tax on high earners. Our detailed analysis also outlines the continued cost of tax breaks in Ireland, despite the recession. Ireland should follow the best practice example of Australia, where parliament scrutinises an annual report of all tax reliefs in terms of value for society's money.

Tax cuts will lead to a decrease in public services, social transfers and public investment – which will have the net effect of shrinking the economy and worsening economic inequality. People on low incomes or reliant on welfare will gain nothing from tax cuts, but will be worse affected by reduced income or service cuts.

The IMF in a recent study pointed out that the economic growth multipliers from investment are higher than what would be achieved through income tax reductions. To boost growth and jobs we need public investment in infrastructure and human capital, which business groups and economists have suggested. A virtuous cycle in the economy is possible, with public investment 'crowding-in' private investment. But to so this we need to strengthen the tax base: to maintain public services and social transfers; and to fund new public investment.