SIPTU

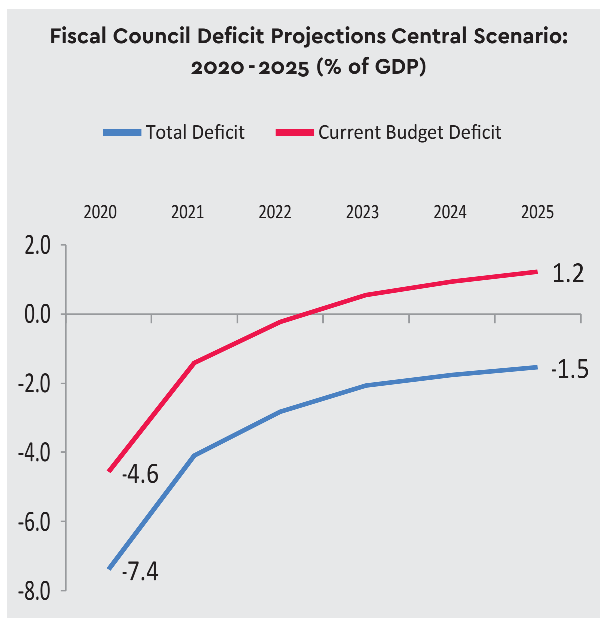
A Progressive Fiscal Framework

A fiscal policy that serves the needs of the economy and society, of workers and their families, the environment and future generations

September 2020

Economic growth will stabilise our public finances

We do not need austerity. We do not need tax increases or spending cuts to stabilise our public finances. Economic growth – which increases tax revenue and reduces spending related to unemployment – will bring stability to public finances.



The Irish Fiscal Advisory Council shows that, without any austerity measures, the deficit will fall dramatically over the next five years.[1] Not only does the deficit fall, we stop borrowing for day-to-day purposes (spending on public services and social protection) by 2023. After that, we only borrow for investment. With borrowing at ultra-low rates, this is practically free money. While the Fiscal Council's projections may change when more up to date data is available, the trajectory will remain the same.

Avoiding austerity, however, is not sufficient. The Irish economy needs a long-term substantial investment programme along with enhanced public services and social protection payments, including in-work benefits. SIPTU calls on the Government to implement a fiscal policy based on the golden rule:

- Bring the current budget – spending on public services and social protection – into balance or even run a slight surplus
- Borrow for productive investment

PROPOSAL 1: In the short-term, the Government needs to spend the necessary resources to support the productive economy. Over the medium-term, the Government should target a deficit of 2%.

We need the fiscal space to allow the economy and living standards to grow. In the medium term any precipitous move towards a balanced budget could reduce the resources necessary for investment or result in austerity measures.

What about the debt? Wouldn't it continue to rise if we run a deficit, however small? No. As long as the economy grows faster than the deficit, then the 'debt burden' (debt as a percentage of national income) will fall. Between 1987 and 1997, Governments ran average deficits of two percent each year. But the debt burden fell – by nearly half. In recent years, the debt burden has fallen even though the Government ran deficits. How did that happen? The economy grew faster than the deficit. If we achieve sustainable long-term growth, the debt burden will fall.

Borrowing for Productive Investment

Even before the pandemic crisis, Ireland had a number of infrastructural deficits: public housing, health sector capacity (e.g. beds, equipment), water & waste, telecommunications, modern childcare facilities, rural development – and many other sectors. These deficits will be exacerbated by the crisis. Then there is the climate crisis and the onset of automation and digitalisation (the fourth industrial revolution). Only a programme of long-term, sustained and substantial investment can meet these challenges.

Investment is not a cost. It is an expenditure today in order to grow the economy and social prosperity in the future. Over time, the revenue generated from the actual investment and the positive impact on economic growth will exceed the initial outlay. This is what businesses do when they invest in new machinery and technology, market expansion and new skills – borrow for future returns. Households also do this – borrowing for home ownership, investing in repairs and energy-reducing retrofits.

With interest rates so low (at less than 1%, this is practically 'free money'), it makes sense to borrow under the golden rule. By targeting a 2% deficit over the medium-term, the Government can engage in the future investment needed. While there is only so much public

[1] "Fiscal Assessment Report: the Financial Impact of Covid-19", Irish Fiscal Advisory Council. 2020 (current budget deficit own calculation).

investment the economy can absorb in any one year, it makes sense for the Government to borrow in excess of what it needs while interest rates remain on the floor. This can ensure that the 2020s will become the decade of investment.

PROPOSAL 2: Warehouse Debt to Sustain Investment over the Long Term. With borrowing practically free, the Government should target investment over the decade by borrowing while interest rates are so low and holding the excess funds in a special fund which would be drawn down in the years ahead.

Expanding the Tax Base for Social and Economic Prosperity

Achieving fiscal stability through economic growth and investment will not, however, be sufficient to fund stronger public services and enhanced social protection and in-work benefits. Ireland is a low-public spending economy. While we need to borrow for productive investment, the golden rule stipulates that we balance our current budget (day-to-day spending, primarily made up of public services and social protection), or even run a slight surplus. Ireland would need to spend over €10 billion to reach the average current (day-to-day) spending of our EU peer group.[2] Therefore, we need to strengthen and extend our tax base in order to raise the revenue to address our social infrastructure.

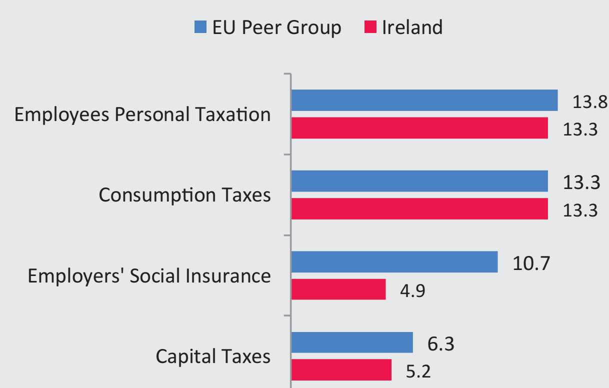
In other EU countries, workers can receive up to 100% of their pay in illness benefit and up to 75% of their pay in unemployment benefit. This ensures that all workers are protected if they become sick or unemployed. This is what a proper social protection system should do – protect the social.[3]

Historically, Ireland is a low-tax economy but not because we have low personal taxes on income or low consumptions taxes (VAT, excise). Our low-tax status is almost exclusively due to extremely low employers' social insurance contributions (PRSI) and, to a lesser extent, low capital taxes.[4]

Irish personal taxation (income tax, USC, PRSI) and consumption taxes are average compared to our peer group. Irish employers' social insurance is, however, less than half our peer group's average. To reach that average, Irish employers' PRSI would have to double or increase by nearly €10 billion. While the gap in capital taxes doesn't seem much, Irish capital taxes would have to rise by €2 billion to reach our peer group average.

While the Government should wait until after the crisis to increase revenue, in the medium term it will need to expand the tax base.

Taxation by Category: 2018 (% of National Income)



PROPOSAL 3: Phase in increases in **Employers' social insurance,** linked with a rolling out of enhanced, pay-related in-work benefits and social insurance payments (e.g. unemployment, illness, maternity and family benefits).

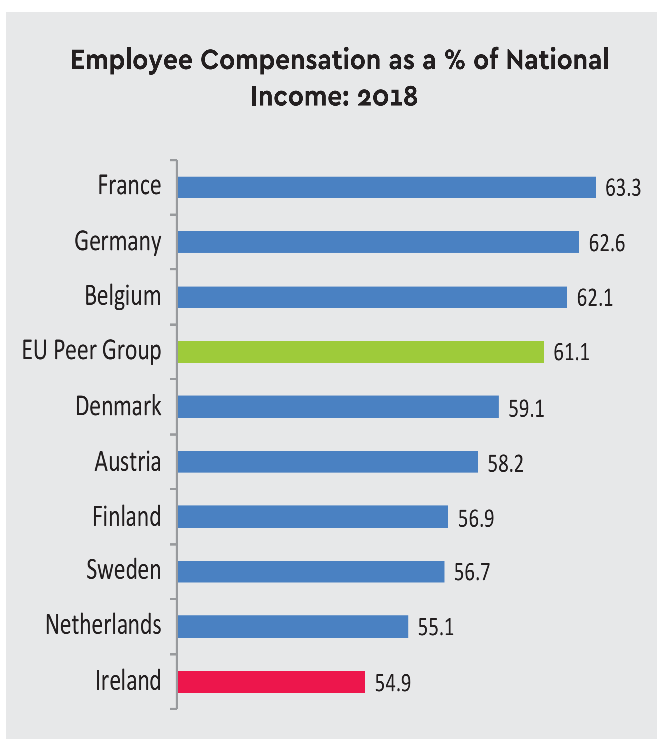
PROPOSAL 4: Increase taxation on capital. This means increasing taxes on **assets and wealth** (e.g. a net assets, or 'wealth' tax), **passive income** (e.g. inheritances, gifts) and **unproductive capital** (speculation). It is widely accepted that taxes on capital stocks are growth-friendly.

PROPOSAL 5: Increase **taxation on environmentally-destructive activities:** Increase taxes on carbon emissions (combined with income supports for low/ average income groups), diesel, throwaway products, carbon and aggregates.

[2]Eurostat: General Government Expenditure by Function (gov_10a_exp) and own calculation factoring in demographic spending.
[3]Mutual Information System on Social Protection, Comparative Tables.
[4]Eurostat: Taxation Trends in the European Union.

A Worker-Centred Recovery

The living standards of employees can drive economic recovery through increased demand (consumer spending) resulting in improved business performance. However, Irish wages are low compared to our peer group. The 'wage share' measures the proportion of national income that goes to overall employee compensation. Ireland is at the bottom of our peer group. Were we to move towards our peer-group average, not only would employees' living standards rise, so would tax revenue, consumer spending and business income.[5]



Employees can also drive economic recovery through their experience, skills and knowledge of what makes an enterprise succeed – whether in the private or public sector. The jury is not out; it came in a long time ago: greater working participation in the decision-making process in the workplace improves productivity. In public services, this can be done through a process of employee-driven innovation – where employees design reforms to increase efficiency in their workplace. Greater employee-led efficiencies generate better outcomes from significantly increased investment in public services, improve public service quality and enhance working conditions.

PROPOSAL 6: Increase the wage share through vindicating the right of workers to Collective Bargaining: Collective bargaining is an instrument of economic recovery and fiscal stability.

PROPOSAL 7: Introduce employee-driven innovation in the Public Service through a democratic, bottom-up process designed jointly by employees, trade unions and management.

The Government will be introducing a new suite of business supports in Budget 2021. According to the Programme for Government it will:

"Establish sectoral taskforces, comprising Government, independent experts and stakeholders and chaired by line ministers, to focus on the specific needs of sectors and to bring forward plans in the context of the National Economic Plan."

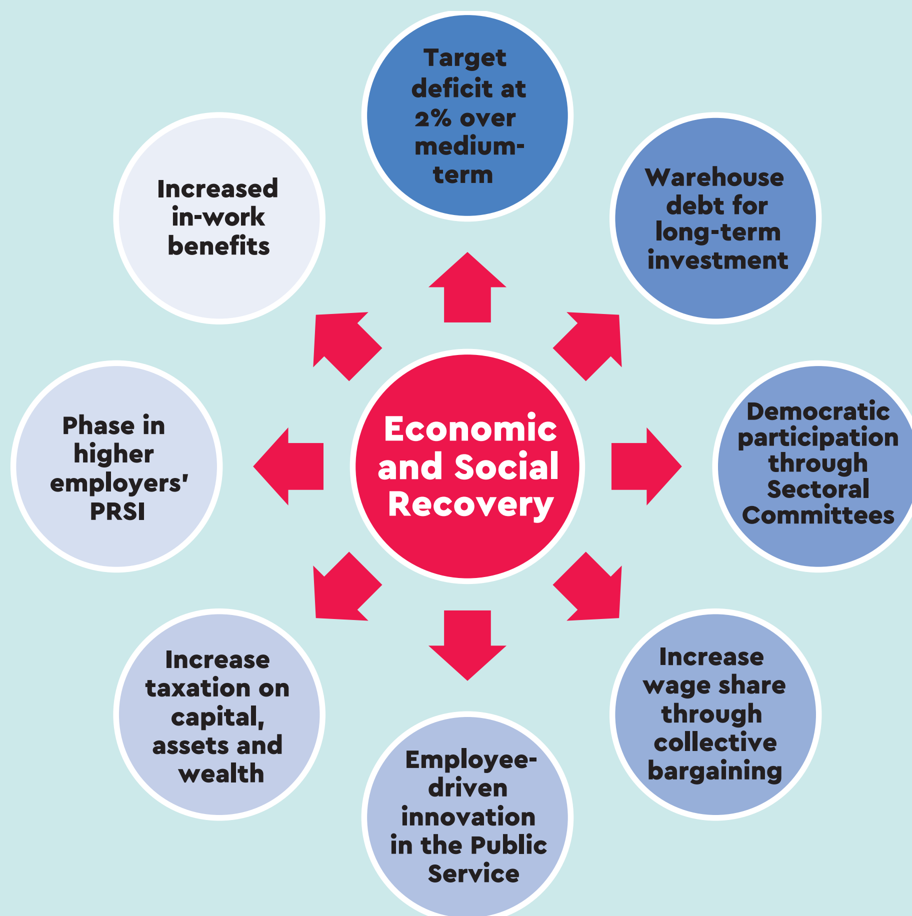
This is to be welcomed. Such sectoral committees can help firms (owners, management and employees) adapt to short and long-term impacts, which will play out differently in each sector and across the economy. These can work by identifying and facilitating the best sectoral policy, communicating best practice to firms and workers, encouraging best outcomes for all stakeholders. This should be placed in the context of anticipating, rather than merely reacting, to future market changes.

It is, therefore, imperative that workers are fully represented on these taskforces. The previous government established the Tourism Recovery Taskforce – a stakeholders' forum to address the challenges facing the industry. The only problem is that the largest stakeholder was excluded from membership of the taskforce – the workers. This has undermined the work of the taskforce and will prevent it from developing optimal proposals.

PROPOSAL 8: Establish Sectoral Oversight Committees throughout the economy with full participation by employees and their representatives.

[5] EU Ameco database.

SIPTU's proposed framework allows us to embrace a new concept of 'fiscal responsibility', one in which full quality employment, productive investment (in particular, green investment), social security and growing equality are put at the heart of fiscal policy. Within this framework we can build a resilient economy and a prosperous society while maintaining the debt-burden on a downward path. In short, SIPTU's progressive fiscal framework has the capability of knitting together the needs of the economy, society and public finances – to everyone's benefit.[6]



[6] "Thinking seriously about what 'fiscal responsibility' should mean", Economic Policy Institute, September 2019.

SIPTU is the largest trade union in the country representing over 200,000 workers across almost every sector of the economy. We are organised across the island of Ireland.

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