

Jobs & Recovery

Labour's Proposal for a Fair Budget
4th December 2009

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1. The Economic Crisis: A Coherent Approach

Ireland is facing an unprecedented economic crisis.

We are living through one of the worst recessions of any developed country since the Second World War. In its Pre-Budget outlook, The Department of Finance predicts that the volume of GDP will fall by approximately 12% in the period 2008-2010. Output has been falling since the first quarter of 2008, and the ESRI do not expect growth to resume until late 2010. The collapse of the property bubble coincided with the international recession to produce this collapse in output. Ireland is, however, among the worst performing Eurozone economies.

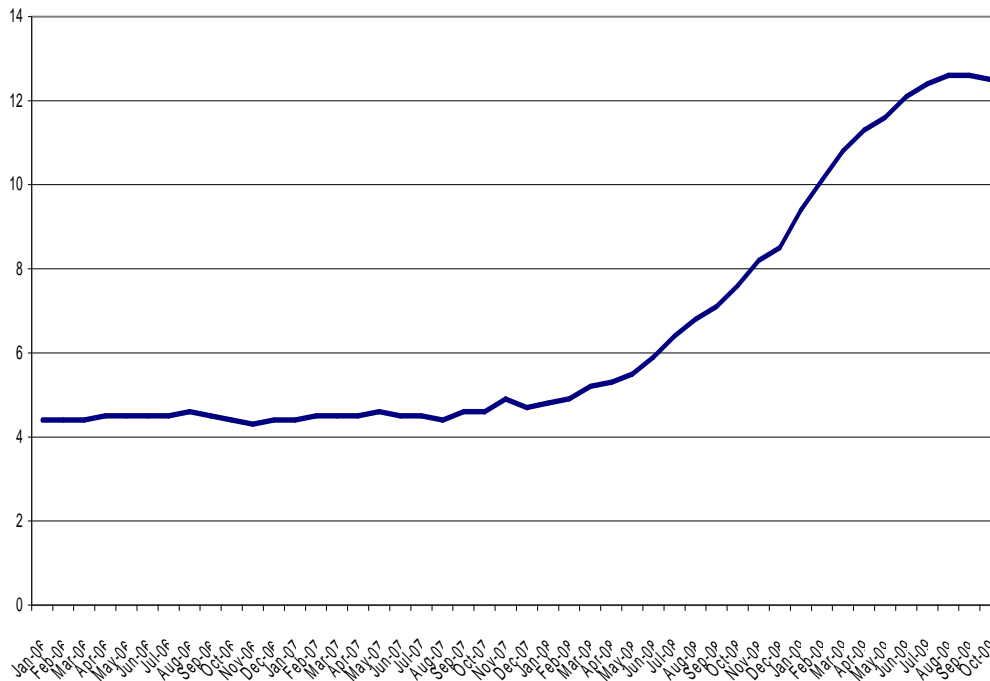
We have three interlinked crises

The economic crisis has three constituent parts that are inextricably linked;

1. The Banking Crisis: A collapse of the banking system has only been averted through a series of ad-hoc and extremely costly policy interventions. NAMA will gradually take on bad assets of €54 billion, though there are serious doubts about the capacity of the banks to support enterprise as the economy recovers.
2. The Fiscal Crisis: the forecasts in the pre-Budget outlook make plain that the present fiscal position is not sustainable. In the absence of any adjustment, the deficit would exceed 14% in 2010.
3. The Jobs Crisis: The recession has spread from the construction sector to generate an enormous jobs crisis. Unemployment, which was below 5% in 2007, now exceeds 12%. The rate of increase in the live register has moderated, though this change has been driven by a number of factors, including migration and eligibility rules¹. Most forecasters expect unemployment to peak in 2010, in a range of approximately 14% – 15%. Young males have been particularly affected, with unemployment reaching 40% among 15-19 year olds, and 30% for 20-24 year olds.

¹ FAS, Quarterly Labour Market Commentary, Autumn 2009

**Unemployment Rate (Live Register)
Seasonally Adjusted**



A Coherent Approach is urgently Required

So far, the Government has concentrated its attention on the banking crisis and the fiscal crisis, while doing little to address the jobs crisis. These issues cannot be dealt with in isolation. Rather a coherent and integrated approach is necessary. In particular, while budget adjustment is needed, the requirement to increase revenues through enhanced economic activity is crucial. Adopting a coherent approach to the crisis means

- Treating the crisis as a set of integrated problems, not dealing with each separately
- Making serious efforts to address the jobs crisis, as a means of increasing revenues as well as lowering unemployment
- Adopting a negotiated approach, because it is more likely to succeed, and because it will boost confidence and enhance credibility
- Making fairness a key principle, both for its own sake, and because it will make adjustments more effective.
- Linking short-term measures to longer-term strategies to ensure that recovery is sustainable and enduring.

2. National Unity is a vital asset

Labour has advanced a set of five proposals as the basis for a new Agreement for National Recovery. These are:

1. A Coherent Jobs Strategy, to get people back to work, to keep people in employment and provide training and re-education for those who have lost their jobs.
2. A Home Guarantee, with statutory backing, that people facing difficulties in meeting mortgage repayments will not be put out of their homes for the period of the recession.
3. A Fair Budget: The December Budget should be based on the principles of fairness and equity.
4. Public Pay. There should a negotiated agreement to secure savings in the public sector wage bill, that would be based on securing reforms and savings, and on ensuring a more efficient public service for the future
5. Industrial Peace: There should then be a commitment from the trade union movement, that if these actions are taken, then there would be a guarantee of industrial peace.

Negotiations structured around these five points, would make a significant contribution to dealing with the budgetary, economic and financial challenges that confront us. And an agreement would send a hugely positive message to the rest of the world, that Ireland is serious about dealing with its problems.

Banking Reform

Fianna Fail would like to pretend that the banking crisis and the budget are not connected. The banking crisis has done untold damage to Ireland's reputation overseas, and has driven up the cost of Government Borrowing. Despite the enormous bailouts for the banks, through the blanket guarantee, recapitalisation and NAMA, the Government has been extraordinarily timid in driving reform, and the majority of board members continue to people who held office during the bubble, and who oversaw the mistakes that took place.

3. A Budget Based on Fairness and Reform

The opening Budget deficit for 2010 is 14% of GDP. Without substantial measures being taken to address this deficit, Ireland's debt burden and consequent interest payments would become unsustainable.

The deficit is structural as well as cyclical

The deficit will not be brought under control through the resumption of economic growth on present forecasts. While the deficit clearly has a substantial cyclical component, it also has a structural component – the result of increases in spending and tax cuts financed by the proceeds of the property bubble. This structural, or Fianna Fail Deficit, amounts to approximately half of the problem. It is necessary to reduce this Fianna Fáil Deficit through fiscal consolidation measures.

Adjustment should not be delayed

In normal circumstances, it would be undesirable to begin a process of budgetary consolidation with the economy in such a vulnerable position. Fianna Fáil mismanagement of the economy has been so bad, however, that the deficit is already at an unsustainable level, and Ireland has no option but to continue the process of fiscal consolidation.

Budget 2010, therefore, should provide for an adjustment of €4billion.

A balanced and credible mix of policies is required

In the April supplementary budget, the Government stated its intention to bring forward a set of economies totalling €4billion, having the following composition:

Government Proposals, April 2010

	2010	Full Year
Current Spending reductions, (including pay)	€1,500m	€1,500m
Capital Spending reductions	€750m	€750m
Revenue-Enhancing Measures	€1,750m	€2,500m
Total	€4,000m	€4,750m

Source: Emergency Budget, April 2009

This was a broadly balanced policy mix, which had the benefit of being credible, both domestically and internationally. Since then, the Government has shifted its position, such that it is now seeking to achieve approximately 80% or more of the adjustment from expenditure reductions.

While repeatedly citing international evidence to the effect that this is the best approach, it has not outlined the economic mechanisms through which an expenditure-based adjustment will result in an expansion in output.

Labour's view is that a balanced policy mix, such as that set out in the April budget is more credible, in that it will be seen both domestically and internationally as being more likely to be implemented. Equally, an adjustment based on a combination of expenditure reductions and revenue-raising, which involves contributions from across society, as well as being desirable in itself, will generate less conflict and social division.

There must also be measures to generate growth

The fastest route out of the fiscal crisis will be growth in the economy. While this does not diminish the requirement to tackle the structural deficit, the budget must also contain measures to support enterprise as the world economy begins to recover, while also boosting confidence at home. Labour's proposals in this area are set out later in this document.

Labour's Policy Mix

Accordingly, Labour is proposing a mix of policies, with a more credible combination of spending adjustment and revenue-enhancing measures, combined with an investment in social solidarity and a major allocation of resources to employment creation.

	2010	Full Year
Savings		
Pay	1,300m	1,300m
Non-Pay Current Spending	899m	899m
Capital savings through lower tender prices	1,246m	1,246m
Revenue-raising	1,646m	2,351m
Total Savings	5,091m	5,796m
Expenditure Priorities		
Jobs	700m	1,150m
Social Solidarity	300m	300m
Total	1,000m	1,450m
Fiscal Adjustment	4,091m	4,346m

4. Fairness and Reform in Taxation

Ever since the Report of the First Commission on Taxation, tax reform has been an unfulfilled policy objective. The recommendation of the First Commission was that tax rates be kept low through maintaining a broad base, and in particular through the minimisation of tax expenditures. Ultimately, if tax rates are to be kept as low as possible, then the reduction of tax expenditures cannot be delayed.

Tax Expenditures must be tackled

Under Fianna Fáil, tax expenditures have been used extensively to minimise the contribution of some of the wealthiest individuals in Irish society.

Given the dire economic circumstances, these tax expenditures are simply no longer affordable, and must be reigned in. In particular,

Labour is proposing

- Immediate abolition of all property reliefs as an emergency measure
- Substantial reduction of the relief on rental incomes of commercial and residential investment properties to 25%.
- Abolition of a number of minor reliefs i.e. relief on donation of heritage items and relief on trade union subscriptions.

Tax exiles must contribute

Despite repeated promises to do so, the Government has failed to adequately deal with the on-going scandal of tax-exiles. Ireland has thousands of tax exiles, many of them prominent in Irish life. It is simply unacceptable that this situation can continue, without a meaningful contribution being made to the exchequer. A contribution of not less than €100m must be sought from tax exiles. We support the recommendations of the Commission on Taxation in this area;

The Commission on Taxation proposes that the existing rule for tax residency which is a 183/280 day test, be supplemented by additional criteria, which should include tests relating to a permanent home and an individual's centre of vital interests. (Commission on Taxation, page 7)

Carbon Levy

Labour supports the introduction of a Carbon Levy. Given the impact on vulnerable groups, however, it is necessary that some of the revenue be diverted to offsetting measures that will limit the impact of the levy on individuals and charities. These should include investment in insulation of homes, which also create jobs, and investment in rural transport.

Fairness requires a third Rate of Tax

In this unprecedented economic crisis, it is necessary that those who have the most, must contribute the most. Labour is proposing the introduction of a third rate of tax on earnings over €100,000 for an individual or on earnings over €200,000 for combined incomes (i.e. this will not impact on the first €100,000 of earnings for an individual or the first €200,000 for dual income households). This would initially be set at 48%, and would remain in place as and when the emergency levies are brought into the tax code, resulting in a three-tier tax system.

It must be emphasised that the way to avoid high marginal rates of tax in the future, is to ensure a far stronger focus on effective rates of tax. If people on high incomes are allowed to reduce their effective rates of tax through tax avoidance schemes, then high marginal rates are an inevitable consequence. This can be avoided by robust rules on the minimum effective rate of tax payable at various income levels. Effective tax rate rules should be introduced as the levies are pared back, resulting in a more efficient and fairer system, with lower marginal rates and higher effective rates.

Greater parity of treatment of unearned income

Fairness in the tax code requires greater parity of treatment of un-earned income. Accordingly, we are proposing that PRSI should be applied to capital gains and that the thresholds for CAT should be reduced. This is necessary, given the fall in asset prices. PRSI should also be applied to share based remuneration.

5. Expenditure Savings through Reform

Given the scale of the budgetary crisis, it is necessary to make substantial expenditure reductions. These must be achieved through a process of radical public sector reform.

Public Sector Pay Bill

While it is necessary to reduce the public sector pay bill, this should be achieved through negotiation, and as part of a process of public sector reform. There will be a requirement for significant flexibility in staff deployment to bring this reform about. Reform at the level of agencies and departments must be accompanied by reform in the planning and budgetary systems used by Government, to curtail the stop-go approach to public spending that has been a feature of Fianna Fáil's approach to public expenditure.

Public Service Reform

Labour has been arguing for years that public services must be reformed. It is precisely because the Labour Party is committed to high quality public services that we must insist on value for money in their provision.

The necessary reduction in the public pay bill must be accompanied by a process of reform, at both the micro and the macro level. Across the board cuts in pay will not deal with the requirement for deep-seated and on-going reform in the delivery of public services.

Among the many proposals that Labour has made in this area are:

- Appointment of a Cabinet Minister with responsibility for Public Service Reform
- New Budgetary procedures to devolve responsibility to agencies and departments, who will be required to achieve value-for-money targets and a reduction in the public sector pay bill, while preserving the quality of services.
- Stronger scrutiny in the Oireachtas of how money is spent based on our long-standing proposals for Oireachtas scrutiny of public expenditure.
- Flexibility in the deployment of staff, and more openness in the limited recruitment that will be carried out in the public service.

Non-Pay Budgets

As well as bringing down the pay bill, there is a requirement to curtail non-pay budgets. This should be focused, where possible, on protecting service provision, and limiting input costs. Labour's proposals, therefore, are focused on securing savings through

- reduced professional fees;
- driving down input costs through measures such as generic prescribing in the health service, lowering utility costs and better supply chain management
- lower administrative costs as identified by the Bord Snip report, including selected agency mergers;
- More effective use of in-house resources, such as the State Claims Agency.

Capital Budget

The expansion in the capital budget during the bubble was necessary and appropriate, but the volume of output achieved was undermined by higher tender prices and poor project management.

As tender prices fall, there is an opportunity for Government to reduce its contribution to the capital budget, while maintaining the real level of output. The Government should also, however, make use of non-traditional project funding to expand infrastructure investment subject to value-for-money evaluation.

Social Solidarity

To be meaningful, a unified national effort must be based on social solidarity. Moreover, cuts to social welfare are highly deflationary, since the vast bulk of social welfare incomes are spent directly and immediately in the local economy. We also believe that maintaining child benefit is a critical component in supporting families and preventing child poverty.

Labour is proposing

- No cuts in the basic rates of social welfare
- Support for families by maintaining child benefit
- Restoration of the Christmas payment
- Targeted measures to deal with the impact of fuel poverty on low-income households and charities, and associated measures, such as greater investment in rural transport and more resources for the warmer homes scheme.

These changes must be accompanied by far more robust efforts to deal with social welfare fraud.

6. Jobs Strategy

To date, the jobs crisis has been afforded little attention by Government. There has been much fan-fare about the 'smart' economy, but little concrete action. Yet, it is only through reviving economic activity and reducing unemployment that the fiscal crisis can be properly addressed.

Ireland must effect a major economic transition – from a property-dependent economy, to an export-led economy. When Labour was in Government Ireland developed a strong track record in building a knowledge economy – before the term was in wide circulation. We must build on that record. That means building strong indigenous firms, as well as attracting Foreign Direct Investment. It means putting in place infrastructure that complements the knowledge economy, and ensuring that investment is channelled towards enterprise and infrastructure. It also, crucially, means investing in people, at all levels of skill and learning.

The knowledge economy will not be built by just talking about it. We need concrete action, to build the firms we have, and to support job creation, with realistic economy-wide and sectoral strategies.

Jobs Fund

Labour is proposing that Budget 2010 would establish a jobs fund to support a new jobs strategy.

The fund would not be allocated through the conventional estimates system. Instead, Departments and agencies would be required to submit business cases to a Cabinet Taskforce, which would evaluate them and distribute resources accordingly.

Measures to be supported by the fund would include

- Additional Resources to support enterprise
- Sectoral development strategies
- A major skills and work experience drive
- Fast-track and high priority capital projects

Enterprise Strategy

The report of An Bord Snip contains recommendations for a major shift in the means by which the state supports enterprise in Ireland. In particular, the report recommends that enterprise supports for indigenous industry should be delivered through a single agency.

While An Bord Snip make important observations on the level of overheads, the range of overseas offices and the lack of consistency in reporting what has been

achieved from expenditure programmes, they do not make a convincing case for the proposed mergers, other than on cost grounds alone. In this case, however, while costs must be addressed, the over-riding concern is the need to support enterprise and enhance employment creation. Indeed, the proposals in this area reflected a broader 'Fordist' mentality in the Bord Snip Report, which assumes that centralisation is always the most effective means of delivering on policy. Moreover, the proposed mergers would be expected to take place when all the full energies and focus of the agencies concerned should be on job creation, rather than internal organisation.

An alternative approach is to maintain a network of agencies, preserving specialised knowledge and skills, while improving integration and stripping out costs. Certainly, there is a requirement for better analysis of the outcomes of spending programmes.

The Future of Enterprise Strategy

In the future, Enterprise Strategy in Ireland should be focused on a dual-strategy of attracting foreign investment, while developing a strong indigenous enterprise sector. Ireland has suffered considerable reputational damage as a result of the banking crisis, but still offers important attractions to overseas investors. These must be preserved, including the 12.5% tax rate on corporations profits tax.

Greater attention must be focused, however, on the development of indigenous firms in high value-added activities. Enterprise supports, provided through state agencies have a vital role to play in helping firms to start-up and to grow. They provide assistance and knowledge at critical phases in the life of a firm. When the system is functioning at its best, a firm can draw on a range of formal and informal resources, including contact with other firms who can share knowledge and experience.

The role of the enterprise support agencies is also vital, in understanding market conditions and demanding improved performance in return for assistance. The enterprise support agencies will function best when they operate in a coherent network that emphasises the importance of market knowledge. Merging the Film Board into Enterprise Ireland, as proposed by An Bord Snip, for example, risks the loss of specialised expertise, with minimal savings in return. Rather than embroil the enterprise boards in administrative quagmires, the challenge is to energise them as seed-beds of new enterprise.

This does not imply, however, that the agencies concerned can be immune from the need to secure greater efficiencies, such as, for example, though shared services. The objective should be to slim down and share back-office functions, while retaining the knowledge base of the agencies concerned.

Greater Support for Enterprise

Enterprise strategy should be focused, not on the withdrawal of supports, but rather their extension and development. The criteria for support should be extended. This would include, for example, support in certain circumstances, for import substituting firms, as well as those with an immediate export focus.

The range of interventions should also be expanded. A PRSI exemption scheme should be introduced, to be implemented through the enterprise support agencies. This would involve a time-limited exemption from employer's PRSI for new jobs. Certification by the enterprise support agencies would limit the scope for 'deadweight' in this scheme.

Greater focus and resources should be placed on using the country enterprise boards to support small business start-ups. The eligibility criteria for support from the County Enterprise Boards should be re-examined to promote activity, given that the weakness of the economy lessens the risk of deadweight or displacement loss in the short-term.

While An Bord Snip correctly highlights a rapid rise in spending on STI, and the inadequacy of formal evaluation of this spending, it does not, again, provide adequate justification for its proposal to centralise and cut spending in this area. This approach risks an excessive targeting of resources on a limited number of areas. A more effective approach is to maintain investment in a diverse range of knowledge, and to enhance the capacity of the system to develop commercial applications of research activities. While this should be built into the STI funding system, in the short-term support for commercialisation would be available through the Enterprise Support Fund.

Sectoral Strategies

As well as developing economy-wide enterprise strategies, it is important to develop sectoral strategies to be pursued by relevant agencies. The maintenance of the film board, for example, should form part of an overall strategy for developing jobs in creative industries. Labour has also recently published proposals for developing 'green' jobs.

Again, it is important that short-sighted proposals in the Bord Snip report are not implemented. The suggestion that Tourism marketing budgets be cut, for example, is particularly ill-advised, given the fall off in numbers coming to Ireland, and our loss of market share, particularly in the UK. Rather than cutting marketing spend in the UK, there is a strong case for expanding it. The Jobs Fund would be available to support sectoral strategies in a number of areas, with particular emphasis on

- Food
- Tourism
- Creative Industries
- Green Jobs

Skills

In its document entitled 'Just the Job', the Labour Party has set out a series of initiatives to provide training, educational and work experience opportunities for those who without work. These interventions are crucial, to schemes include the following:

- An 'Earn and Learn Scheme' that keeps people in employment while upskilling.
- A Graduate and Apprentice Work Placement Scheme for 30,000 young people.
- Reduce the qualifying period for Back to Education Allowance and Back to Work Enterprise Allowance to 3 months.
- A tax-back scheme to fund full-time study.
- Mobilise Further Education colleges and Institutes of Technology to respond to demand for retraining.
- A 'Skills Exchanges' to help maximise the expertise available for retraining.
- Additional resources for literacy programmes.

Resources for these initiatives would be drawn from the Jobs Fund

Investment Strategy

Throughout the bubble years, there was a rapid expansion in the scale of the public capital programme. While there were improvements in the system of budgeting for capital spending, there were also significant problems. Higher tender prices and other costs absorbed a significant proportion of the increased budgets, and there were dramatic cost over-runs in important projects. The most recent NDP, in particular, bore all the hallmarks of a Fianna Fáil election manifesto.

Economic circumstances have now changed, and there is a need for a re-assessment of investment priorities. A new NDP should be drawn up, based on a sober assessment of key economic and social investment needs. This should be explicitly linked to the requirements of enterprise strategy. Given the fall in tender prices across the economy, there is scope for substantial reduction in the capital programme without affecting the volume of activity.

In addition, a fresh approach must now be taken to non-traditional financing of infrastructure investment. The banking crisis had led to a crisis in the existing PPP programme, with banks having little appetite for this kind of project financing. At the same time, Ireland has on-going requirements for infrastructure provision. Subject to reasonable value-for-money criteria, Government has a number of options for pursuing non-traditional financing methods, as was indicated in the April emergency budget. Labour's preferred approach is to establish a State Investment

Bank, which would replace the National Development Finance Agency. There are other short-term options which the Government could also examine.

Immediate Investment

The jobs fund would be made available to support capital investment projects that can be rolled out quickly. These should include a major School-Building and pre-fab replacement programme to begin in 2010 and run into 2011, an additional allocation to the warmer homes scheme as part of the compensating measures accompanying the carbon tax and other initiatives supporting training needs, including capital provision for further education.

Appendix; Details of Budget Measures

Summary of Budget Measures

	2010	Full Year
Savings		
Pay	1,300m	1,300m
Non-Pay Current Spending	899m	899m
Capital savings through lower tender prices	1,246m	1,246m
Revenue-Enhancing	1,646m	2,351m
Total Savings	5,091m	5,796m
Expenditure Priorities		
Jobs Fund	700m	1,150m
Social Solidarity <ul style="list-style-type: none"> • Christmas Payment (240m) • Fuel Poverty Measures (60m) 	300m	300m
Total	1,000m	1,450m
Fiscal Adjustment	4,091m	4,346m

Revenue Enhancing Measures

	2010	Full Year
Carbon Levy		500m
Target Reduction in Pension Reliefs		330m
Tax Exiles		100m
Charge PRSI on share-based remuneration & Capital Gains		79m
Lower threshold for Capital Acquisitions Tax		24m
Third rate of tax at 48% (on earnings over €100,000 for individual incomes)		355m
Modifications & Reductions Investment Property Relief		430m
Property Schemes		435m
Reform & curtail exemption for patent royalties		60m
Abolish Minor Reliefs (Trade Union Subs & Heritage Reliefs)		38m
Total Revenue Enhancing	1,646m	2,351m

Reductions in Non-Pay Budgets

Agriculture	Savings in Corporate services	5m
Arts, Sports, Tourism	Replace exchequer support for horse and greyhound fund	16.4m
	Administrative Savings	1.1m
Communications	Windfall levy on Powergen sector	200m
Education	Absorb NEWB and NCSE into Department	0.8m
	Reduce Allocation to Strategic Innovation Fund	10m
Enterprise and Employment	Reduce Agency Overheads	30m
	Savings in Corporate Services	1m
Environment	Administrative savings in An Bord Pleanala	0.5m
	Heritage council efficiencies	1m
	Non-pay efficiencies in Corporate Services	4.5m
Finance	Department non-pay savings	1m
	Revenue non-pay efficiencies	10m
	OPW savings on rental costs	20m
Health	Departmental Efficiencies	1m
	Restrict NTPF to private facilities	7.5m
	Savings on Generic Drugs	100m
	Efficiencies in non-emergency patient transport	10m
	Reduction in fees under the GMS	185m
Justice	Reduce incidental and utility costs	2.6m
	Reduce non-pay baseline in Prog A. civil service offices	2m
	Merge Property Services Regulator with PRTB	0.5m
	Reduce surplus security at Fourcourts	2m
	Merge Valuation office, OSI & Property Registration Authority	2m
	Abolish the Office of the Minister for Integration	1.5m
NTMA	Greater use of State Claims Agency/reduced litigation costs	5.5m
	Administrative savings in NTMA	0.6m
	Introduce Periodic Payment Orders	15m

Social Welfare	Target Social Welfare Fraud	100m
	Savings on rent supplement via greater use of RAS	50m
	Reduce Professional Fees	3m
Taoiseach	Discontinue Newfoundland-Labrador partnership	0.3m
	Reduce Census costs	2.2m
	Administrative Savings	1m
	Reduce legal fees	2.5m
	Rationalise NESDO	1m
Transport	Reduce non-pay administrative expenditure	0.9m
	Merge National Vehicle and Driver File into RSA	2m
System-wide changes	Economies in Supply Chain management	100m
Total		899m