Labour’s Plan for Stability & Growth

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EXECUTIVE SUMMARY

While Ireland has serious problems, we also have real economic advantages.

Labour believes that the cuts proposed by Fianna Fail and Fine Gael over the next three years pose an unacceptable risk to jobs and growth. Labour believes it is essential that the right pro-jobs policies are in place over the coming years.

To safeguard Ireland's future economic and employment growth Labour's believes it is essential to:

- Re-negotiate the EU/IMF deal, extending its terms by a year to 2016
- Make savings in public spending and eliminate waste
- Introduce a fair tax system

FORWARD THINKING

- Labour is seeking a mandate in this election to re-negotiate the EU/IMF deal to achieve fair and realistic terms for the Irish people.
- Labour proposes a €7bn adjustment between 2012-2014 to allow room for jobs and recovery.
- Labour will reduce the deficit to 4.8% of GDP by 2014 and to below 3% of GDP by no later than 2016.
- Labour will target a €500m Jobs Fund on a range of job creation and training initiatives
- Labour will set up a Strategic Investment Bank in two phases: It will initially invest money from the National Pension Reserve Fund in infrastructure projects to boost growth. Then when market conditions normalise, it will develop into a functioning bank that takes deposits and raises long term financing.
- Labour will draw up 7 year National Development Plan to incorporate the funding that will be available from various sources, including Labour's Strategic Investment Bank.

SAVING PUBLIC MONEY

- Labour will carry out a Comprehensive Spending Review and Waste Audit of all spending programmes to achieve €4bn in savings. That includes clamping down on welfare fraud, tackling long-term unemployment & driving down healthcare costs
- Labour will make savings in the public sector pay bill through a reduction in numbers of 18,000 over the next three years (savings included within the €4bn.

- Labour will reduce Ministerial salaries and cap public sector pay.
- Labour will reduce the number of paid chairs of Oireachtas Committees
- Labour will abolish the Oireachtas allowance paid to Ministers who have constituency offices staffed by civil servants
- Labour will ensure that Ministerial pensions and severance packages are set by an independent body, such as the Comptroller and Auditor General.

FAIRER TAXES

Income Taxes

- Labour will introduce a fair tax structure and seek to re-negotiate the EU/IMF deal to achieve this objective.
- Labour will carry out a review of the Universal Social Charge to identify the families that have been hardest hit, and will reform the tax accordingly (using €200m raised through other changes in the USC and capital taxes).
- Labour will not increase income taxes on earnings of less than €100,000 and will instead extend the 10% USC rate to include all income over €100,000 (raising €106m).
- Labour will ensure that people earning over €250,000 must comply with a Minimum Effective Tax Rate of 30%. (No estimated yield available)

Other Taxes

- During the 1990s Labour in Government introduced the 12.5% corporation profits tax rate, and we will insist that it remains in place.
- Labour favours the introduction of new progressive structures for Capital Taxes such as CAT and CGT. (Raising €236m)
- Labour will increase the carbon tax to €25 per tonne and offset €40m to fund fuel poverty measures (raising a net €180m).
- Labour will insist on action being taking to deal with the scandal of tax exiles, and we will further strengthen revenue action to reduce tax-evasion (raising €100m).
- Labour is proposing a 1% increase in the standard rate of VAT that will raise €310m in a full year.
- Labour accepts the need for a site value charge but does not believe it would be possible to introduce one before 2014. As an interim measure, Labour will increase the second homes tax from €200 to €500 to yield €95m.
- The composition of the adjustment should be fair and balanced. Our policy proposals will yield equal amounts in revenue and expenditure savings, net of priority expenditure measures.

- The macro-economic impact of the adjustment should be limited to €7.1bn, including the carry forward of the Budget 2011 measures.

GETTING A BETTER DEAL FOR IRELAND

Ireland faces a profound economic crisis, but while we have serious problems, we also have major economic advantages. With the right policies the Irish economy can create jobs and return to prosperity.

Labour believes that the growth forecasts in the Four-Year Plan are broadly achievable, provided that the right policies are in put place. We can achieve high export growth, and see a return to growth in the more job-intensive domestic economy.

As a result of Fianna Fáil mismanagement of the Irish economy, and the disastrous blanket bank guarantee, Ireland faces a profound banking, fiscal and jobs crisis, and has been forced to seek external financial assistance. This has been provided by the IMF and the EU through an assistance programme that provides a loan facility to Ireland with associated ‘conditionality’

Labour supports the objectives of the Programme i.e. repairing the banking system, achieving fiscal stability, and returning the Irish economy to growth.

Labour does not, however, accept that the deal reached with the EU and the IMF provides the best basis for achieving these objectives. Labour in Government will engage with the EU and the IMF to re-negotiate the deal, so as to achieve fair and realistic terms for Ireland and for the Irish people. In doing so, our primary focus will be on maximising economic and employment growth in Ireland, as the best means of dealing with Ireland’s economic problems.

In this election, Labour is seeking a mandate for re-negotiation of the deal, focusing on three issues:

Interest Rate

The interest rates being charged on the loan facilities to Ireland by our EU partners are a matter of political decision and include a 3% surcharge. Labour believes that these rates are at odds with core principles underlying the European Union and will seek to re-negotiate them.

The Banking System

The restructuring of the banks must include burden sharing with the banks' bondholders, and provide for an adequate supply of credit for the Irish economy.

Fiscal Strategy

The Fiscal Strategy set out in the EU/IMF deal involves excessive austerity, which will put growth and job creation at risk. Labour is proposing a strategy that will maximise investment and growth.

Labour is seeking a mandate from the Irish people to renegotiate the EU/IMF deal on the basis of the policies that we are setting out during the General Election Campaign.

This documents sets out Labour's approach to fiscal policy, competitiveness and macroeconomic management.

FISCAL STABILITY WITH GROWTH

As a result of the mismanagement of the economy by Fianna Fáil, Ireland is dependent on the IMF/EU loan facility to fund the fiscal deficit. Labour has consistently supported the objective of restoring fiscal stability, in line with our obligations as a member of the Euro zone, and as a necessary requirement for economic stability and long-run growth. Labour does not accept, however, that the fiscal strategy devised by the discredited Fianna Fáil Government and included in the EU/IMF deal provides the best basis for economic recovery or for maximising long-term growth. In particular, the excessive austerity in the Fianna Fáil plan, endorsed by Fine Gael, poses an unacceptable risk to economic recovery.

Labour believes that the average GDP growth rate set out in the four-year plan is achievable, provided that pro-growth policies are adopted. These include action to enhance competitiveness, to ensure adequate flows of credit, to promote investment and an appropriate fiscal strategy. The Fianna Fáil/Fine Gael austerity programme does not allow sufficient room for economic growth and employment creation. The scale and nature of the cuts being proposed also pose risks to medium and long-term economic growth and to social cohesion.

Labour will therefore seek to renegotiate the fiscal strategy in the IMF/EU deal.

Table 1: Achieving Stability and Growth

	2011	2012	2013	2014
Real GDP Growth	1.25%	2.55%	3.25%	3.50%
Real GNP Growth	0.25%	1.85%	2.35%	2.70%
GDP Deflator	0.50%	0.95%	1.50%	1.90%
GNP Deflator	0.70%	0.90%	1.40%	1.80%
Taxation Measures Cumulative		€930m	€2000m	€2935m
Expenditure Savings Cumulative		€1,365m	€2,715m	€4,065m
Total 2012-2014 Adjustments		€2,295m	€4,715m	€7,000m
Strategic Priorities		€707m	€895m	€1,089m
Impact of Budget 2011 Measures		€1,200m	€1,200m	€1,200m
Net Adjustment (Cumulative)		€2,788m	€5,020m	€7,111m
GGD (m)	-€16,965	-€13,627	-€12,508	-€8,874
GGD as % of GDP	10.61%	8.23%	7.21%	4.86%
Debt as % of GDP	98.8%	103.7%	106.2%	105.6%

Fiscal Year 2011

In respect of the fiscal year, 2011, we will negotiate with the EU and the IMF to ensure that adequate resources are available in 2011 to fund key jobs and health reform strategies. We believe these funds should be provided from cash balances, and not through further expenditure cuts.

It is clear that the Universal Social Charge was not properly thought through, and that it is having a dramatic impact on the incomes of many families. The charge has been introduced at a time when other taxes are increasing, as well as household bills like VHI fees. This is causing particular hardship to some families, including working widows and elderly people. Labour will conduct a detailed review of the impact of the USC to identify the families that have been hardest hit, and will reform the tax accordingly. We will fund these changes by extending the 10% rate of USC on incomes over €100,000 to include employees incomes over €100,000, and by changes to capital taxes.

Fiscal Strategy for 2012 - 2014

Labour believes that the austerity programme planned for 2012 – 2014 by Fianna Fáil and Fine Gael, poses an unacceptable risk to jobs and growth. Labour proposes a net fiscal adjustment in 2012-2014 of €7 billion, so as to allow adequate room for jobs and recovery. On the basis of reasonable assumptions about growth, this will reduce the deficit to 4.8% of GDP by 2014. Labour will complete the reduction in the deficit to below 3% of GDP by no later than 2016.

Labour believes that the composition of the adjustment should be fairer and more balanced, including fairer taxation and on-going investment in education and other vital services, which are essential to social solidarity and to long-run economic growth.

BETTER PUBLIC SPENDING

Labour has proposed a series of reforms to the budgeting system. In order to achieve the savings necessary, we are proposing to undertake a number of strategic budget reforms.

Capital Expenditure

Ireland needs to take a new approach to public and private capital investment that reflects the new realities of the economy and the constraints on public resources, while also incorporating the new funding that will be available through Labour's Strategic Investment Bank.

Labour in Government will commission a new study of Ireland's investment needs (similar to the 2006 ESRI study), and draw up a National Development Plan covering the seven-year period 2012-2019.

In the initial years, when resources will be most heavily constrained, Labour will prioritise investment in education, in health, in science and technology and in job-creation.

Labour will insist that major capital projects are subjected to proper cost-benefit analysis and evaluation, improving future productivity and growth prospects, and that the value-for-money obtained is significantly enhanced compared to the most recent period.

Labour's strategy is to support the development of an investment economy, while maximising the return to the public from major programmes of investment.

Comprehensive Spending Review and Waste Audit

Given the need for fiscal consolidation, it will be necessary to curtail current expenditure in the immediate future. While this will involve difficult decisions, it will also afford the opportunity to reform the public service to enhance efficiency and eliminate waste. Rather than adopting a piece-meal, cheese-paring approach which results in crude and damaging cuts that damage future growth and public services, as Fianna Fáil have done up to now, Labour will insist on a properly planned multi-annual expenditure strategy. To this end, Labour will conduct a Comprehensive Spending Review and Waste Audit that will examine all areas of public expenditure. This will be markedly different to the 'Bord Snip' exercise, in its purpose and in the way it is conducted.

The Comprehensive Spending Review and Waste Audit will be a major exercise in strategic budgeting and will involve a fundamental assessment of all spending programmes, examining their objectives and how those objectives are achieved. The purpose of strategic budgeting is to find the most cost effective ways to provide services to the public and to improve future growth and productivity. It will take account of the changing needs of modern Ireland, and will be conducted on a 'whole of Government' basis. Learning from the experience in other countries, it will be led, not by external consultants, but by Government Ministers and the Secretary General of each Department, co-ordinated from the Centre of Government. It will adopt a three-year time horizon, resulting in a plan for public expenditure for the period 2012-2014. This exercise should be an immediate priority for Government and will be concluded in time to feed into Budget 2012.

As part of this exercise, Labour will include a 'surrender and re-grant' clause, whereby Departments that propose savings in one programme would be able to propose re-cycling of some of those savings into other priority areas, subject to a 'reducing ceiling' on aggregate budgets. The 'reducing ceiling' means that non-pay budgets will be required to be reduced by at least 6% over three years on an aggregate basis – the percentage savings achieved will vary across departments in line with policy priorities. Labour will also seek to enhance the local flexibility available to public service managers in how they deploy their budgets to achieve maximum efficiency and service quality.

Quangos

Non-Commercial Semi-State bodies or Quangos have mushroomed in numbers in recent years. Labour is concerned about the value-for-money being achieved by these bodies and by the lack of accountability associated with them. The

Comprehensive Spending Review and Waste Audit will include a full evaluation of all NCSSBs/ Quangos, with each body being required to justify its continued existence outside of its parent department. Remaining NCSSBs will be required to be properly accountable to the Oireachtas. Labour is proposing a series of amalgamations of NCSSBs that will both save money and achieve greater policy coherence. These include utilities regulation, equality, tourism, industrial development, broadcasting and housing policy.

Social Protection

In order to close the fiscal deficit, it is vital that we reduce the cost of Fianna Fáil's failure to address the problem of unemployment. Approximately half of the unemployed are now long-term unemployed. This is damaging to the people concerned, but also imposes significant costs on the exchequer. The longer a person remains unemployed, the harder it is to get a job. Labour is proposing a series of strategies to tackle the growing problem of long-term unemployment, and in doing so to reduce the associated expenditures on social welfare. We will also launch an all-out campaign to tackle the problem of welfare fraud.

Political System

At a time when savings are being sought across the public service, the political system must also show leadership. Labour is proposing a cap on all Ministerial and public sector salaries, corresponding reductions in the salaries of Ministers and Ministers of State, reductions in the number of paid chairs of Oireachtas Committees, and abolition of the Oireachtas allowance paid to Ministers who have constituency offices staffed by civil servants. Labour is proposing reform in the transport arrangements for Ministers including a reduction in the number of Garda drivers.

The arrangements for Ministerial Pensions and severance packages have rightly been the cause of public outrage. Labour will ensure that in future these arrangements are set by an independent person, such as the Comptroller and Auditor General.

Public Service Pay

As part of the process of fiscal consolidation, it is necessary to reduce the public service pay bill. Our proposals are based on a reduction of approximately 18,000 in public service numbers in the period 2011-2014. Public employment ceilings will be re-assessed during the Comprehensive Spending Review and Waste Audit to ensure that the maximum savings are being achieved and that frontline services are being protected.

Labour will work the Croke Park Agreement. It is essential that the agreement should result in savings to the exchequer and that the pace of implementation of the Agreement be accelerated. There should be a maximum cap on high level salaries in the public service.

Table 2: Expenditure Savings, cumulative

	2012	**2013**	**2014**
	€m	€m	€m
Capital Savings	200	700	1500
Pay Bill	300	600	700
Social Protection	440	840	1140
Driving Down The Cost of Health Care	275	275	275
Reducing Ceiling (6% over three years) on aggregate Non-Pay Budgets (Excl HSE and Social Protection)	150	300	450
Total	1,365	2,715	4,065

Strategic Expenditure Priorities

In order to achieve recovery and reform, it will be necessary to re-allocate resources to areas of strategic priority. This means achieving more savings in order to re-invest in reform and development. During the General Election campaign, Labour will be identifying a number of areas where there is a requirement for further investment. Labour's adjustment proposals provide for resources to fund a €500m annual jobs package. As part of Labour's health strategy, the cost of providing health care in Ireland will be driven down, with €489m being provided to ensure a major shift towards primary care. Additional resources will be provided in key areas of education and criminal justice to drive reform.

Table 3: Strategic Expenditure Priorities €m

	2012	**2013**	**2104**
Priorities in Education and Justice	100	100	100
Health Strategy	107	295	489
Jobs Fund	500	500	500
Total	707	895	1,089

Taxation 2012-2014

Labour has long argued for a fair and balanced tax structure in Ireland and we will seek to re-negotiate the EU/IMF deal to achieve this objective.

It is an important principle of taxation that those who have the most, must contribute the most, and that revenue-raising must begin with reform, rather than constantly delaying it as Fianna Fáil have done.

Labour does not support further impositions of income tax on people on middle and modest incomes in the period 2012-2014. We propose no increases in income tax for people earning less than €100,000. We will extend the 10% USC rate to employee incomes over €100,000.

Labour will insert a new provision in the tax code to ensure that high earners (tax units with incomes over €250,000) must comply with a Minimum Effective Tax

Rate to be set at 30%. This will impose a fair restriction on the capacity of high earners to reduce their tax bills through tax planning.

Labour in Government introduced the 12.5% corporation profits tax rate and we will insist that it remains in place. Reforms to the regime for off-setting corporate losses against Corporation Tax can be adopted to increase the yield from the tax without affecting Ireland's attractiveness as a location for inward investment.

Labour will prioritise the elimination of unnecessary tax expenditures, as we have been proposing for many years. These include the legacy property reliefs, and phasing down of the amount of interest that can be offset against rental income for tax purposes to 25%.

Labour believes that the total quantum of tax relief currently in place for pensions is no longer supportable, and that the distribution of relief at present is not fair or equitable. Labour will target a reduction of €500m in the total amount of relief, but rather than simply standardising the rate of relief, Labour favours an approach that retains strong incentives for people to invest in pensions while also making the system fairer. This will include capping the tax relief on pension contributions from both employers and employees, reducing the maximum tax-free lump sum, reducing the maximum pension fund and including pension tax relief in the minimum effective tax rate.

Labour favours the introduction of a new progressive structures for Capital Taxes. In respect of Capital Gains Tax and Capital Aquisitions Tax, the first €50,000 over threshold will be taxed at 30% and the balance at 35%. These measures will raise €236m in a full year. The change in Capital Acquisitions Tax will be introduced in the 2011, to finance changes in the Universal Social Charge.

Labour believes that appropriate tax rules have a role to play in protecting our environment. Labour will increase the carbon tax to €25 per tonne, with an offset of €40m to fund fuel poverty measures. Labour supports a broadly based tax on packaging as proposed by Comhair that will raise €60m.

Labour is proposing a 1% increase in the standard rate of VAT that will raise €310m in a full year.

Labour will prioritise action to reduce the losses to the exchequer from smuggling through stronger revenue enforcement.

Labour accepts that it will be necessary to introduce a site value charge, in order to prevent higher taxes on work. The Government has not, however, carried out sufficient work to allow such a tax to be introduced in the short-term. Further detailed study will be required to devise a fair basis for such a tax that takes account of the value of property in different regions, the need to exempt some categories of homeowners, and the need to take account of those who have recently paid large sums in stamp duty or who are in negative equity. Any tax of this sort, therefore, cannot be set in place before 2014. Accordingly, we will publish a Green Paper by the end of 2012 on how the tax can be structured in a fair an efficient manner. As an interim measure, Labour will increase the second homes tax by €300 to yield €95m

Labour will insist on action being taking to deal with the scandal of tax exiles, and we will further strengthen revenue action to reduce tax-evasion.

Table 4: Taxation Measures

	2012	2013	2014
	€m	€m	€m
Property Market Incentives			
Curtail Investment Property Interest Relief to 25% by 2014	75	325	500
Remainder of Property Schemes	60	220	360
Other tax reliefs			40
Tax Exiles	100	100	100
Corporation Tax			
Maintain 12.5% rate and restrict losses carry over by 25%.	70	135	135
Pension Relief	150	375	500
Consumption Taxes			
1% increase in VAT		260	310
Increase carbon tax to €25 per tonne (net of fuel poverty measures)	120	180	180
Tax on packaging	30	60	60
Excise	80	100	100
Capital Taxes			
Progressive Structure for Capital Gains Tax	150	150	150
Bank Levy			250
Local Financing			
Second Homes Levy	95	95	
Site Valuation Tax			250
Total Tax Measures	930	2,000	2,935

SUSTAINING INVESTMENT AND GROWTH

Throughout the crisis, Labour has been clear that cuts alone will not solve the problem. Ireland needs a strategy for jobs and growth, and the lack of action on jobs has made the crisis in the public finances and in the banks even worse. While difficult decisions are needed, we also need a strategy to grow our way out of our predicament.

Despite the financial crisis at home and abroad, we are living in a period of opportunity for the Irish economy. In the advanced economies, economic growth is now increasingly driven by what is known as the 'knowledge economy', with new technologies driving economic growth both in knowledge-intensive sectors, and more widely across the whole economy. At the same time, the global trading system is expanding, and the emerging economies such as China and India present enormous opportunities for Irish companies. Export growth in Ireland is picking up, and competitiveness has improved. What we need now is a coherent strategy to take advantage of the opportunities that are available to us.

Labour's Jobs Fund

Labour's fiscal strategy provides for a €500m Jobs Fund to finance a series of pro-jobs initiatives that involve elements of current expenditure. The fund would be administered by a cabinet sub-committee. Proposals from Departments, Agencies and other bodies, including the private sector, would be considered on the basis of their contribution to an overall jobs strategy and would be funded accordingly. The agencies thus funded would not be immune from making efficiencies in their budgets – funding from the Jobs Fund would be dependent on demonstrated additionality to existing operations.

Investment

To achieve growth, Fianna Fáil's casino economy must be replaced with by the investment economy. The Irish Banking system has not provided the kind of investment finance that is required to meet Ireland’s investment needs. To fill the gap, Labour is proposing the establishment of a Strategic Investment Bank.

The Strategic Investment Bank will be established in two phases. It will be set up initially as a vehicle to invest the remaining funds in the National Pension Reserve Fund in projects that will enhance infrastructure and boost growth in the Irish economy. It will be fully independent and will invest on a commercial basis.

Over time, and when market conditions normalise, this vehicle will be developed into a functioning bank that takes deposits and raises long term financing. Labour believes that the Strategic Investment Bank should be an essential component of the re-structured banking system. The SIB would be set up as an independent commercial operation, using €2billion of of the remaining NPRF funds as capital. It would operate on a strict arms-length basis from Government. Irish citizens and the Irish Diaspora would be encouraged to make deposits in the bank, and to purchase SIB Citizen’s Bonds, which would be a way to invest in the recovery of the Irish economy, and would be of different maturities. The SIB would attract funding from a number of sources, including consumer deposits and wholesale markets (once market conditions normalise).

The Strategic Investment Bank would be a key lender to SMEs and innovative firms. The Enterprise Agencies would develop relationships with the Strategic Investment Bank to facilitate introductions of high-potential firms. Investment decisions, however, would remain the exclusive preserve of the bank. The Strategic Investment Bank would also support investment in large infrastructure-type projects.

Competitiveness

Competitiveness has improved during the past three years, but it is necessary to ensure that, as growth returns, these gains are not eroded. In particular, it is important that costs in the protected sectors of the economy do not undermine the capacity of the traded sector to compete. To maintain and enhance competitiveness, Labour is proposing the following measures.

Labour favours a negotiated wage freeze for three years. This would provide certainty for investment in Irish enterprise.

Wage competitiveness should not be confused with a low wage agenda. Labour is opposed to the reduction in the minimum wage agreed by Fianna Fáil with the European Union and the IMF and we will seek to reverse it. The national minimum wage affects fewer than 3% of the work force, who are on the lowest rung of the labour force ladder. We accept the need to reform the JLC system, but this cannot be used as the basis to undermine the rights and conditions of employment of vulnerable workers.

Labour will support robust competition policy and enforcement. We support structural reform in the professions to drive down the cost base for the traded sector.

Labour will enhance the quality and effectiveness of utilities regulation in Ireland. We favour a properly planned consolidation of the number of regulators, to make more effective use of regulatory skills. We will retain the Competition Authority as a separate entity.