The People's Budget

A viable alternative fiscal strategy for Ireland

December 2010

Introduction

The economic landscape which faces Ireland today is bleak.

The reality for many hundreds of thousands of families is that their living standards are in freefall, their children are faced with no choice but to emigrate and those who are cursed by unemployment have little prospect of securing work.

It was not meant to be like this. The government asked for the trust of the Irish people as they cut €14 billion out of the economy in the past two years. They said it was necessary to share the pain in order that the public finances could be brought back under control. They misled the nation.

Now they say a further €15 billion cuts are needed in order to make the same broken promise. They are selling our future.

The agreement shamefully concluded with the EU and IMF last weekend must be changed if we are to have any form of prosperity in the future. To fail in that will consign the country to decades of penury. This cannot be allowed.

The People's Budget published today by UNITE outlines a viable alternative budgetary strategy. It is one that will reduce the deficit through encouraging growth. It will get people back to work. It will use the assets which we have built as a nation to help us in this dark hour.

It does not involve pouring money into a failed banking system and the private pockets of those who gambled that the speculative bubble would last forever.

It points to a better way forward. A way that will make the present bearable and create a future where the next generation of Irish citizens can live and work in the country of their parents.

It is a starting point and we conclude by inviting input from similarly progressive organisations and individuals. The government said there was no alternative to the policies they have put forward. They were wrong and this People's Budget presents exactly the alternative that has for too long been ignored.

It must be in the public hands to choose between despair and hope, a begging bowl or a future created and controlled by the Irish people. To do so a general election is needed immediately, before the current policy drives us off an economic cliff

The voices which have been centre stage in Ireland up to now are the voices of government ministers, bankers, bond holders, the IMF and speculators.

The voice of the people must now be brought centre stage. The "People's Budget" represents our alternative. We need to force a radical change in what is happening to our UNITE members and to the members of every other union and community organisation throughout Ireland.

We need to force the political change necessary to have the proposals in the Peoples Budget implemented, whatever that takes. The future of Ireland is at stake.

Jimmy Kelly
Regional Secretary, UNITE

How the Government got it so wrong

In early 2009 Government ministers assured us if we *'took the pain up front'* - if we cut public spending and increased tax levies - the deficit would fall, growth would rise and borrowing costs would be cut. The Government took over €14 billion out of the economy. What happened?

- The deficit rose – to an estimated 12.5 per cent in 2011
- Borrowing costs escalated
- Future growth projections have been slashed from 4 per cent to 2.7 per cent

The exact opposite happened. Let us be clear:

➔ We have entered IMF receivership and stand at the abyss of prolonged deflation ***because*** of the Government's cuts.

Now the Government intends do the same thing – take another €15 billion out of the economy. It didn't work the first time, it won't work the second time.

The ESRI showed under what conditions we can effectively tackle the deficit.[i] When analysing the impact of a fiscal consolidation package of €7.5 billion, they found the following:

➔ If the economy grows by 4.6 per cent (high growth), the deficit will fall to 1.8 per cent by 2015 and turn into a surplus by 2020.

➔ If the economy grows by 3.2 per cent (low growth), the deficit will remain stuck at 4.1 per cent in 2015 and start rising again

Under high growth conditions – in particular, higher job creation rates – we will repair our public finances. **BUT**: under low growth conditions, our public finances will remain broken for the rest of the decade.

Every €1 billion spending cut takes nearly ½ per cent off growth. Cuts do not equal savings – they reduce growth. And low growth means a broken economy and broken public finances.

The Government didn't take courageous decision, they took wrong ones.

We must stop taking wrong decisions. We must prioritise growth. We must prioritise job creation. We must prioritise poverty reduction. In short:

We must prioritise people –
Their jobs, their skills, their living standards.

UNITE's principles for a People's Budget

There are good deficit-reduction strategies and there are bad, ineffective ones. The Government has been pursuing the latter. Now let's pursue a good one.

1st Principle: Deficit reduction is absolutely dependent on growth – growing jobs and people's living standards. One does not follow the other. They must work together.

2nd Principle: Investment, investment, investment. As investment increases, the deficit will fall through increased growth, jobs and tax revenue. We can invest our way to a balanced budget.

3rd Principle: It would be better to postpone fiscal consolidation until the economy is on a growth path (this is what other European countries have done). However, because of the Government's failed policies we have to start now. But this consolidation must be '*growth-friendly'* – limiting deflationary impacts on growth and jobs. This means increasing taxation.

4th Principle: All savings in public expenditure – increased productivity, reduced unemployment costs, removing regressive expenditure – should be reinvested into domestic demand. This will take deflation, which is limiting future growth, out of the economy.

5th Principle: Finance our investment from the cash and assets available to the Government.

These are the short-term measures to be taken in the next few budgets. But there are other issues which we must begin addressing:

- ➔ Start wage growth through the implementation of flat-rate pay increases to assist low and average income earners, and promote demand in the economy.
- ➔ Invest in indigenous enterprise – through greater workers' participation, building scale, managerial skill development, R&D and export assistance
- ➔ Create certainty in living conditions – by introducing universal health insurance (to provide free hospital, GP care and prescription medicine) and a universal earnings-related pension insurance. The cost must be shared between employers, employees and the State.

Budgetary and economic strategies must work together To increase growth, create jobs and raise living standards. This is the foundation of deficit reduction.

We still have choices

Even though we are in the European Stabilisation Fund, we still have choices.

The purpose of the Fund is to ensure the Irish economy is strong enough by the end of the three-year period to exit the Fund and re-commence borrowing on the international markets.

If we continue with the Government's deflationary €15 billion we will not be able to exit the Fund.

The economy will be so degraded by the deflationary impact – low-growth, low job creation, high deficits arising from low tax revenue and rising unemployment costs – that markets will see that we can't generate the revenue needed to pay off the debts.

They will either:

- Not lend to us
- Or only lend at rates which we cannot afford

If this were to happen, Ireland will have to remain on long-term life-support from the IMF/EU or we will have to default on Government debt. This would be ironic since the purpose of the Stabilisation Fund is to prevent such a default.

We still have choices. The €15 billion deflationary package cannot repair the public finances – and this failure will come at a price: it will cut economic growth to a trickle. The EU and the IMF know this.[ii]

UNITE's economic programme will fulfil all objectives:

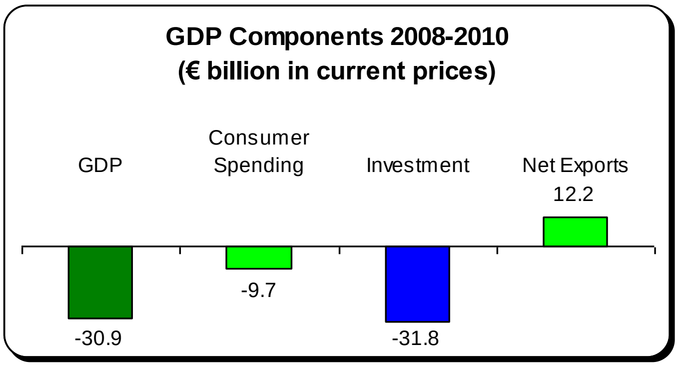
- ✓ Drive growth through investment
- ✓ Increase employment and living standards
- ✓ Bring stability to our public finances
- ✓ Ensure the economy is strong enough to exit the Fund in three years time.

Not only is an investment programme the best way to bring ensure fiscal stability – it is the best way to protect the interests of the Eurozone.

Investment • Investment • Investment

Identify the problem and fix it.
The driving force behind the Irish recession – falling demand, rising unemployment and emigration, declining tax revenue – has been the collapse in investment levels.

Investment has fallen at a greater pace than the GDP. Falling investment has resulted in declining employment. This, along with the fear of losing jobs, has contributed to falling consumer spending. This is the problem. Now let's fix it with a €15 billion investment programme over the next five years.



Increasing investment results in: higher employment, rising consumer spending, a stronger platform for increased spending on public services and – to the extent that the investment promotes indigenous companies – net exports.

For every €1 billion investment:[iii]

- ➔ Between 8,000 and 12,000 jobs are created in the short term
- ➔ GDP grows by nearly 1 per cent by the second year
- ➔ Tax revenue increases by €400 million in the first year
- ➔ Over €60 million is saved on unemployment costs in the first year
- ➔ Deficit is cut by nearly ½ per cent.

This investment must be public-led – to ensure it is directed in the areas of greatest need and ensure that it maximises employment – the key to reducing the deficit.

Below we will show how this public-led investment can be financed through the Exchequer. But there are additional, complementary ways to promote increased investment.

a) Use public enterprise to finance investment in their areas of activity. This can be done through expanding current public enterprise companies' activities and establishing new companies.

b) Leverage in private sector investment – but on the public's terms and for investment that benefits the public.

We have the need, the people, the skills, and the money.
Let's invest and get Ireland back to work

Putting investment to work for people

UNITE's investment programme is based on the principle that it should be investment we would be making in any event, regardless of the recession. This is investment that will

Increase productivity • Promote enterprise development and expansion • Reduce costs in the future • Raise public sector efficiency • Create employment • Raise living standards • Improve investor and consumer confidence • Give hope

These are just some examples of what the €15 billion would be invested on:

Next Generation Broadband	A state-of-the-art telecommunications network for every business and household - generating massive productivity gains and facilitating new markets for business.
Green Construction	An €8 billion labour-intensive industry from energy efficiency upgrades for 700,000 buildings in need - reducing imports and promoting non-energy consumer spending.
Modernising Information Systems	Public building energy audits, synthesising and uploading land and corporation registries to enable free access – reducing waste and providing for greater freedom of information.
Education and Re-skilling	Improving peoples' skills and abilities – in the workplace, formal education, literacy and numeracy programmes; over-coming structural unemployment and ensuring real returns.
Preventative Health Initiatives	Free check-ups and follow-up tests for people over 40 – reducing future health costs and absenteeism while significantly improving peoples' well-being.
Employer of Last Resort	A guarantee – starting with young people – that no one will fall into long-term unemployment. The state will provide work, education and/or training placement for all those unemployed for more than a year.
Financial Initiatives	Loan guarantee schemes to retain businesses and jobs along with household debt relief to alleviate unsustainable housing costs. This will facilitate higher demand as resources are freed up for the economy rather than debt.
A Modern Waste and Water Network	Modernising our water network - would create 30,000 jobs reduce high maintenance costs that come from band-aiding our current system and make real environmental gains

These are just some examples. But there are more – many more.

So let's invite people into a new and better dialogue about how we can promote growth, jobs and prosperity.

Reducing the deficit in a growth-friendly way

Since we have no choice but to start fiscal consolidation, we must ensure that it does not undermine economic growth or employment.

The ESRI shows that taxation is less deflationary than spending cuts. This results in higher savings to the Exchequer.

1st Year Impact on Deficit from Budget Measures Equal to €1 billion					
	Increase Carbon Tax	**Increase Property Tax**	**Increase Income Tax**	**Cut Public Sector Wages**	**Cut Public Sector Jobs**
Reduction in Deficit	€990 million	€825 million	€660 million	€495 million	€330 million

For all adjustments equal to €1 billion, tax measures generate more savings. Because they have a less negative effect on employment and business output. Therefore, fiscal consolidation must be driven by increasing growth friendly taxation.

➔ UNITE proposes that taxation rise by €8 billion over the next four years

ICTU, Community Platform, TASC, Labour, Fine Gael and Sinn Fein have all proposed tax measures equalling billions of Euros – impacting mostly on high income groups. There are a number of areas where billions can be raised.

- ✓ Reduce of regressive tax expenditures (tax breaks, reliefs, and exemptions)
- ✓ Extend PRSI, Health and Income levies to all income above their thresholds,
- ✓ Increased corporation tax
- ✓ New wealth taxes on high net-worth households
- ✓ Anti-tax exile and other anti-tax-avoidance/evasion measures
- ✓ Carbon and environmental taxes

However, because of the danger that even taxation poses to domestic demand:

➔ UNITE proposes that next year taxation be levied on high-income groups only

Beyond 2011, we need to assure people that increasing tax and/or PRSI will not cut their disposable income. Therefore:

➔ UNITE proposes that general increases in tax and PRSI only be commenced when wage growth is restored

Repair public finances in a grow-friendly way - starting with billions of taxation on high-income groups

Turning savings into growth

There should be no reduction in overall current expenditure.

Public services, social welfare income and public sector pay have already been slashed. This has been the problem – it has embedded deflation in the economy and resulted in falling domestic demand. This has extended the recession and driven government debt higher.

We need to promote domestic demand – not undermine it. We need to remove deflation – not reinforce it.

We need to mobilise savings and efficiencies to the benefit of the economy. Where there are savings from:

- **Increased productivity** (arising from better political management and work practices)
- **Reduced unemployment costs** (arising from our investment programme)
- **Ending regressive expenditure** (e.g. for private education and health)

These savings should be reinvested back into domestic demand. This will remove the deflation in the economy which is holding back growth. This can be done in a number of ways:

✓ **Invest in Public Services**: this will raise employment and increase contracts to the private sector	✓ **Restore Social Welfare Cuts**: After capital investment, this has the best economic impact as most of this will be spent – raising consumer spending.
✓ **Restore Pay Cuts to Low-Paid Public Sector Workers**: this will raise tax / PRSI revenue and increase consumer spending.	✓ **Invest in the Community Sector**: this will translate into more jobs and economic activity in the most depressed areas.

EXAMPLE: if we 'save' €500 million from greater efficiencies and reduced unemployment costs – why waste this trying to pay down a €200 billion debt? If reinvested, this will increase annual growth by ½ per cent and raise tax revenues by €300 million or more. This will more effectively reduce the debt burden in the long-term.

We need skilled political management – capable of mobilising the savings in the economy by working with people, not against them.

We need skilled political management who know the best way to invest those savings.

Reinvesting savings into economy – reinvest into jobs and growth.

Financing the investment

In normal times, borrowing for investment would not be a problem. But such has been the spectacular failure of the Government's economic policies we have been frozen out of the markets and are now IMF receivership. Therefore, we must turn to our own sources.

It must be stressed: ***we are not broke***. A quick glance at the nation's balance sheet shows this.

In the Eurozone Ireland has one of the highest amounts of 'cash and assets' on hand – available to the Government for investment purposes. In 2011 we will hold nearly €35 billion (after bank recapitalisations) in:

- ➔ National Pension Reserve Fund
- ➔ National Treasury Management Agency cash balances

Accessing these funds is not tantamount to *'raiding the funds'*. For instance:

- Pension Fund money could help finance a *Public Enterprise company* that would roll out *next generation broadband* to all households and businesses. This wouldn't reduce the assets held by the Pension Fund – it would merely redirect its investment away from foreign shares to commercial-return domestic shares.

In addition, the cash balances held by the NTMA were intended to protect us from predatory markets. That didn't work. Now that we are in the European Stabilisation Fund, there is no need to carry these balances. Rather than pay down debt as the Government intends to do, UNITE is calling for these balances to be used for investment.

UNITE does not envisage its full €15 billion programme to be financed out of cash and assets. Once we exit the fund – when strong growth and job-creation commences – we can resort to borrowing for investment.

The principle is very simple:

In good times, you save – putting aside money to use
in bad times when you need to invest to get you back to good times

The Government doesn't get this simple little maxim that has been followed by households and businesses for centuries. But people do.

Let's use those resources to get us out of the storm.

A launch pad for new social and economic policies

Fiscal policies – investment and taxation – can only take us so far. We need additional policies to overcome the massive deficits in our economy and society. We need new enterprise, income, social, financial and sustainable policies. Here we provide a bare outline of those new policy departures.

1) Enterprise Policy: The key to long-term sustainable employment is our historically-underperforming indigenous sector. We need to address the real deficits: lack of scale, poor attitudes to labour, managerial skill deficits, over-reliance on property, and inability to access capital and knowledge to enter export markets (to name a few). Reliance on 'market forces' and current skill base have been shown to be a failure.

2) Income and Wages: Growing wage and income inequalities have created unbalanced and inequitable development. We need new wage policies that prioritise low wages. We need substantial redistribution of wealth, resources and opportunities to end poverty and social exclusion.

3) Social Protection: Reliance on private markets to provide health and pensions is exposing people to greater uncertainty and insecurity – where only those with high-incomes are safe. This is socially unjust and economically degrading. We need a strong European-style social insurance system –with free universal health (including GP care and prescription medicine) and earnings-related pensions are provided. All sectors must contribute – employees, employers, self-employed and the state.

4) Financial Policy: We need a strong state banking sector to provide low-interest credit to businesses, risk ventures, long-term infrastructural and industrial projects. There is little sense in relying on the private banking system. Banking management, apart from engaging in reckless lending, have not been forthcoming as to the depth of the crisis in their respective institutions. It beggars belief that those in managerial responsibility leading up to the current crisis should continue to serve in any capacity. We need to retain the skills base by preserving the employment of ordinary bank and regulatory workers. They were not responsible for this crisis and will be needed to maintain a credible and sustainable banking system into the future.

5) Sustainable Policies: all policies must be consistent with environmental and resource sustainability. We must engage with the new green economics thinking, which priorities prosperity over mindless unsustainable growth. In areas of transport, energy use, environmental protection, and sustainable agricultural and enterprise activities – we must ensure that we don't mortgage the next generation's quality of life in a degraded environment.

UNITE offers its budgetary and economic strategy as a platform – launch pad - that can facilitate the successful implementation of those policies.

Our invitation: A new progressive consensus

UNITE is not claiming that our programme is the only programme or even the best. We offer these ideas and proposals as a starting point – in the hope that others will put forward their own suggestions.

Already, we have seen the excellent work of groups such as Community Platform, TASC, Social Justice Ireland, INOU, Claiming Our Future and a number of social and community organisations throughout the country.

UNITE believes there is a new consensus emerging – a progressive consensus – based on:

- Growing the economy
- Creating employment
- Investing in our skills, our public services, our infrastructure
- Eliminating poverty and social exclusion
- Moving towards a sustainable economy

UNITE wants to work with all those who support these principles.

The old order has failed. The policies of slash n' burn have wrecked our economy and our society. The Government has failed the people.

It is time for a new departure.

The sooner the better.

---

[i] ESRI, Recovery Scenarios Update, July 2010

[ii] The day after the EU/IMF bail-out deal was signed, the EU came out with projections that the economy would grow by 2.8 per cent over the next two years, with the economy still in a domestic demand recession in 2012. The Government's National Recovery Plan forecast growth of 5 per cent over the next years, with domestic demand growth in 2012.

[iii] Taken from the Department of Finance estimates contained in their Public Capital Programme, Stability Programme Update and our own estimations contained in the Appendix.