Dr Tom McDonnell[1] statement to the Select Committee on Budgetary Oversight on behalf of the Irish Congress of Trade Unions and the Nevin Economic Research Institute

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I thank the Chairman and the rest of the members for the opportunity to appear before the Committee today. Accompanying me today are Ciarán Nugent of the NERI and Ger Gibbons of the Irish Congress of Trade Unions. We are happy to answers questions.

The NERI's interpretation of the available evidence is that the Irish economy is not yet overheating. However, this is likely to change before the end of 2019, unless there is a negative external shock such as a disorderly Brexit.

The various Brexit permutations mean that short-run forecasting is particularly uncertain. Nevertheless, medium-and-long-run sustainability should continue to guide the fiscal 'stance' taken by the Government.

The overall fiscal position is reasonably solid, at least ostensibly, with a neutral headline General Government Balance (GGB) of 0.0% of GDP in 2018. In addition, our view is that the structural or 'cyclically adjusted' balance was marginally in surplus in 2018.

Baseline average potential output growth of 4.5% is feasible over the 2020s. This sets a baseline for sustainable average annual nominal increases in public spending net of discretionary revenue measures. When we take into account demographic and inflationary pressures the 'real' per person increase will be close to just half that amount. Brexit will marginally reduce potential output growth over the 2020s and will thus impinge on the annual fiscal space available to government.

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The other major source of uncertainty relating to the budgetary position is the sustainability of corporation tax receipts. The surge in receipts in recent years caught policymakers and analysts by surprise. Changes to the treatment of corporation tax at EU and International levels may undermine the flow of revenue from this source, at least at the Irish level.

This suggests a more cautious fiscal stance until we have greater certainty in relation to the future levels of revenue.

The NERI has produced a number of papers in recent years showing that Ireland's per capita public spending and per capita government revenue are both below average compared to 'peer' high-income EU countries. I refer the Committee to the accompanying NERI submission to the Committee and I am happy to discuss this in greater depth.

Given increasing demand pressures, Ireland's position in the economic cycle, and the negative implications for inclusive growth and public services, it is our view that a package of discretionary revenue measures that reduces net government revenue would be an unwise course of action for Budget 2020.

Ireland has a number of emerging challenges as we approach a new decade – these include Brexit; climate chaos; precarious work and inequality; housing and homelessness emergencies; a two-tier health system; the fiscal implications of a growing and ageing population, and the fragility of an industrial strategy based on tax-sensitive US multinationals. In particular, the risk of a no-deal Brexit has increased since the start of this year.

Now is the time to invest in our people, our public services, and our infrastructure. A substantial increase in productive investment is the only way we can ensure our future prosperity in a sustainable and inclusive way. Brexit does not change this fundamental reality.

Congress advocates for a radical progressive vision for Ireland's economy and society. Its submission for Budget 2020, which is currently being finalised, will outline a series of proposals that will start us on the journey to realising that vision.

Congress has consistently argued for an inclusive equality-proofed budget that places the welfare and betterment of the majority at its very core, a budget that will prioritise higher living standards particularly for workers and their families, and deliver this through a transformative programme of investment in infrastructure, services and service delivery.

In particular, the Budget submission will articulate the need to invest more in a wide range of different areas including in social and affordable housing, in healthcare, in childcare and education, in clean and renewable energy, and in public transport.

Achieving these goals means abandoning populist attempts to cut taxes – such policies will help overheat the economy and will actually harm workers in the long-run. Indeed, Congress has proposed new taxes on capital, particularly on wealth, in order to raise money for productive social and economic investment.

In principle, Congress would support an increase in the carbon tax, but only on the condition there is an accompanying and linked 'climate justice' fund that would channel the revenue raised in the form of a dividend for every person living in Ireland.

Our plan would see a reduction in greenhouse gas emissions while the average household in the bottom half of the income distribution would see their purchasing power *increase* after the introduction of the linked carbon tax and annual dividend. That is, they will receive more in the form of a dividend than they would expect to pay in carbon tax. Households who change behaviour and opt for less carbon intensive modes of consumption will see their gains increase.

We are happy to take questions.