Opening Statement by *Social Justice Ireland* to the Select Committee on Budgetary Oversight on the 15th of February 2023.

Dr Seán Healy

Social Justice Ireland welcomes the opportunity to speak to the Committee today on Chapters 9 to 12 of the Report of the Commission on Taxation and Welfare (the Report) and thanks the Chair for the invitation. While we have confined our statement to the Chapters specified, we would welcome the opportunity to engage further with the Committee on other aspects of the Report.

When the Commission was established, we welcomed it and, in particular, its broad remit which reflected an understanding of the integrated nature of the taxation and welfare systems in the lives of individuals, families, companies and communities and the importance of Government policy being framed in this overall context.

Social Justice Ireland has an established record of engaging on policy issues regarding the taxation system and the welfare system. These form central components of our annual Socio-Economic Review, *Social Justice Matters*, our annual pre-budget Budget Choices document, and our annual post-Budget - Analysis and Critique publication. Frequently, these topics also frame our annual Social Policy Conference, and associated publication, and our regular engagements with Oireachtas Committees, Political Parties and national bodies such as NESC.

While *Social Justice Ireland* has previously made a submission on all four Chapters, and we are happy to engage in discussions based on that written submission in questions with Members, for the purpose of this Opening Statement, I would like to confine my remarks to recommendations made in Chapter 10 – Labour Markets and Social Protection Systems.

Social Justice Ireland supports many of the recommendations contained within this Chapter, in particular

- Recommendation 10.3 in respect of **extending PRSI to share-based remuneration**, usually provided to higher earners;
- Recommendation 10.6 in respect of **charging the higher rate of PRSI on unearned income and passive income, such as rent**; and
- Recommendation 10.7 to **remove the "cliff-edges"** in the taxation and welfare system.

However, **we disagree entirely with both Recommendation 10.8 and the analysis underpinning it.** Recommendation 10.8 relates to the dismissal by the Commission of a Universal Basic Income. We believe, however, that the analysis underpinning this recommendation, contains serious errors of fact and errors of logic.

Errors of Fact

Factual error 1: the required tax rate

In its limited analysis, the Report referred to a 1994 study by the ESRI as follows: "In 1994, the ESRI conducted a study and found that a tax rate of 65 percent would be required to finance the basic income system proposed". However, the Report did not go on to refer to another study carried out by Professor Charles Clark which found that a full basic income could be delivered for a tax rate of 47, 48 or 49 percent, depending on the exact parameters used. (These tax rates would replace the former Income Tax, Employee PRSI and levies and would apply to all personal income except for the basic income itself.)

Neither did the Report refer to work which was commissioned by the Steering Group which authored the Government's Green Paper on Basic Income. The Steering Group drew up parameters for a full basic income and commissioned both the ESRI and Professor Clark to estimate the tax rate that would be required for this basic income model.

- The ESRI reported that a tax rate of 51.6 percent would be required. This was a significant reduction on its earlier claim that a tax rate of 65 percent would be required for a full basic income.

- Professor Clark reported that a tax rate of 47.26 percent would be sufficient to fund this basic income model.[1]

As both authors had costed the same model, the Basic Income Steering Group was disappointed that there remained a significant divergence between their results. Accordingly, it asked the Department of Finance to estimate the tax rate.

- The Department of Finance reported that a tax rate of 47.6 percent would be required.
- The Steering Group accepted the Department of Finance estimate, which it rounded up to 48 percent: this is the figure which was quoted in the Government's Green Paper.

Given the above facts, the figure of 65 percent, which is the only figure reported by the recent Commission, is inappropriate, misleading and erroneous.

Factual Error 2: the cost of Basic Income

The Commission's recent report states:

"*Moving from our existing mixed model to a universal basic income model would be a fundamental and very costly change in policy – from both a social welfare and tax perspective*".

But:

- All costings of proposals have been made based on Exchequer neutrality.

Factual error 3: the impact on poverty and the distribution of income

The Commission's recent report states:

[1] Government of Ireland, 2002: Basic Income - A Green Paper. Stationery Press: Dublin.

"The (ESRI) Report concluded that such a high tax rate would be a disincentive to people taking up employment and that the income distribution effect of the proposal did not benefit many low-income households, thus making a basic income unviable in Ireland."

But:

Based on ESRI analysis, the *Green Paper* reported that:

- *"70% of households in the bottom four deciles would gain from Basic Income, while 16% would lose compared with conventional options.*

Error of Logic

The Commission's report contains major errors of logic. It states:

"A review of the evidence on universal basic income notes that while smaller basic income trials delivered some positive outcomes with respect to wellbeing, they did not noticeably affect employment or incentives to work".

Implication (provisional)

Parameter	UBI	Conventional option
Labour market participation	Similar	Similar
Well-being indicators	Superior	Inferior

This failure of basic income to increase participation in the paid labour force is assumed (implicitly) in the Report to be a disadvantage of basic income. However, **it fails to acknowledge that both basic income and the current tax/welfare system deliver the same participation in the paid labour force, however only basic income also delivers improved well-being.**

Instead, the report states that "*In the absence of a pilot programme that is large enough in sample size and over a long enough period of* *time, the fuller, long-term merits of universal basic income will remain unclear*."

= Cannot assess basic income without a perfect experiment

(How many significant policy initiatives in Ireland have followed a perfect experiment?)

It is *Social Justice Ireland*'s contention that these errors of fact and logic contributed to the dismissal of Basic Income in the Report.

To summarise:

The Report of the Commission on Taxation and Welfare 2022 came to its conclusion based on

- Three serious factual errors
- Plus, A failure to draw (provisional) logical conclusion on pilots.

  (that UBI appears to be superior)

- Plus, A declaration that we cannot assess UBI till a perfect experiment is conducted (which is untrue)
- Plus, a recommendation based on **no** evidence that we don't do a perfect experiment.

Consequently, *Social Justice Ireland* rejects the Commission's recommendation not to *support the development of a Universal Basic Income in Ireland. That conclusion should be rejected because the evidence and the logic on which it is based is erroneous, misleading and inappropriate. We call on the Commission and on this Oireachtas Committee to ensure these grave errors are corrected.*

Social Justice Ireland's submission to the Commission on Taxation and Welfare may be accessed here:

https://www.socialjustice.ie/publication/social-justice-irelands-submission-commission-taxation-and-welfare