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Irish Congress of Trade Unions

Submission to Oireachtas Select Committee on Budgetary Oversight on Budget 2024

6 September 2023

1. The Irish Congress of Trade Unions (ICTU) welcomed the invitation from the Select Committee on Budgetary Oversight to make a short written submission in advance of Budget 2024 outlining our views on the overall budgetary package, as set out in the Summer Economic Statement, and any specific issues we feel should be addressed in the budget. This submission represents our response to this invitation, and summarises key points and recommendations of our pre-budget 2024 submission (which will be shortly available at www.ictu.ie).

2. To begin, Congress considers that the headline public finances are in a strong position, reflecting the health of the domestic economy and of the exporting sectors. However, the sustainability of the underlying structural position is less clear as the headline position includes a surge in corporate tax receipts to levels that may not be sustained over the medium-to-longer term.

3. The Summer Economic Statement (SES) points to a total budget package of €6.4 billion. €3.2 billion reflects demographics and pre-commitments and of the remaining €3.2 billion, €1.1 billion (one-third) will be used to cut taxes, leaving €2 billion for expenditure measures.

4. The SES projects a cumulative surplus of €56.5 billion over the 2023 to 2026 period, though this does not account for the ongoing uncertainty surrounding the corporation tax receipts. Corporate tax receipts have increased from €10.9 billion in 2019 to a projected €24.3 billion in 2023. We note the Department of Finance's estimate that the General Government Balance, excluding 'windfall' corporate tax receipts, falls by close to €48 billion over the 2023 to 2026

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period. The concentration of the corporation tax receipts is a further worry as it means that the health of the public finances depends on the performance of a small subset of firms.

5. In Congress's view, it would not be prudent to use windfall receipts to fund ongoing current spending increases or indeed to finance permanent tax cuts. Instead, the potentially non-structural or windfall revenues should be allocated to a combination of:

   - A countercyclical rainy-day fund to finance once-off responses to economic crises;
   - One or more state investment funds that could be used to part-finance the enormous capital costs required for Ireland to achieve its net zero green transition and/or to finance the setting up costs of a new housing semi-state responsible for the direct provision of housing, and;
   - A long-term savings vehicle to help fund future ageing costs.

6. Our view is that the medium-term fiscal position is somewhat fragile as the fiscal costs of ageing will increase significantly over the coming years. There are also the capital and other costs of the twin green and digital transitions, as well as the cost of reversing chronic underspends in a range of areas, including housing, education, public transport and elsewhere. While most of Ireland's debt is locked in at very low interest rates over the short-to-medium term, Ireland's per capita debt burden remains one of the highest in the world and is vulnerable over the longer-term to a structural increase in borrowing costs. In this context, we note and endorse the Commission on Taxation and Welfare's main recommendation that:

   > …. given the medium-tolong-term threats to fiscal sustainability, the overall level of revenues raised from tax and pay related social insurance as a share of national income must increase materially… (Commission on Taxation and Welfare, p.67)

7. Our view is that core public expenditure should, over each of the next few years, increase by more than the allowed 5% per annum that is consistent with the economy's growth potential. This is necessary not only to address the cost of living crisis and income inadequacy, but also to begin to address the existing and profound deficits in public spending across a range of areas.

8. Congress would again draw attention to the fact that Ireland has very low levels of per capita public spending relative to Western European norms as well as low levels of spending relative to national income. In our view, Budget 2024 should focus on building our collective economic and social infrastructure. This can be done through (A) greater investment in universal, subsidised public services to achieve targeted reductions in end user costs, particularly in health, education and public transport, by (B) raising all social protection payments by at least €25 a week with additional increases for those at greatest risk of income inadequacy, and by (C) beginning the process of benchmarking all social protection payments to an appropriate adequacy indicator linked to the median earnings of full-time workers.

9. In addition, at €11.30 an hour, the minimum wage is now €2.55 below the Living Wage Technical Group's recommended living wage of €13.85 for 2022-2023 (for a full-time worker with no dependents), and must become a genuine living wage in line with Ireland's commitments and obligations under the adequate minimum wages directive, which is to be transposed into domestic law by November 2024. The minimum wage should be raised to at least 13.30 from January 2024.

10. The adequate minimum wages directive also commits to 'building and strengthening of the capacity of the social partners to engage in collective bargaining on wage-setting, in particular at sector or cross-industry level' and to encouraging 'negotiations on wages between the social partners, *on an equal footing'*. Budget 2024 should re-instate the tax relief scheme for trade union subscriptions in place between 2001 and 2011 (which cost €26.9 at its peak in 2009) so as to put unions on an equal footing as employers, who have continued to be able to claim tax relief on equivalent subscriptions to employers' organisations. This would be one step towards meeting Ireland's commitments and obligations under the Directive.

11. With regard to key structural and investment priorities, parts of the windfall receipts should be used as summarised above to (A) establish and fund a new housing supply semi-state to construct 'A-rated' public housing, based on public ownership and genuine cost-rental principles; to (B) establish a green investment fund to part-fund 'once-off' capital costs of the green transition to a net-zero economy in a manner consistent with 'Just Transition' principles and to shield such investments from future austerity measures. In addition, there is a need to

substantially increase investment to ensure health services, including mental health services, are fit for purpose and safe staffing levels are secured for every level of service provision; in education at all levels to bring spending per pupil and student closer to the average of other high-income European countries; and in training, upskilling and reskilling particularly in construction to prepare for the green, digital and other future economic transitions.

12. Congress is of course not arguing for the government to engage in fiscal stimulus at a time when the labour market is already close to its capacity, and may be overheating. as this would only fuel inflation at a time of already rapid price increases. Rather, we are proposing that the higher level of spending increases be financed via a range of discretionary tax and PRSI measures designed to increase Ireland's overall level of revenues as a share of national income. It is imperative that we address the chronically low levels of government revenue in Ireland compared to peer high-income Western European countries.

13. Our view is that by far the greatest scope to increase government revenue (in the sense of relatively underdeveloped areas) is via increases in PRSI (employer and self-employed), increases in capital taxation (a wealth tax, reforms to CGT and CAT, and to the taxation of capital stocks in general), increases to green taxes on pollution, as well as root and branch reforms to the system of tax expenditures (e.g. abolition of SARP and Help to Buy). These reforms should collectively be implemented on a phased basis over the medium-term.

14. Congress would like to emphasise our firm view that plans to cut income taxes in Budget 2024 are unwise and should be abandoned. Tax cuts of this nature would be pro-cyclical, inflationary and regressive. In addition, by cutting into public spending they would make harder the job of remedying the ongoing crises in housing, in healthcare, in early childhood care and education, in the provision of public transport, and in a range of other areas.

15. Finally, Congress thanks the Select Committee on Budgetary Oversight for the opportunity to set out our views on the overall budgetary package, as set out in the Summer Economic Statement, and any specific issues we feel should be addressed in the budget. Our pre-Budget 2024 submission sets out our recommendations in more detail, and we would look forward to further engagement with the Select Committee on these matters before budget day.

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