‘Post-Budget Examination’

Opening Statement to the Oireachtas Committee on Budgetary Oversight

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25/10/2023

The Irish Congress of Trade Unions (ICTU) would like to thank the Cathaoirleach and the members and staff of the Committee for the invitation to appear before you and present our views on Budget 2024. I am accompanied by Dr Tom McDonnell from the Nevin Economic Research Institute.

Congress acknowledges that there were a number of positive measures in Budget 2024. Unfortunately, the Budget also contained a number of measures that will make it even harder to address the present and future challenges facing the country.

Positives

Congress welcomes a number of measures in Budget 2024 of benefit to workers across the country.

The 25% reduction in childcare fees from September 2024 will help to lower what are still among the highest childcare fees for parents in Europe.

The extension of the provision of free school books, workbooks, and copybooks to junior certificate level from September 2024, and the reduction in third-level fees are steps towards the provision of genuinely free education.

The announcements about savings funds, the *Future Ireland Fund*, and the *Infrastructure, Climate, and Nature Fund*, are prudent and welcome. The first of these funds will eventually generate a new revenue stream to help offset the immense future fiscal cost of our ageing demographics.

The second of these funds should help protect spending on green infrastructure over the economic cycle (i.e. make it recession proof) and may even turn out to be an important countercyclical tool.

We also welcome in principle the announcement that Government is to bring forward proposals on a new pay-related unemployment benefit and await the details. The recent crisis in Tara Mines in Meath brings this issue into critical focus.

Modest progress

In other ways, however, the Government has only partially addressed the enormous challenges facing households, particularly the cost of living difficulties facing low-paid workers and households on low incomes.

The €1.40 increase in the minimum wage to €12.70 from January represents some progress towards a real living wage but still leaves the minimum wage well below the rate of €14.80 for 2023/2024 as estimated by the Living Wage Technical Group.

The €12 increase in welfare rates is below the steep increase in prices over the past year. The deprivation rate rose sharply in 2022 (from 13.8% to 17.7%) and we are concerned there will be another increase in 2023. The higher prices year-on-year will be recurrent going forward. Therefore, if the once-off welfare measures were necessary to ensure income adequacy then they should logically be made permanent. The tax cuts are permanent so why not the once-off welfare payments.

The ICTU position is that welfare rates need to be benchmarked against the median earnings of full-time workers. We note that the Commission on Taxation and Welfare strongly recommended benchmarking.

Concerns

The budget itself will mildly add to inflation. In effect, we have the Central Bank's monetary policy and the Government's fiscal policy acting in opposition to each other.

We also take issue with some of the specifics. In particular, the Budget contains a number of measures that make it even harder to address the major challenges the country is facing and will face over the coming years.

Net tax cuts now will eventually need to be reversed. In this context, the move to increase the PRSI rates in October is likely to be the first step in a long multi-annual process of increasing rates. Our view is that this process should emphasise increasing employer PRSI and self-employed PRSI. This is clearly where the scope is as employers in Ireland are under taxed by approximately 50% when it comes to PRSI, compared to their European counterparts.

The Government's tax cuts will primarily benefit the better off, will only further fuel inflation, and will narrow the tax base. The big losers in absolute cash terms are those earning less than €40,000 with the big winners being those on €70,000 and above.

The tax breaks for landlords are frankly bizarre. They will do almost nothing to increase rental supply and will make the taxation system even more regressive. Its difficult to conceive of a more ineffective and regressive tax break. Do we really believe that a landlord on the same income as a nurse should pay a lower effective tax rate on his passive income? Retention of the 'Help to Buy' also makes little sense and is regressive. Is it government policy to artificially inflate house prices? Genuine hardship cases arising from mortgage interest costs are better dealt with through the social protection system than via a new tax break. Overall, housing policy seems to be muddled.

The tax cuts ultimately run counter to the widely acknowledged need for government revenue as a share of national income to increase to enable the country to meet the challenges posed by a growing and ageing population and by climate change and climate action. The government seems determined to ignore the advice of the tax commission and of most economists that government revenues will eventually need to rise and to be put onto a sustainable footing.

Conclusion

ICTU acknowledges that a number of measures announced on budget day will benefit workers and households across the country, but we believe that the regressive tax measures will make it even harder to address major challenges facing the country in the years ahead.

We believe there needs to be a reassessment of priorities. For example, the decision not to introduce a second-tier child benefit payment to take a quarter of affected children out of poverty was very disappointing and puts the decision to award tax breaks to landlords and tax cuts for higher earners into perspective.

A lost opportunity.

Ends