9 June 2020

Aileen Fallon

Clerk to the Committee

Special Committee on Covid-19 Response

House of the Oireachtas

Kildare Street

Dublin 2

By e-mail: aileen.fallon@oireachtas.ie

CC: covid19@oireachtas.ie

Dear Ms Fallon

I would like to thank you and the Special Committee on Covid-19 Response for the opportunity to make a written submission to the Committee on the topic of the state's budgetary position.

The Nevin Economic Research Institute (NERI) welcomes the establishment of the Special Committee.

On account of the limited timeframe we have focused our response on the five issues for consideration specifically identified by the Committee.

We are happy to assist the Committee in the future and to offer clarification in relation to any aspect of our submission or to answer any additional questions.

Yours sincerely

Dr Thomas A McDonnell

Co-director

Nevin Economic Research Institute Submission to the Special Committee on Covid-19 Response

Fiscal Developments – Expenditure and Budgetary Position

1. Thank you for the opportunity to make a submission to the committee. The committee posed a number of questions as issues for consideration. I will address each of these in turn.

What is the likelihood that the General Government Deficit will go beyond €30 billion this year?

2. There is an extremely high level of uncertainty surrounding the fiscal projections for 2020. Most notably, a second wave of infections or additional period of economic shut-down would place further stress on the public finances. In addition, there is a high probability that rates of business failure will be elevated for the remainder of the year. Yet estimating the scale of these failures is extremely difficult given the lack of historical precedent for an economic crisis of this nature.
3. Crucially, the scale of business failure and job loss is endogenous to current and future policy decisions. A new government will inevitably wish to introduce further measures to support the economy including further revisions to the phased unlocking of the economy, additional sectoral supports and bailouts, and further changes to employment and social protection supports.
4. Further supports will increase the scale of the deficit in 2020. However, if properly targeted and designed they will also buttress the economy's potential output and pay for themselves in the long-run.
5. The NERI's baseline assumption is for a 2020 general government deficit of close to but below €30 billion, that is about 9% of GDP or 16% of GNI*. The deficit would likely exceed €30 billion in the event of a second shut-down. Additional corporation tax receipts represent an upside risk to the forecast.

What would be the fiscal implications of any additional periods of economic shut-down?

6. A second shut-down would do significant damage to the public finances. The Temporary Wage Subsidy Scheme (TWSS) and Pandemic Unemployment Payment (PUP) would either have to be extended in duration or restored. Reduced incomes and aggregate demand would place downward pressure on tax receipts, while additional supports for business would become necessary to maintain business viability.
7. The economic and social costs of Ireland's relatively cautious approach to easing its lockdown have understandably been widely discussed in recent weeks. However, the economic costs arising from a few additional weeks of lockdown must be weighed against the severe macroeconomic and fiscal costs associated with a potential second wave of infections and associated shut-down.
8. We do not know the probability of further waves of infection. Nor do not have a working model of the potential diffusion paths of the infection through the population. As such, it is impossible for us to undertake cost benefit analyses of the different strategies available to government.
9. A second shutdown would likely lead to a loss of confidence in the government's ability to control the virus and would cause a further increase in precautionary saving and postponed investment decisions. This would exacerbate the fall in aggregate demand and deepen and prolong the recession.
10. The NERI's view is that the current approach and timescale re unlocking the economy is broadly appropriate, given the trend in identified cases and the virus's estimated reproduction number. However, we do not believe the timescale should be further accelerated at this stage.

What is the likelihood that bond market conditions may become less favourable to Ireland?

11. The average interest rate on Irish debt was just 2.2% in 2019, and recent debt issuances have been attracting even lower interest rates. Interest expenditure will be close to €4 billion in 2020 and down from over €6 billion in 2016. A cumulative increase in the debt of €40 billion to €45 billion over the 2020-2021 period will add around half

a billion to annual interest expenditure. There is as yet no evidence of the debt burden becoming unsustainable.

12. Our analysis is that there is little chance that bond market conditions will evolve in such a way that Ireland's market access will become impaired. The scale of the ECB's bond buying programme (PEPP) and expressed willingness to 'do whatever it takes' has de facto (if not de jure) converted the ECB into a lender of last resort. At the same time, the EU Commission's proposals around a new €750 billion recovery instrument and reinforced long-term budget will protect weaker member states from experiencing high borrowing costs and prevent sovereign bond market contagion of the type seen during the great financial crisis of 2008-2012.
13. Ireland's very high deficits of 2020 and 2021 will be replicated in almost all other advanced economies and unlike the 2008-2012 crisis are understood as the appropriate Keynesian response to a severe exogenous shock. In this context, there is no reason to suppose that Ireland would be singled out by bond markets. All three major credit rating agencies assess Ireland to have some form of A rating for the purpose of establishing Ireland's creditworthiness.

What is the impact for Ireland of the ECB's current asset purchasing levels?

14. The ECB's asset purchasing is anchoring Eurozone member states borrowing costs at very low interest rates. Equally important is the expressed willingness to do whatever it takes to keep interest rates at sustainable levels. An essential component of the euro crisis that evolved in the wake of the great financial crisis was that Eurozone member states could run out of money because they did not have a guaranteed lender of last resort and were therefore exposed to insolvency risks.
15. There was no institutional mechanism for breaking the 'doom loop' of negative feedback loops of increasing sovereign bond yields and deteriorating debt sustainability. This forced vulnerable countries to embrace austerity policies, which in turn prolonged the duration of recession and stagnation. A number of countries completely lost access to bond market financing.
16. The Eurozone still lacks a de jure lender of last resort. However, the ECB has become a de facto lender of last resort exemplified by its willingness to purchase up to €1.35

trillion of government debt on the secondary market. This additional demand pushes up the price of sovereign debt and therefore pushes down the interest rate. In addition, the EU Commission's new recovery instrument will further ease sovereign debt sustainability concerns.

Are there potential "low hanging fruit" policy options that could increase revenue without negating economic growth in the short term?

17. To adequately answer this question we must first briefly assess whether Ireland already has high or low levels of taxation relative to other EU countries. GDP based comparisons are unhelpful. Table 1 shows that cumulative taxes and social security contributions (SSCs) in Ireland (% of GNI* basis) are below that of the EU average (% of GDP basis). In 2018 the gap was equivalent to €4.15 billion on an annual basis. This suggests there is scope to increase revenue over the medium-term.[1]
18. Table 1 and Table 2 show that taxes on consumption are already relatively high in Ireland, whether assessed on an output basis (Table 1) or on an implicit basis (Table 2).[2] The academic literature shows that consumption taxes on necessities are generally regressive. The implication is that there may be limited scope to introduce net increases on consumption taxes in a manner consistent with progressivity unless the increases are restricted to luxury goods. The necessary reforms to increase consumption taxes on environmentally damaging activities could be combined by equivalent reductions in other taxes in consumption. On the other hand, increasing taxes on consumption in order to expand universal basic services could, if properly designed, generate progressive and growth enhancing outcomes.
19. Table 1 and Table 2 offer a more nuanced picture for taxes on capital. Table 1 suggests that receipts from taxes on capital are high – this is on account of elevated receipts

[1] Another way to assess tax/SSC levels is to compare per capita revenue in Ireland with population weighted revenues in the other high-income EU countries. Forthcoming NERI analysis shows that per capita 'under-taxation' in Ireland in 2018 was over €2,200, or €11 billion when scaled to the Irish population (see NERI, June 2020).

[2] The implicit tax rate is calculated as the tax yield divided by the tax base. We can think of it as an economy-wide average effective tax rate on a particular type of economic activity (consumption, labour income or capital income).

from corporation tax – but that taxes on property (and capital stocks) are relatively low. Table 2 suggests that effective (implicit) taxes on capital are relatively low. Research from the OECD shows that taxes on capital stocks (wealth) and property are the least damaging taxes vis-à-vis economic growth. In addition, these taxes are generally progressive. Thus, our view is that these forms of taxation (Local Property Tax, Capital Acquisitions Tax, Net Wealth Tax) offer the most promising 'low hanging fruit' for increasing revenue without negating economic growth in the short term. However, the short term scope for increasing revenue from these areas is in the order of 1% of GNI*. Thus, while eminently justified from an economic perspective such reforms would only form a modest component of restoring the public finances to a sustainable path.

20. Table 1 and Table 2 both show that combined taxes and social security contributions (SSCs) from labour income are relatively low by EU standards. Specifically, Table 1 shows that SSCs from employers account for the entirety of the nominal gap between Ireland and the EU average. Table 2 illustrates that while implicit taxes on labour income are low, combined taxes/SSCs paid by employees are not low when considered in aggregate across the economy. The 'hole' in labour taxes is the relative absence of employer payments. Income from self-employment is another area that is taxed relatively lightly in Ireland.
21. Thus, by far the greatest scope to increase government revenue (in the sense of exploiting areas of relative under taxation) is via increases in employer PRSI. However, taxes/SSCs on labour income should not be increased during a recession as this will exacerbate the severity and duration of the downturn. Reforms in this area are better timed for after the early stimulus phase i.e. post 2022.
22. A final point to note in relation to medium-term fiscal policy is that Ireland had low levels of public spending compared to Western European norms in 2018. Per capita public spending in Ireland was just under €16,900, €2,000 less than the comparator average[3] of almost €18,900. The large gap suggests that public spending increases should be prioritised over tax cuts during the 2021-22 stimulus phase and that any

[3] The comparator group is the set of 12 high-income European countries with GDP per capita of at least €30,000 and population of at least 1 million.

post-2022 budgetary tightening should focus on increasing revenue instead of lowering public spending increases.

Table 1: Aggregate Taxes and Social Contributions as a percentage of national output (GDP)

	2008	2013	2018
All			
EU-28	37.8	38.7	39.2
Ireland	29.0	28.8	22.6
Ireland (GNI*)	34.7	37.8	37.1
Consumption			
EU-28	10.5	11.1	11.2
Ireland	10.5	9.8	7.0
Ireland (GNI*)	12.6	12.9	11.5
Capital			
EU-28	8.5	8.1	8.5
Ireland	7.2	6.1	6.0
Ireland (GNI*)	8.6	8.0	9.8
Property			
EU-28	2.3	2.5	2.6
Ireland	1.8	1.8	1.2
Ireland (GNI*)	2.2	2.4	2.0
Labour			
EU-28	18.8	19.5	19.6
Ireland	11.3	12.9	9.7
Ireland (GNI*)	13.5	16.9	15.9
Labour (paid by employer)			
EU-28	7.5	7.7	7.6
Ireland	3.4	3.1	2.6
Ireland (GNI*)	4.1	4.1	4.3

Source: European Commission Data on Taxation; **Note**: 2018 aggregate gap between Ireland (GNI*) and EU28 is €4.15 billion

Table 2: Implicit Tax Rates (aggregate effective tax rates by type of activity)

	2008	2013	2018	2018
Consumption				
EU-28	15.8	16.3	16.9	
Ireland	19.2	19.3	19.6	
Capital				
EU-28 (median)	22.3	22.6	23.1	
Ireland	21.7	14.8	14.7	
Labour				
EU-28	35.6	36.0	36.3	
Employee				20.6
Employer				15.7
Ireland	25.6	32.1	32.9	
Employee				24.1
Employer				8.8

Source: European Commission Data on Taxation; **Note**: 2018 I

9 June 2020

Aileen Fallon

Clerk to the Committee

Special Committee on Covid-19 Response

House of the Oireachtas

Kildare Street

Dublin 2

By e-mail: aileen.fallon@oireachtas.ie

CC: covid19@oireachtas.ie

Dear Ms Fallon

I would like to thank you and the Special Committee on Covid-19 Response for the opportunity to make a written submission to the Committee on the topic of Social Protection.

The Nevin Economic Research Institute (NERI) welcomes the establishment of the Special Committee.

On account of the limited timeframe we have focused our response on the issues for consideration specifically identified by the Committee.

We are happy to assist the Committee in the future and to offer clarification in relation to any aspect of our submission or to answer any additional questions.

Yours sincerely

Ciarán Nugent, NERI Economist

Paul Goldrick-Kelly, NERI Economist

Nevin Economic Research Institute Submission to the Special Committee on Covid-19 Response

Fiscal Developments – Social Protection

1. We would like to thank the Special Committee on Covid-19 Response for inviting the Nevin Economic Research Institute to contribute and comment on these very important issues.

How sustainable are these payments beyond Quarter 2 2020?

2. Sustainability in this context has several aspects. The first relates to the shorter-term fiscal position of the Irish state. Fortunately, as we relate in our accompanying submission, the budgetary position is substantially better now than it was at the height of the 2008 financial crisis. The *structural* position – removing the deficit that can be attributed to the business cycle – is strong, with room for fiscal manoeuvre. We propose that this fiscal headroom be utilised to continue to support payments in the short-term and move to restart economic activity when the medical situation warrants it. For the immediate future, this will entail government deficits and state borrowing.
3. Sustainability should also be assessed against the longer-term implications of delayed economic recovery for the public finances. As we point out in our accompanying submission, the longer-term structural position of the economy, and subsequent sustainability is largely dependent on potential growth. Short term measures to limit deficits and expenditure could have lasting implications for budgetary headroom and limit fiscal capacity to address challenges like climate change, childcare, housing and healthcare into the future. Maintaining these payments will guard against a disastrous downward demand spiral, which prolonged the effects of the 2008 financial crisis right up to February 2020. Austerity too soon is likely to worsen the economic impact of the virus.[1]

[1] https://www.thejournal.ie/covid-19-economic-impact-esri-5109190-May2020/

4. The ESRI suggest that the maintenance of household disposable income alongside a decline in spending have increased the household savings rate.[2] These savings represent a key difference between our current situation and Ireland's position following the global financial crisis. This savings rate should lead to actual stability in Ireland's balance of payments through the crisis, a key indicator of wider macroeconomic stability.[3] The marginal propensity to consume is higher for households at the bottom of the income distribution. These accumulated savings therefore, could be a key source of stimulus as lock-down eases, resulting in increased consumption, economic activity and employment.
5. Investors will also be more confident to put their capital to productive use if they see future demand for their products, supporting economic activity. When markets see signals that future demand is depressed (if hundreds of thousands of people have their weekly income cut by 43 per cent) businesses will be more inclined to park their money or even to close, accelerating a downward spiral in economic growth, as we saw after the 2008 financial crisis.
6. The TWSS should not be viewed as a cost to the state, it is a one-off investment in maintaining the productive capacity of the economy, which if rescinded will likely cost Irish society much more in the long-term. In this sense, sustainability should also be assessed against the longer-term implications for the public finances of the loss of economic capacity and delayed economic recovery.
7. To put these investment costs in perspective, in 2019, the Irish government collected €1.4 billion more than they had expected in revenue (7 weeks of the cost of PUP) and a total of €23 billion in income tax alone. This week, the CSO report that revenue collected an extra €1.7 billion (8.5 weeks of PUP) in corporate tax revenue. In addition, it has never been cheaper to borrow.
8. Thus, payments in the current context are prudent, if not essential from a macroeconomic perspective and along with a stimulus package are key to rebuilding the economy.
9. The sustainability of living standards for hundreds of thousands of Irish workers who have lost their employment due to Covid-19, should be paramount in these

[2] Quarterly Economic Commentary Summer 2020 (McQuinn,K., O'Toole,C., Allen-Coghlan,M.& Coffey,C., 2020)
[3] The Balance Of Payments In Ireland: Two Decades In Emu August 2019 (Department of Finance,2019)

discussions. The possibility of growing alienation related to prolonged unemployment and low wage and precarious employment should also inform these discussions on sustainability. As we have seen, this crisis has again impacted younger workers disproportionately. Some have had their lives disrupted for a second time before the age of 40 and most have been stuck in exploitative rental arrangements with insufficient wages if they have been able to move out of their parent's home at all. Younger generations were already marginalised by the previous development model which was strong on GDP growth, but did not deliver higher living standards for this group. Young people need to believe that there is some kind of a future aside from unaffordable housing, unemployment and low wage, precarious work. Going back to the low road approach to development and wages is not a viable option for Ireland, let alone its younger citizens.

10. These income supports are also key to maintaining some kind of stability in the Irish housing market. Without it, we will see more households going into mortgage arrears, more renters missing monthly payments and major disruption as a result. There will be more evictions, more people applying for social housing and more homelessness.

What is the anticipated Supplementary Estimate that will be required under Vote 37 in 2020?

11. According to the Parliamentary Budget Office, current policy commitments suggest that an additional €5.45 billion is needed over December's voted allocation. The vast majority of these payments (96.5%) relate to Income supports and Employment supports including increased Jobseeker's allowance (€975 million), The PUP or Pandemic Unemployment Payment (€2.23 billion) and TWSS - Temporary Wage Subsidy Scheme) (€2.07 billion).

Table 2 – Subheads where spending increases are sought for 2020 (December 2019 v. May 2020)

Subhead	Increase (€)
A.4 - Jobseeker's Allowance	975,300
A.xx - Pandemic Unemployment Payment	2,230,000
A.12 - Community Employment Programme	9,500
A.14 - Tús	6,000
A.yy - COVID-19 Temporary Wage Subsidy Scheme	2,073,900
A.33 - Back To School - Clothing And Footwear Allowance	98,900
A.36 - Rent Supplement	70,000
A.40 - Fuel Allowance	21,400
Total Vote increase	**5,485,000**

Source: PBO, based on the Revised Estimates for Public Services 2020 (2019) and the Revised Estimate for Vote 37 (May 2020).

Source: Revised Estimate for Public Services 2020 [Vote 37]: Employment Affairs and Social Protection PBO Publication 32 of 2020 –Expenditure Analysis series pg. 6.

12. However, this supplementary estimate is based on a no-policy change assumption. Crucially, this involves a presumption that the PUP and TWSS will be cut off in June, reflecting the initial 12-week timeline envisaged when they were introduced in March. Prevailing economic conditions and continued requirements for lock-down suggest that this would lead to significant hardship for many individuals and families. Further, the economy would be inflicted with another negative shock to demand, in already depressed conditions.
13. Extending these programmes will require additional funds, though it would be more accurate to treat them as investments with long-term returns, rather than simply costs. If the two programmes are extended at current claimant levels to year's end, the supplementary funding required could be in the region of €8-€9 billion above May's supplementary estimate. While representing a significant cost to the exchequer, these programmes would help support spending power and retain economic capacity, as already discussed.
14. We note two provisos. Firstly, under current conditions a cessation of PUP and TWSS would result in a shift in claimants towards the Jobseeker's benefit. Therefore, we should expect increased spending under this heading if PUP and TWSS cease, which would, itself, require additional funding over and above the revised estimate. Moving the current 589,000 PUP claimants to the standard €203 Jobseeker's payment for 24

weeks (approximately 2 quarters), would require an additional €3 billion in supplementary funding to the end of the year. Many employers availing of the TWSS currently would likely make staff redundant if the programme were to suddenly cease, further increasing jobseeker's payments and the additional funds required. We should also consider the broader economic effects – to date these payments have mitigated losses in disposable income for households throughout the country. A sudden reduction in these payments would reduce household spending power, reducing consumption and hence business revenues. This would likely push many more people out of work, and on to job seeker's payments. Therefore, the headline savings associated with ending these programmes understate the real final cost to the exchequer.

15. There are indications that numbers availing of the PUP have fallen slightly from peak levels. Given plans to progressively ease lock-down measures, claimant numbers will likely continue to fall. The continuation of these payments could support economic recovery, aiding the exchequers position and reducing social protection expenditures. This estimate of additional exchequer costs may, in that sense, represent a conservative overestimate of added costs.

How will the special employment and unemployment supports be tapered back to the levels of "regular" support payments?

16. We believe this should not happen. Pandemic payments tied to unemployment should begin to fall as the economy recovers and people return to work. A tapering in these subsidies would drive many individuals and families into hardship – the Vincentian partnership's Minimum Essential Standard of Living (MESL) estimates for 2019 indicate that the prevailing €203 payment was inadequate for many household types.[4]
17. The pandemic unemployment payment is an important automatic stabiliser. Cutting it could exacerbate already significant falls in aggregate demand. According to the ESRI, in March as the lockdown began, total retail sales fell by 13% relative to January and February's average.[5] This likely represents an underestimate of the full implications of lock-down measures for demand, as wider restrictions only emerged

---

[4] MESL 2019 Update Report, The Vincentian Partnership for Social Justice
[5] ESRI Quarterly Economic Commentary Summer 2020 (McQuinn,K., O'Toole,C., Allen-Coghlan,M.& Coffey,C., 2020)

on 28 March. A reversion to normal payments in this context will likely lead to increased expenditures by government to support business and/or further closures with associated layoffs. This would lead to greater economic damage and further declines in the exchequer position. The PUP, focusing on those at the bottom of the distribution, will support economic growth.

18. The level of these payments are also important to reduce the disruptive impact of Covid 19 on the Irish housing market. Cutting PUP or TWSS will increase missed monthly rent payments, mortgage arrears, social housing lists, evictions and homelessness.
19. Employment based supports also represent an important investment in economic capacity, as they support employers and keep workers tied to their employment, minimising disruption to businesses and employees. Government should explore cost sharing with firms as the economy begins to recover, which could decrease contributions from the state and lead to some recovery in contributions from employers. Cost recovery could also be pursued in the medium to longer term through levies on business income or assets.
20. In the longer term, maintaining unemployment payments at current levels will require additional revenues. We argue that this should be pursued by reforming our tax system so that it more closely resembles tax and welfare systems in comparably developed western European countries. A comparison of revenues pre-crisis suggests considerable scope to raise revenues through contributions from employers and through taxes on assets and property.

Are there targeted, sector-specific supports that might continue the PUP and TWSS have ceased?

21. Yes. We believe this is an opportunity to start diverting the Irish economy toward a high-road productivity model, such as found in most Northern European countries with climate targets and a transition towards energy self-sufficiency informing long-term strategy.
22. The focus on Tourism in political discourse on Covid 19 so far is worrying. This is the lowest paid, most precarious employment of any sector in Ireland by far. It is also has

the lowest turnover and the lowest value added of any sector, contributing least to the productive capacity of the Irish economy. As we have seen, it is completely vulnerable to external shocks outside of any Irish policymaker's control. This industry is demand led and therefore government intervention, however well intentioned, is less effective. The opportunity cost of government resources going to tourism at the expense of other, more productive sectors is not insignificant. Reducing VAT for this industry will not have the desired effect due to travel restrictions in place (international competition for tourism is less relevant in Covid). As visits from important countries for tourism, such as the US and UK are likely to be almost non-existent for this year (at the very least), the best thing government can do for this industry is to maintain Covid payments so that more Irish people can take holidays and spend their money this year at home.

23. Government effort would be better directed at more productive and sustainable industries that will add more value to the Irish economy.
24. A state-led retrofitting programme focusing on social housing and public building stock with apprenticeships and a job guarantee is one area where policy should focus.[6] This is decent, middle income employment, it will reduce the cost of living for households (fuel allowance could be appropriately scaled back on a case-by-case basis for households who have had their houses improved) and the running costs for government (less energy bills) and helps us on our way to meeting our climate targets and avoiding costly fines. Making the built environment more energy efficient supports energy self-reliance and by extension, overall productivity. The job guarantee is key to address huge shortfalls in young people pursuing careers in a historically unstable sector.
25. Government should enact policies to encourage mixed land use in agriculture focusing on the roll out of solar panelling, especially in the south and south east of the country. This revenue stream will support living standards of workers in a sector increasingly under pressure from changing consumer behaviour. The focus on beef in an environment where demand is likely to fall is inherently risky. Diversifying production

[6] Investing in a Just Transition. Realising the potential of a low-carbon economy

will help protect workers against future exogenous shocks, increase value added in the sector and perhaps even employment.

26. Public transport is another area to expand employment, reduce the cost of living for commuters, improve quality of life through cutting commuting times, support the productive capacity of the Irish economy and support the effort to reduce carbon emissions. Clearly, the semi-state transport companies will experience a shortfall in ticket revenue this year. This should be covered in it's entirety by the exchequer to protect vital services and employment.
27. A state-led reforesting programme could also create employment all across rural Ireland very easily and help us on our way to meeting climate goals. This type of government sponsored work could temporarily alleviate the unemployment fallout from Tourism, especially in areas along the west coast, at a relatively low cost.
28. University supports and grants should be increased to encourage more young people to pursue qualifications in Information and Communications technology. At present, about a third of IT jobs have to be filled by recruiting overseas. These are the highest paid jobs in Ireland and have potential to add significantly to the productive capacity of the Irish economy. With contract workers from abroad leaving after a year or two years we are constantly losing productive capacity in this key strategic sector. This is one of the main reasons we have failed to produce as many domestic IT start ups as we would have hoped with our development model over the past three or four decades. We should aim to maximise employment and develop human capital in this sector, focussing on individuals who are more likely to stay and support the productive capacity of the Irish economy. (Government could also avail of income and training support funds available through the European Union. At present, these funds are largely in place to address trade related employment shocks like the European Globalisation Adjustment Fund. The proposed Next Generation EU plan from the European Commission could be a significant source of funds for employment supports as we emerge from lockdown)[7]
29. In addition, PUP and TWSS payments should provide a template where government decisions in the future lead to shutdowns of certain types of economic activity. This is

[7] The EU budget powering the Recovery Plan for Europe

particularly relevant where ecological transition is concerned. As we argue in a recent NERI release, a key element of a Just Transition away from environmentally damaging activities will be appropriate social protection supports.[8] Direct payments and subsidised employment along the lines of the PUP and TWSS programmes will be key to minimising disruption for workers and communities affected. These payments will ensure that workers in various sectors will be adequately supported, and have the resources needed to maintain decent living standards and avail of the new opportunities in a new green economy, such as training in retrofitting the built environment. These payments will also guard against regional economic decline and help us avoid continue and/or exacerbated inequality between regions.

30. More generally, we need to develop a truly sustainable development model post-Covid, and in this time is an opportunity to start working to that end. A high-road approach to productivity with environmental sustainability and sustainable, decent work at its core should be the guiding principle going forward. This will require targeted investment and additional revenue.
31. For the medium term, the NERI have produced several research projects on areas in which we could bring Ireland up to high-income European country norms would bring in much needed revenue include employer's social contributions, an effective minimum corporate tax rate, inheritance tax and net wealth taxes. As it is unclear how stable revenue from corporate tax receipts are currently, our reliance on them is risky and likely unsustainable.
32. Strict adherence to fiscal rules undermines the growth potential of the Irish economy and actually incentivises a low-road approach to development. In the era of negative interest rates, these rules act against our collective interest. Even before the current crisis as Germany was effectively in recession a widespread consensus to revisit the fiscal rules was developing to tackle stagnation at a Eurozone level. Germany, having led the push for a contractionary fiscal strategy that characterised the Eurozone approach to the financial crisis, has now signalled a change in strategy for Covid, with a tacit acknowledgement of the mistakes of the past. Along with France, Germany have even come to an agreement for this to inform the collective EU response to Covid

[8] NERI Quarterly Economic Observer - Winter 2019 - "Matching skills needs with skills reserves: Protecting workers and communities for a Just Transition" (NERI, 2019)

through the European Commission. Though many have broken the fiscal rules, no country has ever been fined.

Are these payments, in certain sectors/cases, acting as perverse incentives and discouraging a return to work?

33. We have seen no evidence of that, other than anecdotal evidence from actors with monetary incentives. Given current lock-down measures and depressed economic activity, the kinds of low paid jobs that are apparently disincentivised are not hiring.
34. The lowest wage sector, and focal point of the employment fallout, Tourism, is still not open, so this doesn't apply to them.
35. We should also consider the substantial costs to government of low pay. Many low paid workers avail of social protection payments to support living standards. In effect, these payments subsidise low wages.
36. Social protection payments could help support a rebuilding of the economy away from environmentally damaging activities, alongside low paid work. Long-term policy should not be informed by a desire to return to a status quo ante of low productivity, low wage and environmentally unsustainable economic activity and employment.
37. Should these perverse incentives arise in future, the introduction of a living wage is a more suitable policy approach to tackle them.

Will similar measures be implemented should any additional periods of lockdown be required?

38. Yes. The PUP should be extended for additional periods of lockdown to curtail a devastating downward demand spiral such as that which occurred post financial crisis in 2008 and to minimise disruption to the housing market. The income subsidy is key to investing in maintaining the productive capacity of Irish society by supporting employers and keeping workers tied to their employers.

What will be the requirement in additional expenditure to address increased unemployment in 2021?

39. Unemployment in Ireland next year will be dependent on a range of unpredictable factors, including medical advances to treat the novel coronavirus, success or otherwise of measures to limit virus spread in Ireland and conditions abroad. Many of these factors are beyond our power to control, though government should pursue coordinated policy in international fora including the European commission to aid recovery. Unemployment levels will likely reflect government efforts to limit the economic fallout of lock-down measures. As unemployment falls and economic activity recovers, the requirements for social protection will trend downwards from 2020 highs. As we have discussed, maintaining PUP and TWSS as currently implemented are key to limiting this fallout and supporting the speed of recovery.
40. However, we can reasonably conclude that unemployment will remain elevated for some time as the economy recovers, potentially exceeding 10% in 2021 and beyond. This will entail elevated social spending relative to pre-pandemic levels, to cushion the macroeconomic effects of unemployment, minimize the impact on the housing market and maintain living standards for citizens. In the context of reduced governmental receipts, this will necessitate government borrowing. Fortunately, our European partners appear increasingly prepared to intervene to support member states in dealing with this emergency.
41. The early phases of Ireland's recovery do not represent the appropriate time to prioritise cutting protection expenditures as a primary goal in and of itself. Ultimately, an environment that facilitates recovery into decent employment should represent the pathway through which spending is progressively reduced. As such, the TWSS is so important to keep employees connected to employers and the PUP is crucial in avoiding a downward demand spiral so business sees future demand for their goods and services.

For any further queries, please contact

Ciarán Nugent on ciaran.nugent@nerinstitute.net

or Paul Goldrick-Kelly on paulgk@nerinstitute.net