Social Justice Ireland

Working to build a just society

Ensuring justice and fairness guide policy decisions

Briefing for IMF, European Central Bank and European Commission

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INTRODUCTION

There are two major issues we address in this *Briefing* for the 'Troika'. These are:

1. The selective use of data by Troika organisations which is leading to inaccurate analysis which in turn is producing inappropriate policy recommendations for Ireland.
2. Budget 2013 with a particular focus on showing how choices can be made that would reduce borrowing in 2013 by €3.5bn while protecting the vulnerable and creating jobs.

On Data, Analysis and Policy Proposals

Selective use of data by 'Troika' members in the analysis and documentation they have produced recently is leading to inaccurate analysis which in turn is leading to inappropriate policy proposals being made. This is totally unacceptable.

The 'Troika's analysis sets most of the parameters for the Irish Government's decisions on the Budget and other key areas of policy. So it is crucially important that the analysis is as accurate as possible.

On the poverty rate

An example of this unacceptable process in practice can be seen in the analysis provided on poverty. This analysis states that poverty fell between 2006 and 2010. What this statement hides is the fact that poverty fell in the period 2006-2008 but has been rising since then.

Based on this selective use of data one could conclude that no damage was being caused to Ireland's poorest when, in fact, an analysis of the full data shows that their situation has been deteriorating significantly.

In the documentation recently produced by 'Troika' members selective use of data is leading to inaccurate analysis which in turn is leading to inappropriate policy proposals being made.

On reducing unemployment payments over time

Another example of this unacceptable process in practice can be seen in much of the discussion concerning the rates of social welfare payments made to people who are unemployed. The argument made in 'Troika' publications is that Ireland's job-seekers allowance does not fall over time. This contrasts with the situation in many other EU countries.

This analysis however is a selective use of data as it fails to inform the reader that in many other EU countries people receive a high level of social welfare payment when they first become unemployed – often a high percentage of their salary prior to becoming unemployed. Over a period of time the level of this payment is reduced.

By contrast in Ireland there is no such tiered system. The very first payment made to a person who becomes unemployed in Ireland is below the poverty line and remains that way for the duration of their unemployment. Once this fact is revealed recommendations urging its reduction so as to be in line with other EU countries are exposed as being inappropriate.

On increases in welfare rates in the last decade

A further example linked to the two items already highlighted relates to the claim that welfare rates have been raised far faster than pay or inflation has risen in the period since 2004. This again is a selective use of data. It ignores the fact that welfare rates had fallen far behind all other groups in society in the preceding period. The increases in welfare payments in the period 2005-2007 only went part of the way towards re-balancing this situation.

In the 25-year period between 1986 and 2011 Government ministers had seen their after-tax income rise by more than €1,000 a week and TDs had seen their after-tax income rise by more than €840 a week. Clerical officers' after-tax incomes rose by more than €400 a week in the same period. Those on the average industrial wage had seen their incomes rise by more than €340 a week. By contrast the income of an unemployed person rose by less than €144 a week – and €51 of that is attributable to welfare increases in the three years from 2005 to 2007.

By ignoring the broader data the 'Troika' can justify recommending reductions in social welfare rates that still remain below the poverty line.

Any fair and objective analysis would acknowledge that the increases in social welfare rates in the last decade went only part of the way to bridging the gap that had been allowed to develop between the poorest and the rest of society in the preceding two decades.

On Replacement Ratios

Closely linked to this is the claim that replacement ratios are high in Ireland and consequently welfare rates for job seekers should be reduced. Again, while there are examples of problematic replacement ratios the typical situation is the opposite to that presented in the analysis provided by the 'Troika'. This in turn has led to inappropriate policy proposals in this area. The National and Economic Social Council (NESC) addressed the issue of replacement rates in their publication '*Promoting Economic Recovery and Employment in Ireland'*. The NESC research shows that only 5 per cent of people on the Live Register receive both rent supplement and an increase for qualified adults and for qualified children.

NESC notes that the degree of attention paid to this 'perfect storm' which is regularly used to present replacement rates in Ireland as high and interpreted as evidence of a disincentive to work is not related to labour supply concerns. The NESC study shows that Ireland's replacement ratios are very positive in terms of encouraging people to take up employment.

On distribution of the 'hits' during the recession

A further example of this selective use of data, linked to some of the examples already provided, is the claim that the 'hits' have been distributed fairly in recent Government budgets.

This conclusion ignores a recent study by the European Commission that showed Ireland was one of only two EU countries where the upper quartile of households had **not** taken the greatest impact of the rise in financial distress.

This study (published September 2012) showed that over the past year Italy recorded a particularly sharp rise in financial distress followed by Greece, Ireland, Cyprus, Portugal and Spain, with the upper quartile seeing the greatest impact of the rise in all countries except Cyprus and Ireland where the lower quartiles bore the brunt.

Later in this Briefing we provide more details on these and related issues. We provide many examples of where data has been selectively chosen, where this selectivity has led to inaccurate analysis which in turn has led to inappropriate policy proposals being made.

We will be glad to provide further examples of these unacceptable practices. However we would much rather work with the 'Troika' members to ensure their analysis and policy proposals are well-founded.

On Budget 2013

The current approach to resolving Ireland's series of crises is not working. More than 700,000 people are at risk of poverty. Domestic demand continues to fall. The number of jobs in the country fell by 33,400 in the past year – more than the total population of Leitrim.

Unemployment was 14.1% in 2011 and is now 14.8%. Long-term unemployment rose from 7.7% to 8.8% of the labour force in the past year. It was 1.3% in 2007. It now accounts for 60% of all those unemployed.

The increase would have been larger were it not for a return to significant levels of emigration. Many of those who emigrated would be among Ireland's young unemployed if they had stayed. The working poor issue is not being addressed. 100,000 households are on waiting lists for social housing.

Without investment there will be no jobs. Without jobs there will be no recovery. Without a recovery Ireland will be forced to continue its current austerity programme indefinitely.

In 2011, the ratio of debt to GDP was 106.5%. However, this year it is projected to be 117.5% and next year it is projected to be 120.3%. .

Ireland's real GDP in 2012:Q2 is 1.1% lower than it was a year earlier.

Ireland has achieved all the benchmarks required by the Bailout agreement with the 'Troika'.

Yet the economic benefits that were supposed to flow from these adjustments have not emerged. In part this is due to a weak international economy.

But in major part it is also due to the failure of the economic model on which the bailout is based.

Without investment there will be no jobs. Without jobs there will be no recovery. Without a recovery Ireland will be forced to continue its current austerity programme indefinitely.

This situation is being exacerbated by the Government's protection of the rich at the expense of the rest of us.

Budget 2012 was a disgraceful exercise which saw Ireland's poorest taking the biggest hits.

A new approach is needed. This new approach requires:

1. A major investment programme that will create jobs;
2. Protection of public services, the vulnerable and their communities;
3. A fairer tax system working towards collecting up to 35% of GDP in tax;
4. A fairer distribution of the 'hits' in the budget.

All of this can be done while reducing borrowing by €3.5bn

In this Briefing we present *Social Justice Ireland*'s fully-costed proposals for Ireland's Budget 2013 following this new approach.

Our proposals involve:

- Achieving the borrowing reduction target by tax increases and expenditure reductions on a ratio of 2:1.
- Introducing a new capital investment programme.
- Making no reductions in welfare rates or Child Benefit.
- Addressing the working poor issue by making tax credits refundable.
- Eliminating the household charge and introducing a site value tax.
- A programme to reduce long-term unemployment by 100,000.
- Protecting the social services infrastructure.
- Honouring our ODA commitments.
- Introducing a universal pension funded by standard rating the pension tax-break.

This approach would be good for the economy, good for the vulnerable, good for Ireland. It would be fair and seen to be fair.

Full details are contained on pages 17-35

1. Selective use of data

In the following pages we provide some details to support our claims that selective use of data is leading to inaccurate analysis which, in turn is leading to inappropriate policy proposals. In each case the true situation is stated in the headline and the selective use of data is reported in the following text.

It should be noted that there are many further examples of these unacceptable practices in addition to those discussed here.

1.1 Poverty is rising

The data on poverty has been used selectively and has presented a false picture contributing to the misleading conclusion that poverty continues to decline.

A recent IMF publication stated that Ireland has avoided a decline in poverty rates relative to Europe and that Ireland's strong social supports have avoided a rise in poverty during the crisis.

On closer examination this is not the case. In 2006 the 'at risk of poverty' rate in Ireland was 17%, and in 2010 the rate was 15.8%. However, in the period 2009-2010 the 'at risk of poverty' rate increased by almost 2 percentage points.

Table 1: % of population in poverty 2006-2010	
	% of persons in poverty
2006	17.0
2007	15.8
2008	13.9
2009	14.1
2010	15.8

Source: CSO SILC Reports 2006 - 2010

Table 1 contains the 'at risk of poverty' rates from 2006 to 2010. The data shows that the 'at risk of poverty' rate fell until 2008 but began to increase again in 2009 and the rise in the poverty rate escalated in 2010. The same publication also noted that consistent poverty in Ireland was still below 2006 levels.

Such a claim might lead readers to the conclusion that Ireland is not faring too badly. Table 2 below shows that such a conclusion would be false. This table reports the 'consistent poverty' rate in Ireland from 2006-2010.

Table 2: % of population in consistent poverty 2006-2010	
	% of persons in poverty
2006	6.5
2007	5.1
2008	4.2
2009	5.5
2010	6.2

Source: CSO SILC Reports 2006 - 2010

The consistent poverty rate fell by over 2 percentage points between 2006 and 2008; however between 2008 and 2010 the rate increased by 2 percentage points.

Analysis of the deprivation rate of those experiencing 'consistent poverty' in Ireland, shows an alarming rise in deprivation over the period 2006 - 2010.

Table 3: Deprivation rate Ireland 2006-2010	
	Deprivation rate
2006	13.8
2007	11.8
2008	13.8
2009	17.1
2010	22.5

Source: CSO SILC Reports 2006 - 2010

Tables 1 – 3, all use data from the CSO (Ireland's Central Statistics Office).

These highlight how the selective use of data, in this case on poverty, can lead to the misleading conclusion that the poverty rates are declining. Upon examination of all the data it is clear that this is not the case.

It can be expected that measures which have been implemented since 2010 will have a further negative impact on those people experiencing poverty and deprivation in Ireland.

1.2 Ireland has a high level of 'working poor' that is not being addressed.

There has been discussion in 'Troika' publications centred on Ireland's 'high minimum wage'. This discussion has tended to ignore the scale of the 'working poor' problem.

Such selective choice of data is unhelpful and leads to misguided policy proposals. The number of people in Ireland who have a job and are 'at risk of poverty' is 120,000.

Table 4: % of population in work at risk of poverty 2006-2010	
	% at work and at risk of poverty
2006	6.5
2007	6.7
2008	6.7
2009	5.5
2010	7.8

Source: CSO SILC Reports 2006 – 2010

As outlined above, those who have a job but are still 'at risk of poverty' have been more or less ignored by government policy over the years.

The 'working poor' have increased in the period 2006-2010 and it is important that policy makers address and recognise this problem.

Social analysis that claims the 'minimum wage rate is too high' ignores the significant numbers of people in Ireland who make up the 'working poor'.

A simple, effective and immediate strategy to address the issue of the working poor would be to make tax credits refundable. This proposal would cost €140 million to implement. It would benefit those who are the 'working poor' and their families and communities. It would ensure that the income tax and tax credit system treats everyone equitably and fairly by ensuring all those in employment have equal benefit from the tax credits to which they are entitled.

For full details of this proposal see 'Building a Fairer Tax System - The Working Poor and the Cost of Refundable Tax Credits' (*Social Justice Ireland*, 2010).

1.3 Welfare payments are below the poverty line yet 51% of Ireland's population would be in poverty without social welfare

The on-going discussion surrounding welfare payments and the size of the social welfare budget ignores the fact that:

(a) 51 per cent of people would be in poverty without social welfare payments and

(b) Most social welfare payments in Ireland are below the poverty line.

Table 4: The role of Social Welfare (SW) payments in addressing poverty

	Poverty pre SW	Poverty post SW
2006	40.3	17.0
2007	41.0	16.5
2008	43.0	14.4
2009	46.2	14.1
2010	51.0	15.8

Source: CSO SILC Reports 2006 - 2010

The assumption by many policy makers that the social welfare bill should be reduced by simply cutting social welfare rates whilst ignoring their own unemployment projections up to the period 2017 is incoherent.

It is perverse to suggest a decrease in the welfare bill unless we can simultaneously increase employment. Both the IMF and the European Commission have projected that the rate of unemployment in Ireland will remain above 13% in 2015.

The European Commission in a recent report noted that a higher than anticipated number of unemployment benefit recipients accounts for most of the overrun in the social protection budget and has also contributed to spending pressures in the health sector.

Cutting social welfare rates will not create jobs and without jobs there will be no recovery.

Focusing solely on reducing welfare rates without any discussion on investment ignores the fact that, without jobs, unemployment and the social welfare bill will remain high.

1.4 Social welfare rates have not risen as fast as other disposable incomes over the longer term

The focus of recent reports from the 'Troika' on the increases in Ireland's social welfare rates between 2000 and 2009 misses the point outlined earlier that most social welfare rates in Ireland are below the poverty line.

Social welfare rates in Ireland have been reduced by 8 per cent since the beginning of the crisis, with Child Benefit being reduced by 15 per cent. The constant focus on the level of social welfare rates in Ireland compared to our European neighbours is misleading as Ireland does not provide the same level of public services (e.g. childcare) as our neighbours.

These reports have also focused on the period 2000 to 2009 where social welfare rates in Ireland increased. This analysis fails to look at longer-term data in terms of incomes and poverty rates.

Table 5: % of population in poverty 2000-2010	
	% of persons in poverty
2000	20.9
2001	21.9
2003*	19.7
2004	19.4
2005	18.5
2006	17.0
2007	15.8
2008	13.9
2009	14.1
2010	15.8

Source: CSO LIIS & SILC Reports 2000 – 2010
*Data for 2002 unavailable

As the data in table 5 shows, the 'at risk of poverty rate' in Ireland was above 20 per cent in 2000, and as the table shows, this rate began to decline as social welfare rates were increased.

This situation has now been reversed. The decreases in public spending and in social welfare rates in recent years have had a significant impact on increasing poverty in Ireland.

The analysis contained in the 'Troika' reports also ignores the fact that social welfare rates had fallen far behind other incomes in society. As stated already in this Briefing in the 25-year period between 1986 and 2011 Government ministers had seen their after-tax income rise by more than €1,000 a week and TDs had seen their after-tax income rise by more than €840 a week.

Clerical officers' after-tax incomes rose by more than €400 a week in the same period. Those on the average industrial wage saw their incomes rise by more than €340 a week in the same period. By contrast the income of an unemployed person rose by less than €144 a week – and €51 of that is attributable to welfare increases in the three years from 2005 to 2007.

By ignoring the broader data the 'Troika' can justify recommending reductions in social welfare rates that still remain below the poverty line.

Any fair and objective analysis would acknowledge that the increases in social welfare rates in the last decade went only part of the way to bridging the gap that had been allowed to develop between the poorest and the rest of society in the preceding two decades.

1.5 Those on lowest incomes have been hardest hit.

Recent commentary from the IMF and the European Commission has praised the 'progressive' fiscal adjustment in Ireland in terms of budget consolidation.

This commentary fails to take into account recent data regarding rising inequality and data which shows that poverty is once again increasing. Those on lowest incomes have not been protected in the fiscal consolidation process. Welfare rates have been cut by 8 per cent; Child Benefit has been reduced by 15 per cent. Public services that those on low incomes rely on have been cut, and other services now have increased charges. The St Vincent De Paul Society has recently outlined to the 'Troika' a list of thirty budgetary measures taken in recent years which disproportionately affect those on lower incomes.

As a result of decisions made in Budget 2012, the poorest 40% of households have seen a fall of 2 to 2.5% in their incomes while the richest 30 per cent have seen a fall of just 0.7 per cent. This is neither progressive nor equitable.

A recent IMF report also suggested that Ireland should look at reviewing the appropriateness of all lower-tier rates of VAT, including the 'zero' rate which covers essential items like food, medicines and children's clothing. Imposing VAT on such items would be a very regressive step.

The decision to increase the higher rate of VAT in Budget 2012 to 23 per cent had a very negative and disproportionate impact on people with low incomes. VAT imposes a proportionately higher burden on lower income households than on richer households. Studies by the Economic and Social Research Institute (ESRI) study in 2006 and 2010 (Barrett and Wall 2006, Leahy et al 2010) found that households in the poorest decile spent 11.5 per cent of their disposable income on VAT compared with 5.8 per cent for households in the richest decile. Policy proposals suggesting an increase in VAT rates would in practice disproportionately undermine the living standards of household on low incomes. There are more equitable means of broadening the tax base.

2. Inaccurate Analysis

Selective use of data along the lines already outlined can lead to inaccurate analysis. Here we provide a few examples. Other examples can also be provided if needed.

2.1 The vulnerable have not been protected

The *Memorandum of Understanding on Specific Economic Policy Conditionality* contains the welcome statement that the most vulnerable must be protected as the programme is implemented. However this commitment has not been translated into reality. It has remained simply as a piece of well-meaning but essentially empty rhetoric.

The poorest and most vulnerable in Ireland are not being protected by current policy, and the 'difficult choices' being made in which the poorest are hit with a disproportionate share of the burden cannot in any way be described as 'fair'.

There have been seven fiscal adjustments in Ireland since 2008. Budget 2012, the most recent fiscal adjustment has been the most unequal so far.

As a result of decisions made in budget 2012 the poorest 40 per cent of households will see a fall of between 2 and 2.5 per cent in their incomes, while the richest 30 per cent of households lose only 0.7 per cent (ESRI Callan et al, 2012).

Increases in indirect taxes are regressive and have a greater impact on low income groups. A recent IMF report acknowledged that the VAT increase in Budget 2012 was not progressive.

However the statement that many essentials are zero rated gives the misleading impression that the higher rate of VAT applies to luxury goods only. This is not that case; in fact the higher rate of VAT applies to many essential household items such as toiletries, tin foil, adult clothes and shoes, washing detergent and other items that all households, from every income decile need.

Those on low incomes rely on public services and the social infrastructure in their local communities. The continued erosion of frontline public services and the social infrastructure has had and will continue to have a very negative effect on people surviving on low incomes and on society as a whole.

2.2 The richest 25% of the population have not been hardest hit

The claims in 'Troika' publications that the 'hits' of recent years have been fairly distributed across the whole population are not supported by the data.

A recent study by the European Commission showed Ireland was one of only two EU countries where the upper quartile of households had **not** taken the greatest impact of the rise in financial distress.

This study was the most recent edition of the *EU Employment and Social Situation Quarterly Review* which provides an overview of developments in the European labour market and the social situation in the EU, based on the latest available data. It concludes that there was a strong tendency towards polarisation and as a result social risks are increasing.

This study (published September 2012) showed that over the past year Italy recorded a particularly sharp rise in financial distress followed by Greece, Ireland, Cyprus, Portugal and Spain. What is important in this study in the context of the core issues being addressed in this Briefing is that it found that the upper quartile had taken the greatest impact of the increasing financial distress in all countries except Cyprus and Ireland where the lower quartiles bore the brunt.

2.3 Unemployment is NOT a 'lifestyle choice' for the vast majority

A recent European Commission Report stated that more needs to be done to alleviated or eliminate work disincentives and unemployment traps caused by the flat and open-ended unemployment benefits that do not diminish with the duration of the unemployment spell. We welcome all initiatives to reduce and/or eliminate unemployment traps. As an organisation, *Social Justice Ireland* has campaigned for such an outcome.

However, the notion that Irish people are unemployed because the level of welfare payments is too high and because they are maintained over a long period of time ignores the evidence to hand.

The same report notes that employment fell by 1.0 per cent year on year, and by 0.4 per cent in the first quarter of 2012. Clearly jobs are not being created on the scale required to reduce the numbers unemployed.

The notion that unemployment is prolonged by flat and open ended social welfare payments also ignores that fact that most social welfare payments in Ireland are below the poverty line, with the weekly social assistance payment for a single adult being €19.94 below the poverty line. To suggest the Irish people choose to remain unemployed as a result of their over-generous social welfare payments ignores that fact that Irish people want to work.

An accurate analysis of the data tells us that in 2007, the year before the crash, long-term unemployment (i.e. out of a job for more than a year) in Ireland was 1.3%, a total of 28,800 people. In Ireland today unemployment numbers are at a record high. There are now 308,500 people unemployed in Ireland, and 185,100 of these people have been unemployed for more than one year.

This means that 60% of those who are unemployed are long-term unemployed. This is now a structural issue.

To suggest that the rates and duration of social welfare payments are incentivising unemployment is inaccurate. Such analysis ignores the fact that 33,400 jobs were lost in Ireland in the past year. It also ignores that fact that 87,100 people left Ireland in the past year, the majority of whom were males aged between 25 and 44.

The NESC Report '*Supports and Services for Unemployed Jobseekers*' found that further general reductions in Jobseeker's Benefit and Jobseeker's Assistance are likely to have little or no impact in getting more people back to work because the large majority currently on the live register already have a major financial incentive to take up a job if one is available.

2.4 Ireland should NOT reduce Social Welfare rates over time

There has been much discussion in recent 'Troika' reports regarding the "broadly flat and open ended unemployment benefits that do not diminish with the duration of the unemployment spell". There have been suggestions that Ireland should reduce social welfare rates over time like some other European countries.

This analysis however is based on a selective use of data as it fails to inform the reader that in many other EU countries people receive a high level of social welfare payment when they first become unemployed – often a high percentage of their salary prior to becoming unemployed. Over a period of time in such cases the level of this high payment is reduced.

Ireland's job-seekers allowance does not fall over time. This contrasts with the situation in many other EU countries. However that is because in Ireland, regardless of wage level, there is a flat-rate Jobseekers' Benefit/Allowance payment and there is no pay related element unlike many other European countries.

For example in the French social welfare system the daily unemployment allowance is calculated partly on the basis of a daily reference wage. The reference wage is based on earnings subject to contributions during the 12 calendar months prior to the last day of paid work.

By contrast, in Ireland, those who become unemployed receive a weekly payment that is almost €20 a week below the poverty line for a single person and is completely unrelated to a person's previous salary.

2.5 Replacement ratios are NOT high in Ireland

The claim that replacement ratios are high in Ireland compared to other countries is inaccurate.

The NESC report '*Promoting Economic Recovery and Employment in Ireland*' addressed the issue of replacement rates. It found that replacement rates of 70 per cent or higher apply, at the most, to about 20 per cent on the live register. These are claimants who also receive Rent Supplement and/or increases in recognition of a family they are supporting (Increases for Qualified Adults, Increases for Qualified Children).

About 70 per cent of Ireland's unemployed people receive only the personal rate of Jobseeker's Benefit or Allowance. They are either 'single and childless', or if married do not qualify for additional payments.

Figures from the Department of Social Protection show that in 2011, 88 per cent of those who are unemployed were not in receipt of a Rent Supplement or a Mortgage Supplement.

Only 5 per cent of people on the Live Register receive both rent supplement and an increase for Qualified Adults and increases for Qualified Children.

NESC notes that the degree of attention paid to this 'perfect storm' which is regularly used to present replacement rates in Ireland as high and interpret them as evidence of a disincentive to employment is not related to labour supply concerns.

The presentation of data which only applies to 5 per cent of people on the live register as evidence of high replacement rates and a disincentive to work which requires across-the-board action is inaccurate.

NESC also notes that in other countries, replacement rates fall as unemployment durations lengthen, largely because people transfer from higher-rate insurance based payments to lower-rate social assistance payments.

In Ireland there are no higher-rate payments. Once a person becomes unemployed they receive the social welfare rate of €188 per week, unlike in other countries where the unemployment benefit is linked to the salary a person earned before they became unemployed.

A recent ESRI study *"Budget Perspectives 2013"* has found that more than 3 out of 4 individuals in Ireland have replacement rates below 70%, meaning that income in work is more than 40% higher than out of work income.

2.6 Child Benefit should not be reduced, taxed or means-tested

The analysis that targeting child benefit would be fairer than broadening the tax base does not stand up to scrutiny. Child Benefit is the only universal payment to children in Ireland and is a small payment by Government to families to contribute to the cost of raising children. Ireland does not provide the universal child care and family services provided by other countries and as such, child benefit is the most significant state contribution to all children in Ireland.

The OECD estimates that the cost of childcare in Ireland more than doubles the effective tax rate faced by low-wage parents.

Child Benefit is the only contribution by the state towards the cost of raising children given the lack of investment in adequate childcare and family support services. Already it has been reduced by 15 per cent since the beginning of the crisis.

The latest CSO data shows that the 'at risk of poverty rate' for households with children was almost seven percentage points higher than households without children. Child-related allowances for households with children reduces the 'at risk of poverty' rate for these households from 31 per cent to 18.7 per cent.

The successive targeting of Child Benefit whilst failing to address the issue of outstanding tax expenditures cannot be described as 'fair'. Reducing child benefit is also a form of horizontal inequity.

An example might help here:

- Consider two households, each earning €100,000 with the same earning patterns; one household has 2 adults and 2 children and the other household has 2 adults and no children.
- Now that the Irish Exchequer is in difficulty Government borrowing must be reduced. So to achieve this, Government faces a choice: either to reduce the income of both households (by impacting on their income from employment) or to reduce the income of only the household of four by reducing Child Benefit.
- The taxation of Child Benefit reduces the income of the first household but has no effect on the second household.
- So the 2-person household maintains its income but the 4-person household sees their income reduced.

This is a form of horizontal inequity and is both unfair and unjust. If the Government needed to reduce its borrowing through increasing its tax take or reduce its expenditure then it would be fairer to increase income tax on both households equally. Targeting Child Benefit penalises households with children.

3. Inappropriate policy proposals

The net result of Ireland's implementation of the terms of the Bailout Agreement is that many of the important components of the basic fabric of Irish society, including the provision of healthcare, education and the range of supports needed by the poor and disadvantaged, are under increasing threat.

Welfare rates, already below the poverty line, have been reduced. Unemployment has grown dramatically.

The impact of cuts to services and welfare rates and the threats of further similar ones continue to undermine the social structures within Irish society and their ability to cope in the present circumstances.

A number of policy recommendations proposed in various 'Troika' publications are based on a selective choice of data and/or on a flawed social analysis. We now address some of these issues. In each case we state what we consider to be the correct analysis or the correct policy proposal based on a full analysis of the data and then move on to set out why this should be the 'Troika's recommendation.

3.1 Reducing welfare rates will have a significant negative impact on Ireland's poorest and most vulnerable people

The conclusion that reducing social welfare rates will not have a significant impact on poor or vulnerable people is incorrect. It is acknowledged by the 'Troika' that the increase in the Exchequer's social welfare bill is due to the extremely high levels of unemployment in Ireland, higher than projected in most years.

The high levels of unemployment are due to significant job losses and these numbers are projected to remain above 10 per cent until 2017 according to the IMF.

The assumption that reducing welfare rates would not have a negative impact in Ireland ignores the evidence to hand both in terms of poverty and in terms of domestic demand.

In 2010, the latest year for which data are available, the 'at risk of poverty' rate in Ireland would have been 51 per cent without social transfers. Social transfers reduced this figure to 15.8 per cent.

For **children**, the 'at risk of poverty' rate without child related social transfers would have been 34.4 per cent. Child related social transfers reduced this figure to 19.5 per cent.

Without social transfers the 'at risk of poverty' rate for **people aged 65** and over would have been 91 per cent. Social transfers reduced this figure to 9.6 per cent.

The evidence clearly shows that any reduction in social welfare rates would have a very negative impact on poverty figures in Ireland.

Domestic demand in Ireland has fallen by 25 per cent since 2007 and is expected to continue to fall until 2014. The recovery in domestic demand between 2014 and 2017 is projected to be very slow. Any reductions in social welfare rates will have a negative impact on domestic demand as it would remove further money from the Irish economy at a time when an improvement in domestic demand is what Ireland and the Irish economy needs if it is to move towards recovery. The IMF noted in a recent paper that "with domestic demand still fragile and unemployment at an elevated level, it will be important to avoid spending cuts or tax hikes with high multipliers or adverse employment or investment incentives". Reducing social welfare rates would have an immediate and negative impact on domestic demand and on employment rates as any further weakening of domestic demand will result in more job losses.

3.2 Job-seekers allowance rates should not be reduced over time

The IMF and the European Commission have stated their preference for an end to Ireland's broadly flat and open ended unemployment benefits and the linking of unemployment benefits to activation.

This ignores the reality that jobs are not being created on the scale required to address Ireland's alarmingly high unemployment rate.

Both agencies have projected that unemployment will remain above 13 per cent in 2015. This projection is at odds with their proposals to reduce unemployment benefits over time. If neither agency is predicting a 'job rich' recovery over the next two years, then reducing unemployment rates over time will simply push people further into poverty.

A recent study by the ESRI *"Budget Perspectives 2013*" found that for most of Ireland's unemployed the financial incentive to work, as measured by the OECD's net replacement rate, is similar to that for many EU-15 countries and that for more than 3 out of 4 individuals in Ireland income in work is more than 40% higher than out of work income.

The European Commission reports that 18 per cent of those who are unemployed have been unemployed for three years or more, and that 18,000 people have been unemployed for more than six years.

The Commission's analysis is that Ireland's weak job search conditionality and benefit regime have contributed more to this situation than the loss of jobs in Ireland over the same period.

It is useful to revisit the scale of the job losses in Ireland since 2007. Ireland had an employment rate of 69.2 per cent in 2007. In 2012 Ireland has an employment rate of 59.1 per cent.

The unemployment rate in Ireland in 2007 was 4.7%; in 2012 the unemployment rate is 14.8%.

Blaming Ireland's social welfare system for the increase in long-term unemployment ignores the fact that over 340,000 jobs have been lost in Ireland between 2007 and 2012.

The latest research from the ESRI '*Work Incentives: New Evidence for Ireland'* shows that 94 per cent of people in Ireland are better off in employment than out of work.

Of the remaining 6 per cent, most are actually in employment although they are struggling to make ends meet.

Reducing job seekers allowance rates will not create jobs. It will simply push people further into poverty.

The evidence shows that the majority of people who are unemployed are better off in work. Attention should focus on job creation rather than on cutting social welfare rates.

3.3 Reducing payments to older people would simply increase poverty

Both the European Commission and the IMF maintain that those aged 65 and over seem to have been impacted less than other sections of Irish society as a result of the fiscal consolidation measures thus far. This ignores the fact that 91% of people aged 65 and over would be living in poverty without social welfare payments (CSO, 2012).

Both the IMF and EC highlight the policy implications of Ireland's ageing population and suggest a reduction in the universal benefits available to those aged 65 and over. Reducing payments made to older people will not reduce Ireland's ageing population. Nor will it make any progress towards providing services for this proportion of the population in the longer term. Social welfare rates have had a dramatic impact in reducing poverty among those aged 65 and over. In 2001, the 'at risk of poverty' rate for those aged 65 and over was 44.1%; in 2010 this figure had been reduced to 9.6 per cent, largely as a result of increasing social transfers over the intervening years.

A far more effective way of providing for an ageing population would be to standard rate the tax relief on pension contributions. The revenue generated by the exchequer through standard rating this tax break to 20 per cent would allow the Government to introduce a Universal Basic Pension at the rate of the state contributory pension for everyone over the age of 65. This would solve the problem whereby there are over 46,000 women in Ireland who are not entitled to any support through the state pension system due to historical anomalies. It would also ensure that the benefits of the pension system, including tax breaks, are shared equitably by all.

3.4 Child Benefit should not be reduced, taxed or means-tested.

The universality of Child Benefit has come under scrutiny by the 'Troika' in the past year. The proposal which is currently being considered by Government to introduce a 'two tier' payment would result in making the system employment-unfriendly. This proposal would create a new unemployment trap which is completely at odds with the stated objective of the 'Troika' that the social welfare system should not hinder activation.

The introduction of a second tier payment would have a distorting effect on the labour market and create a new 'unemployment trap' for low income households due to the loss of income that would occur when the second tier payment is withdrawn. Such a potential loss of income could result in a parent withdrawing from the labour market. If taking up a job or working longer hours were to lead to a loss of the second-tier payment then there would be a disincentive for such households to move in this direction.

The OECD in its 2011 study *'Doing Better for Families'* stated that Government objectives should ensure that child benefits provide adequate income support for different family types and complement parental career prospects and publicly-provided childcare.

The proposal to introduce a 'two tier' payment is completely at odds with the OECD recommendations. The long term solution to child poverty is to ensure that all households are lifted out of poverty; in that process all children will also be lifted out of poverty. Creating a new unemployment trap for low income households with children is not a coherent means of tackling child poverty.

3.5 The total tax take should rise to average European levels

The fiscal adjustments as a consequence of the economic crash have underscored how the issue of taxation is central to budget deliberations and to policy development at both macro and micro level. It plays a key role in shaping Irish society through: (i) funding public services; (ii) supporting economic activity; and (iii) redistributing resources to enhance the fairness of society. To ensure the creation of a fairer and more equitable tax system, policy development in this area should always be fair.

The need for a wider tax base is a lesson painfully learnt by Ireland during the past four years. A disastrous combination of a naïve housing policy, a failed regulatory system and foolish fiscal policy and economic planning combined to cause a collapse in exchequer revenues. The narrowness of the Irish tax base resulted in almost 25 per cent of expected tax revenues disappearing thereby plunging the exchequer and the country into a series of fiscal policy crises. Tax revenues collapsed from over €59 billion in 2007 to €47.8 billion in 2010.

Future pressures on public expenditure in the areas of ageing population, the increase in the number of children of primary school age, and projected high levels of unemployment have been highlighted by the 'Troika'. However the 'Troika' does not outline the need for an increase in the total tax take in order to meet these future expenditure pressures.

Social Justice Ireland believes that over the next few years, policy should focus on increasing Ireland's tax-take to 34.9% of GDP, a figure defined by Eurostat as 'low-tax'. It is projected to be 30.8% of GDP in 2012 rising to 31.0% in 2015.

In the following pages we set out our proposals for Budget 2013 including the steps we believe should be taken on taxation, investment, welfare, services, job creation and the labour market.

Ireland: Some Key Diagrams and Tables

These diagrams and tables offer some insights on various aspects of Ireland's economy and society. A more comprehensive assessment of these topics can be found in our annual Socio-Economic Review available online at *www.socialjustice.ie*

Chart 1: Ireland's GDP Growth, 1995-2013

Chart 2: Ireland's National Debt as % GDP 1980-2016

Chart 3: Unemployment in Ireland, 2000-2012 (000s)

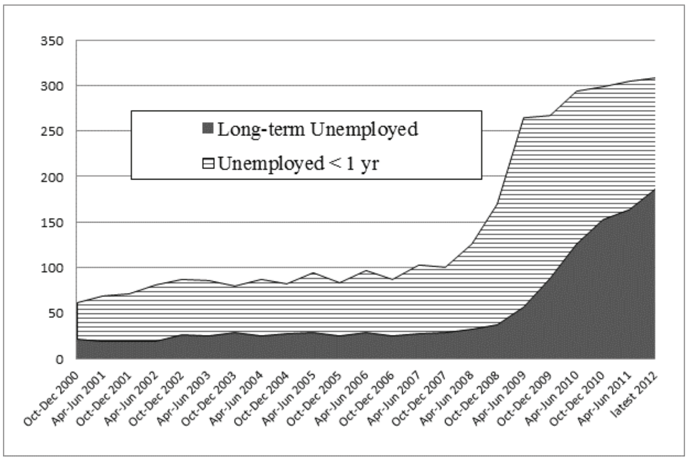
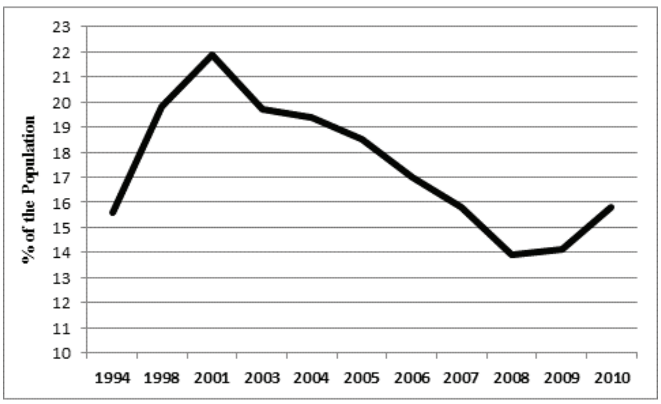


Table 1:	**Effective Taxation Rates for selected household types, 2000 / 2010 / 2012**		
	2000	**2010**	**2012**
Single earner			
Gross Income €25,000	24.0%	8.3%	14.0%
Gross Income €60,000	37.7%	27.5%	33.4%
Couple 1 earner			
Gross Income €40,000	20.2%	9.4%	14.2%
Gross Income €60,000	29.0%	19.8%	26.2%
Couple 2 earners			
Gross Income €40,000	17.5%	3.6%	9.2%
Gross Income €100,000	35.9%	23.8%	29.7%

Table 2:	**The Minimum Weekly Disposable Income Required to Avoid Poverty in 2012**	
Household containing:	**Weekly line**	**Annual line**
1 adult	€207.94	€10,842
1 adult + 1 child	€276.56	€14,420
1 adult + 2 children	€345.18	€17,998
1 adult + 3 children	€413.79	€21,576
2 adults	€345.18	€17,998
2 adults + 1 child	€413.79	€21,576
2 adults + 2 children	€482.41	€25,154
2 adults + 3 children	€551.03	€28,732
3 adults	€482.41	€25,154

Chart 4: % of Population at risk of Poverty, 1994-2010



Data on this page is from: OECD *Economic Outlook*; CSO *National Accounts*, ESRI *Quarterly Economic Commentary*, IMF *World Economic Outlook*, CSO *QNHS*, Department of Finance *Budget Documents* and CSO *SILC.*

The Social and Economic Context of Budget 2013

To provide a brief overview of the social and economic context of Budget 2013, table 3 brings together a range of data and indicators reflecting various aspects of Ireland today.

The Budget is framed in the context of a stagnating Irish economy struggling to emerge from recession. The background to that situation derives from four major economic factors that have significantly undermined the exchequer's finances and the economy:

(i) the collapse of the Irish construction sector and associated housing bubble;

(ii) the collapse of the Irish banking system and the decision by government to effectively rescue all the major Irish financial institutions and engage in substantial borrowing to fund that rescue;

(iii) an international economic slowdown associated with the 'credit crunch' in the United States and its international repercussions; and

(iv) a failure of leadership at a European level to address the nature and scale of the European debt crisis. Instead the crisis has persisted and impeded economic recovery in Ireland and elsewhere.

While the consensus view remains that Ireland's crisis has been predominantly home grown (i.e. items i and ii above), it is the terms of Ireland's bailout from the IMF/EU/ECB and the sustained instability of the international economy that play a central role in the context of this Budget. The net result of these simultaneous events has seen a rapid increase in the national debt, the collapse of taxation revenues despite significant increases in personal taxation and pressure to make cuts in government spending. However, effective taxation rates (the % of total income that is paid as tax) are low in historical and international terms (see table 1 p2).

The Budget is also framed in the context of growing poverty levels; a sustained problem with child poverty; ongoing literacy challenges; very high unemployment and lengthening social housing waiting lists.

More detail on all of these indicators is provided in our 2012 Socio-Economic Review available on our website.

Table 3: Ireland's Social and Economic Position in 2013

Real GDP growth 2012*	0.6%	Minimum Wage (per hour / 39hr week)	€8.65 / €337.35
Real GDP growth 2013*	2.2%	Minimum Social Welfare Payment per week	€188.00
Real GNP growth 2012*	0.0%	Average Gross Household Income (2010)	€1,016 per week
Real GNP growth 2013*	0.5%	Average Disposable H-hold Income (2010)	€830 per week
2012 General Gov Balance (%GDP)*	- 8.3%	Poverty line 1 Adult (week / year)	€207.94 / €10,842
Gross National Debt (%GDP) 2008	44.2%	Poverty line 2 Adults (week / year)	€345.18 / €17,998
Gross National Debt (%GDP) 2012*#	113.1%	Poverty line 1 Adult + 1 Child (week / year)	€276.56 / €14,420
Gross National Debt (%GDP) 2013*#	117.7%	Poverty line 2 A + 2 Children (week / year)	€482.41 / €25,154
Exchequer Capital Investment 2013 (2012)	€3.37bn (€3.9bn)	% of population living in poverty (numbers)	15.8% (706,371)
Total Taxation as % GDP 2012*	30.8%	% of children living in poverty (numbers)	19.5% (200,000+)
%Tax on €25,000 income (single / 2 earners)	14% / 2.5%	LA Housing Waiting list - households	98,318
%Tax on €60,000 income (single / 2 earners)	33.4% / 16.8%	LA Housing Waiting list - persons	approx. 250,000
%Tax on €100,000 income (single / 2 earners)	40.9% / 29.7%	Illiteracy rate of adult population (1996 data)^	25%
Corporation Tax rate	12.5%	% Waste Landfilled + Recovered (2010)	87%
Capital Gain Tax rate	30%	Greenhouse Gas Emissions v. Kyoto target	+7.7%
Value of all Tax Reliefs (per annum)	€11.49 billion	Population 2011 Census	4,588,252
Labour Force	2,095,100	Population 2016 *	5.093m
Employment	1,786,100	Population 2021* / 2041*	5.449m / 6.247m
Unemployment 2012 /rate (ILO Basis)	309,000 / 14.7%	Inflation rate (CPI) 2012*	+1.7%
Unemployment rate 2013*	14.7%	Inflation rate (CPI) 2013*	+1.5%

Sources: ESRI *Quarterly Economic Commentary*, IMF *World Economic Outlook*, Department of Finance *Budget documents*, Collins and Walsh (2010), CSO *QNHS*, CSO *SILC*, Department of Environment, Heritage and Local Government *Housing Statistics*, OECD *Literacy Survey*, EPA *National Waste Report*, CSO *Measuring Ireland's Progress*, CSO *Census 2011*, CSO *Population and Labour Force Projections* and Social Justice Ireland *Socio-Economic Review*. **Notes:** * = projection; # includes bank debt;^ = no data collected since

Choices Possible for Budget Adjustments: Troika

The general shape of the Government's current plans for Budget 2013 has been set out in the Memorandum of Understanding (MOU) with the Troika (EU, ECB and IMF). The document contains the set of commitments and targets that the Irish Government must adhere to if the flow of bailout funds is to continue. The MOU section detailing 'actions to be completed by end Q4-2012' provides an outline of the Budget measures planned for Budget 2013. Table 4 reproduces the text from this section of the document. Overall, it requires a budgetary adjustment of at least €3.5 billion with €1.25 billion coming from additional taxation and €2.25 billion coming from reductions in public expenditure.

However, the Troika and the MOU have been clear to point out that the precise nature of budgetary adjustments, i.e. the split between expenditure reductions and taxation increases and the nature of these adjustments, is a matter for national policy. What is required is that the cumulative effect of these adjustments ensures the Government's borrowing requirement, as measured by the General Government Balance (GGB) as a % of GDP, is reduced to the 2013 target of -7.5%.

Government's discretion on the nature and composition of Budget 2013's adjustments is particularly important given recent statements by the Troika on the importance of the burden of adjustment being distributed fairly. As *Social Justice Ireland* has continually pointed out, to date the burden has fallen hardest on those who could least afford to carry it - those who were very far removed from the banking and speculative gambles that are at the root of Ireland's economic crash.

In that regard, throughout the rest of this document we outline a set of alternative policies government can choose in Budget 2013. These focus on shifting the balance towards an emphasis on additional tax increases (via the creation of a fairer taxation system) and reducing the focus on cuts to public expenditure - in particular given the cuts in this area to date and the dependence on these services of the most vulnerable in our society. Fairer choices are feasible and possible in Budget 2013.

Table 4: Current *Memorandum of Understanding* Text for Budget 2013

Taking account of the European Semester, Government will publish a budget for 2013 aiming for a further reduction of the General Government deficit in line with the fiscal targets set out in the Council Recommendation in the context of the excessive deficit procedure.
On the basis of the aggregate budgetary projections set out in the Medium Term Fiscal Statement (MTFS) of November 2011, consolidation measures for 2013 will amount to at least €3.5 billion. The following measures are proposed for 2013 on the basis of the MTFS:

Revenue measures to raise at least €1.25 billion (inclusive of carryover from 2012), including:

- A broadening of personal income tax base.
- A value-based property tax.
- A restructuring of motor taxation.
- A reduction in general tax expenditures.
- An increase in excise duty and other indirect taxes.

Expenditure reductions necessary to achieve an upper limit on voted expenditure of €54 billion, which will involve consolidation measures **of €2.25 billion** on the basis of the MTFS, including:

- Social expenditure reductions.
- Reduction in the total pay and pensions bill.
- Other programme expenditure, and reductions in capital expenditure.

Without prejudice to the minimum consolidation amount referred to in the previous paragraph and to the requirements to achieve the agreed fiscal targets, the Government may, in consultation with the staff of the European Commission, the IMF and the ECB, substitute one or more of the above measures with others of equally good quality based on the options identified in the Comprehensive Review of Expenditure. (emphasis ours)

Source: EU/IMF *Memorandum of Understanding*

Carryover from Budget 2012

A feature of the requirements of the MOU is that the Government may count any additional revenues which derive from decisions taken in Budget 2012, but which have yet to be realised in additional income flows to the exchequer, as part of the 2013 revenue adjustment.

For example, such a situation arises as a result of a tax reform which yields lower additional revenues in its first year than in a 'full year'. In Budget 2012, the reform of Capital Acquisitions Tax yielded €51m in additional taxes in 2012 and will provide a 'full year' yield of an additional €25m (total €76m) in 2013. Similarly, the Budget 2012 increase in carbon taxes, from €15 to €20 per tonne, was phased in across 2012 and provided additional revenue of €80m in 2012 and an additional €29m in a full year. The carryover effect can also be negative to the overall tax yield where for example a measure is announced in Budget 2012 and the tax cost (generally via a tax break) is given in the following year. Budget 2012's extension of the 3 year tax break for start-up companies imposed no additional tax revenue cost on the exchequer in 2012 but it will result in a decrease of €5m in the 2013 tax take. These and other additional yields/losses, the Budget 2012 carryover, are counted as part of the adjustment for Budget 2013.

Taken together, figures from the Department of Finances' *Summary of 2012 Budget Measures* suggest that the carryover effect for Budget 2013 will be €220m. As such, the Minister for Finance has, before he even begins to compile the Budget, achieved almost 20% of the targeted tax increases.

Ireland's Debt Burden and Budget 2013

The annual cost of servicing the national debt has increased to become a central component of total government expenditure in recent years. In 2007, prior to the collapse of the economy, the banks and the tax take, just under 3% of total government revenue was used to service the national debt. Since then the gross national debt has climbed from €25bn to almost €170bn. In 2013 (see table 5) servicing the national debt will require over €9bn - equivalent to 15.6% of total government revenue. Naturally, as this interest bill increases, the pressure to cut other areas of expenditure increases; in particular given the restrictions of the MOU agreement with the Troika.

Since the banking collapse, approximately €63bn has been used to bailout the various banks. Of this, some €20bn was not borrowed, but rather taken from the National Pension Reserve Fund (NPRF) and diverted to the banks. Little of this money is likely to return to the NPRF exposing the exchequer in the long-run to the various pension costs the fund was intended to offset. Of the total national debt at the end of 2011 25% was borrowed as part of the bank bailout. A large proportion of this is comprised of promissory notes for Anglo Irish Bank (approximately €30bn).

Social Justice Ireland believes that this situation requires a number of reforms in advance of Budget 2013:

- Government needs to restructure the national debt so that the annual burden is reduced;
- In addressing the banking component of the national debt, Government should seek a full write-off of the Anglo promissory notes—this is money we are paying ourselves;
- In addressing the remainder of the banking debt, the Government should secure a significant write-off of the debt; this is debt which is also predominantly derived from inappropriate lending by international institutions and bond holders to Ireland. It is not our debt.

Reducing Ireland's interest burden would notably assist in Budget 2013 reaching the targets set out in the Troika agreement. In the long-term, however, a significant write-off of debt seems essential.

Chart 5: Composition of Ireland's National Debt, end-2011 €169bn

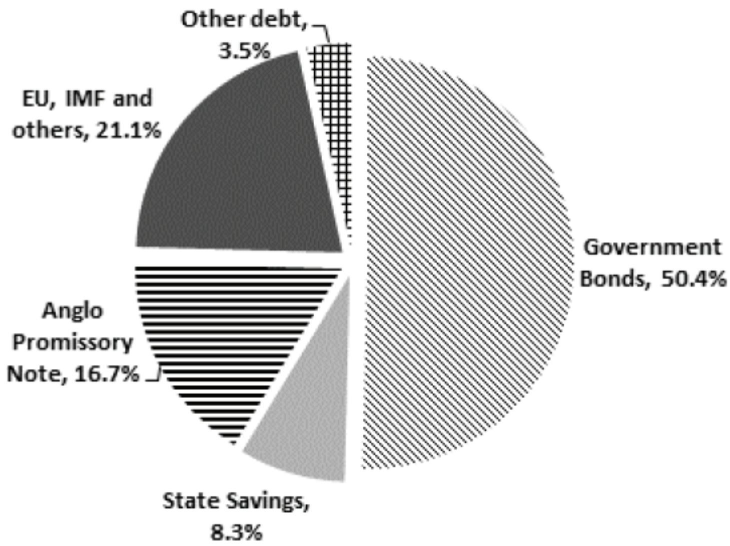
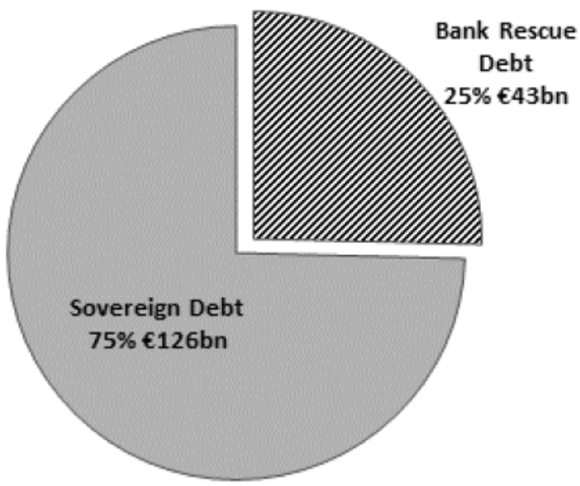


Chart 6: Bank Rescue Debt as % Total National Debt



Note: a further €20bn from the National Pension Reserve Fund was used to rescue various banks—significantly depleting this fund.

Table 5: Ireland's Debt Costs as % GDP, Total Government Revenue (TR) and in €m (pre any debt restructuring)

Year	Debt cost as % GDP	Debt cost as % TR	Annual debt cost
2011	3.4%	9.5%	€5,319m
2012	4.1%	11.5%	€6,516m
2013	5.6%	15.6%	€9,194m
2014	5.5%	15.2%	€9,413m
2015	5.6%	15.6%	€10,016m

Sources: Data for charts and tables from Department of Finance Stability Programme Update April 2012 and Dail debates in June 2012.

Guiding Principle: Protecting the Vulnerable

In making choices in Budget 2013 Government should be guided by the principle of protecting the needs of the vulnerable.

15.8% of Ireland's population is at risk of poverty with incomes below €10,842 for a single person or €25,154 for a household of four.

29% of all the households at risk of poverty today are headed by a person ***with*** a job. A further 41% are headed by a person ***outside*** the labour force (i.e. older people and people who are ill, have a serious disability or are in caring roles) and are totally dependent on social welfare.

In the current difficult economic climate, *Social Justice Ireland* believes that the Budget should pay particular attention to this group. Those surviving on low incomes continue to struggle and, unlike many other groups in society, have no room to absorb further income cuts and tax increases. Any such cuts would simply deepen their poverty and further undermine their attempts to live their lives with dignity.

Giving priority to the vulnerable

In practice this would mean maintaining **social welfare rates** to ensure that those on the lowest incomes are protected from the harshness of the Budgetary adjustments.

It would also involve giving priority in **healthcare** to developing primary care teams and community facilities. It would give priority to primary care and community services over the hospital system.

In **education** it would mean giving priority to funding primary education rather than expanding the resources available to fourth level education. It would also put the emphasis on reducing the proportion of the population with literacy problems

In **housing** it would prioritise the provision of resources for a sustainable programme of social housing provision to reduce waiting lists.

In the area of **employment** it would mean giving priority to supporting those who are unemployed rather than subsidising the further training of people who are already well qualified.

In the context of any additional **Investment spending** it would give priority to initiatives that are good for the vulnerable and for the economy.

On the issue of **taxation** it would mean ensuring that those with low incomes are not disadvantaged by the tax system and that Budgetary reforms are focused on making the taxation system fairer (see our proposals on p. 9 and p. 10 of this *Policy Briefing*).

In **transport** policy it would mean assigning priority to developing public transport and within this context it would ensure that rural transport was adequate, sufficiently resourced and further supported.

In the area of **foreign policy** it would mean honouring Ireland's commitment to provide 0.7% of GNP in foreign aid by 2015 and avoiding any needless cuts in ODA.

The Social Support Infrastructure must not be destroyed

An issue that is often overlooked in decision-making at times of crisis is that particular budgetary decisions may provide a short-term gain or saving but have huge negative long-term consequences. In reality many decisions made during the current series of crises are set to have such effects.

An example of this in practice can be seen in the cuts in welfare payments and support services for people with disabilities. These decisions had short-term gains for government in that they saved money. On the other hand, however, they also had very negative long-term consequences in that they led to people with disabilities becoming prisoners in their own home.

Such a development is an extraordinary indictment of Government's decision-making which sees some of Ireland's most vulnerable people being among the hardest hit as a result of Budget decisions. Decisions were made for short term gain but these decisions inflicted enormous long-term pain.

This approach to decision-making which prioritises short-term gain and fails to address the long-term impact is being applied across a whole range of social services by Government. Many public services are provided by Community and Voluntary organisations. These have come under huge pressure in recent years as the recession has forced an ever-growing number of people to seek their help on a wide range of fronts. But, just at the very moment when the demand for their services increased Government reduced the funding being made available to many such organisations.

It is very noticeable that the scale of cutbacks by Government in the funding provided for provision of public services by the Community and Voluntary sector is proportionately much larger than the cutbacks to funding for public services provided by the public sector.

There should be no further reductions in the income supports for vulnerable people who are dependent on benefits. Likewise there should be no reduction in funding for services needed by people in this situation.

The social infrastructure is being undermined by Government without any regard to the long term consequences of these actions.

Those who are poor and/or vulnerable are bearing an inordinate part of the burden of restructuring.

Government has made no assessment of what the long term impacts of the cuts to services and service reductions will mean for Ireland in ten years' time.

We ask Government to state its vision of Ireland's future which is guiding its decision-making and to clarify how Government initiatives are contributing towards achieving that vision.

Proposal:

Social Justice Ireland proposes that government conduct a long-term impact assessment of decisions to be made in Budget 2013 to ensure they do not lead to a deterioration in Ireland's social support infrastructure.

More Appropriate Tax/Expenditure Adjustment Needed

Based on the current plans in the Memorandum of Understanding, Budget 2013 will mark the eighth fiscal adjustment to the Irish economy since the beginning of the current economic crisis in 2008.

The Budget's proposed increases to taxes and decreases in public expenditure, will bring the total adjustment to date to almost €28 billion - equivalent to 17% of GDP which has been directly removed by government from the economy. Of course, the knock-on implications of these adjustments has removed additional economic activity from the economy explaining the large and sustained drop in domestic economic activity since 2007.

Based on the plans outlined in Budget 2012 and in the November 2011 *Medium Term Fiscal Statement*, the Government intends to remove a further €5.1 billion from the economy over two Budgets from 2014-2015 - of course a significant restructuring of the national debt (see p. 5) would alter these plans. However, if these plans are implemented, the overall sum of the adjustments from 2008-2015 will total €33 billion - equivalent to 18.5% of the GDP forecast for 2015.

The implications of these large and harsh adjustments is visible in the continued extension of the adjustment plan, the sustained increases in unemployment and the lack of confidence domestically and internationally in the Irish economy's recovery.

An obvious question arises regarding the sustainability of this policy approach. *Social Justice Ireland* believes that Government needs to adopt policies to stimulate the economy rather than continually run it down. Domestic demand should be given a chance to recover through policies which promote government or European Investment Bank led investment (see p. 13) while further building domestic economic confidence through addressing the unemployment crisis via our Part Time Job Opportunities proposal to take 100,000 people off the dole queues (see p. 12)

Where further adjustments have to be made there is a clear need to alter the balance of adjustments towards additional taxation measures and away from reductions in public sector expenditure which is now impacting heavily on basic public service provision.

Given the structure and scale of Ireland's taxation system, we have continually highlighted that a far greater proportion of the adjustment can be achieved from additional taxation sources.

Table 6: Budgetary Adjustments 2008-2015 (€m)

Adjustment Description	Taxation ↑	Expenditure ↓	Total	Running Total
Adjustment July 2008		€1,000	€1,000	**€1,000**
Budget 2009	€1,215	€747	€1,962	**€2,962**
Adjustments Feb/March 2009		€2,090	€2,090	**€5,052**
Supplementary Budget 2009	€3,621	€1,941	€5,562	**€10,614**
Budget 2010	€23	€4,051	€4,074	**€14,688**
Budget 2011	€1,409	€4,590	€5,999	**€20,687**
Budget 2012	€1,600	€2,200	€3,800	**€24,487**
Budget 2013*	€1,250	€2,250	€3,500	**€27,987**
Budget 2014*	€1,100	€2,000	€3,100	**€31,087**
Budget 2015*	€700	€1,300	€2,000	**€33,087**
Total of Adjustments	**€10,918**	**€22,169**		
% Division of Adjustments	**33.0%**	**67.0%**		

Note: * indicates projected adjustment from Medium Term Fiscal Review Nov. 2011

Unrealistic Growth Targets underpin Budget Plans

The overall effect of Budget 2013's proposed €3.5 billion adjustment to the Irish economy will be approximately €4 billion in reduced economic activity in Ireland in 2013. The size of this effect is driven by both the direct reduction in government and consumer spending from the Budget's decisions and the indirect effect on the economy of the knock-on effect of these decisions (the multiplier effect). Put simply, a reduction in an area of government spending means there is less money circulating in the economy and less money passing from company to company and consumer to consumer - i.e. there will be less economic activity. Additional taxation has a similar effect.

Taking this multiplier effect into account means that in 2013 for the Irish economy to stand still (achieve 0% GDP growth) it must replace through new economic activity (growth) the total effect of the Budget's adjustments which will be approximately €4 billion or 2.5% of GDP.

Furthermore, for the economy to achieve the growth targets most recently set out by the Department of Finance (2.2% GDP growth in 2013) the economy must replace the effect of Budget 2013 and generate a further €3.6 billion in additional economic activity in 2013. Overall, this implies that Ireland must experience an underlying growth rate of 4.7% in 2013 - equivalent to the growth levels experiences in boom times.

This does not seem credible and we believe it unlikely these Budget growth targets will be met.

Welfare Payments & Welfare Reform in Budget 2013

There is no justification for reducing **social welfare rates** in Budget 2013 because:

1. SW payments are low and for most households do not cover the minimum they require to live life with dignity.
2. The basic SW rate for a single person is almost €20 a week below the poverty line.
3. Inflation is likely to rise by 1.5% in the coming year (ESRI projections) so to stand still welfare rates should rise by that amount.
4. Without the social welfare system Ireland's poverty rate would have been 51 per cent. The actual poverty figure of 15.8 per cent reflects the fact that social welfare payments reduced poverty by 35.2 percentage points (see table 7).
5. Without any social welfare payments over 90% of all those aged 65+yrs would be living in poverty as would 53 per cent of under-18s.
6. Government can achieve its fiscal targets without reducing welfare rates.

Likewise there is no justification for reducing or taxing **Child Benefit** payments. Child Benefit is a key instrument in tackling child poverty. Reducing child poverty should be a priority for Government. We believe that any further cuts to Child Benefit will lead to an increase in child poverty and will represent a major step back-wards for Ireland's children. Child Benefit should be universal and the full, untaxed payment should be available to every child in Ireland.

It would be far more appropriate for Government to focus on removing tax breaks that benefit high earners which currently cost the Exchequer far more than would be gained by reducing or taxing Child Benefit.

Finally, Government should reverse the **cuts to fuel, electricity and telephone allowances,** for those in receipt of social welfare, introduced in recent Budgets. These cuts have reduced payments to pensioners and other social welfare recipients by more than €20 a month and by as much as €35.29 during the winter months. This is unacceptable and should be reversed.

Social Justice Ireland **believes that Budget 2013 should not reduce social welfare rates nor change the value of Child Benefit payments for any household. Budget 2013 should also reverse the cuts to fuel, electricity and telephone allowances introduced in previous Budgets.**

Table 7: The role of Social Welfare (SW) payments in addressing poverty

	2001	2004	2006	2010
Poverty levels before SW	35.6	39.8	40.3	51.0
Poverty levels after SW	21.9	19.4	17.0	15.8
The role of SW	**-13.7**	**-20.4**	**-23.3**	**-35.2**

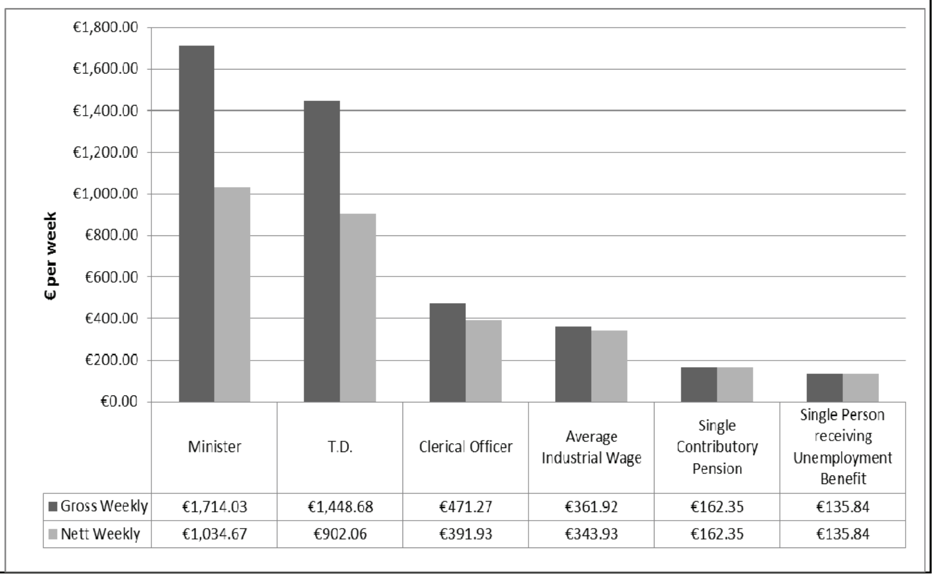
Source: CSO SILC Reports 2006-2011.

Income Changes - a 25 year assessment

A recurring, if unsupported, argument over recent times has been that a reduction in the basic social welfare payment, jobseekers benefit, is needed as that welfare rate grew too fast to reach too high a level during the last decade. As we have shown elsewhere (see *Socio-Economic Review* 2012 p68-70) over the period since 2000 welfare increases were essentially attempting to catch-up given the dramatic worsening of the position of those dependent on social welfare relative to the rest of society – most significantly demonstrated by the large increases in the poverty levels of welfare recipients between 1994 and 2001. However, it is worth broadening this perspective to compare the income gains of those on welfare compared to a range of others in Irish society over the past 25 years. Chart 7 presents the results - further details on these calculations is available on our website.

The analysis shows that over the past 25 years the take-home pay of TDs rose by €902 a week while unemployment benefit rates for a single person only increased by €135 a week in the same period. Government ministers' take-home pay rose by more than €1,034 a week in the same period. Similarly, the take-home pay of clerical officers in the public sector rose by €391.83 a week; the take-home pay of a person on the average industrial wage rose by €343.93 a week; and the contributory old age pension for a single person rose by €162.35 a week. These are dramatic numbers in the context of the ongoing calls for welfare and pension cuts. As we point out throughout this document other choices exist that would enable Government to avoid cutting social welfare.

Chart 7: Increases in Weekly Income, 1986-2011



Taxation Issues

Low overall tax take is not sustainable

Despite significant increases in the tax-take from the PAYE sector in the last four Budgets, the scale of collapse in Ireland's tax revenues has been dramatic. National taxes (those announced in the Budget and collected centrally) have fallen by almost €14bn since 2007 with the largest fall in areas such as capital gains taxes, stamp duties, corporation taxes and VAT. Decreases in income taxes have been somewhat offset by increased revenues from the income levy (2009-10) and USC. Overall, total tax receipts have fallen from in excess of €59 billion in 2007 to €47 billion in 2011.

The impact of these declines in taxation income, reflecting the scale of the national and international recession and the instability and narrowness of the national tax base, have had dramatic effects on the overall tax burden - national taxes plus social insurance and local government charges. Looking to the years immediately ahead, table 8 uses Department of Finance data to provide some insight into the expected future shape of Ireland's overall taxation revenues (from all sources). Over the next three years, assuming the policies signalled by Government are followed, overall tax receipts will climb to €57.7bn mainly driven by increases in income, corporation and consumption taxes. However, even with these increases Ireland will remain a low tax economy with its tax-take (as a % GDP) among the lowest in the EU.

While a proportion of the recent tax decline is related to the recession, a large part is structural and requires attention. *Social Justice Ireland* believes that over the next few years policy should focus on increasing Ireland's tax take to 34.9 per cent of GDP, a figure defined by Eurostat as 'low-tax'.

As a policy objective, Ireland should remain a low-tax economy, but not one incapable of adequately supporting necessary economic, social and infrastructural requirements. The current very-low tax model is not sustainable.

Table 8: Ireland's projected total tax take, 2010-2015 (% GDP)*

Year	GDP (nominal)	Tax as % GDP	Total Tax Receipts
2010	€156,000m	29.9	€46,614m
2011	€155,250m	30.8	€47,817m
2012	€159,125m	30.8	€49,011m
2013	€164,550m	31.4	€51,669m
2014	€171,625m	31.9	€54,748m
2015	€179,425m	31.9	€57,237m

Source: Department of Finance, Budget 2012: D9, D19 and D20.
Notes: * Total tax take = current taxes (see table 4.2 and 4.3) + Social Insurance Fund income + health levy (2010 only) + charges by local government.

Tax Breaks

Tax breaks (or tax expenditures as they are officially known) are still alive and well in Ireland's tax system. The Commission on Taxation identified 131 of these breaks and made recommendations concerning each one. *Social Justice Ireland* supported the implementation of the Commission's recommendations in all cases except Child Benefit.

Some of the recommendations contained in the Commission on Taxation's Report have been implemented but many tax expenditures remain in place. A great many of these benefit the better off for the most part.

If Budget 2013 is to be fair it is very important that it clearly not benefit the rich at the expense of the rest of us.

Tackling tax breaks that benefit the better off would be a step in the right direction. Currently there are tax breaks still in place, for example, on income from leasing land (€27m), on film production (€35m) and on the capital gains on the sale of a principal private residence.

Proposal:
Social Justice Ireland proposes that €100m in tax breaks that benefit mostly the better off be removed in Budget 2013. This would go some way towards creating a fairer tax system.

Corporate Tax Levy

The contribution being made by the corporate sector to addressing Ireland's current series of crises is problematic. The corporate sector played a major role in undermining Ireland's economy through the irresponsible activity of many in the banking and financial services sector. Yet very little has been asked of this sector in terms of making a contribution to Ireland's recovery.

We acknowledge that many companies are in a loss-making situation and unable to make a contribution. Most of these are small and medium-sized businesses. However, much of corporate Ireland is doing very well.

There is no justification for insisting that the lowest-paid workers (who had no responsibility for the country's financial collapse and economic mismanagement) must make a large contribution through paying more tax and having fewer services and at the same time arguing that the profitable corporate sector can escape without making any contribution to Ireland's rescue.

What is required is that Corporate Ireland play its part in addressing the need to reduce Ireland's Exchequer borrowing.

Proposal:
Social Justice Ireland proposes that a levy of 2.5% be introduced on corporate profits in Budget 2013. This would provide an additional €750m in taxation revenue in 2013.

Taxation Issues

Earners over €100,000

As a result of the policies adopted in Budget 2011, there is an anomaly in the taxation system among all those workers earning in excess of €100,000.

Self-employed earners currently face a tax rate of 55% on all income that they earn in excess of €100,000 - this is calculated as 41% income tax + 7% USC + 4% PRSI + an additional 3% USC levy. However, all other individuals with income above €100,000 are not subject to this additional 3% USC levy and therefore face a tax rate of 52% on all their income in excess of €100,000. It should be noted that the overall effective tax rate faced by both these groups is well below these marginal figures at around 40-42% of earnings.

Budget 2013 should address this anomaly. *Social Justice Ireland* believes that the Budget should extend the 3% USC levy to all income, irrespective of its source, in excess of €100,000. This would allow government to achieve a more appropriate contribution from the very highest earners in Irish society.

Proposal:

Social Justice Ireland proposes that a USC levy of 3% be extended to all income in excess of €100,000 irrespective of its source. We estimate that this would provide an additional €50m in taxation revenue in 2013.

Property Tax

The household charge introduced in Budget 2012 was unfairly structured and badly administered. Budget 2013 should abolish this charge.

To replace the household charge (€160m in revenue), Budget 2013 should announce the establishment of a Site Value Tax (SVT). This would be levied on the underlying value of a site, reflecting the benefits it has received from the provision of public services and utilities.

A number of feasible models for introducing this tax have been outlined over the past few years. It will take Government at least 6 months to establish the infrastructure for implementing and administering this tax, *Social Justice Ireland* believes that Budget 2013 should announce this tax will be collected from July 1st 2013 and the full year's tax will apply. The tax should be levied at a rate to provide an exchequer income of €500m per annum.

A Site Value Tax is a necessary part of a fairer taxation system. The SVT should pay due attention to household's ability to pay. Proposals in the Commission on Taxation's Report re waivers etc. should be applied. The net impact on revenue would be €340m (€500m - €160m).

Proposal:

Budget 2013 should abolish the household charge and replace it with a site value tax commencing on July 1st and raising €500m annually (including 2013).

Bad Nutrition Tax

Ireland is known for its fresh and wholesome food produced locally. Now, however, the consumption of highly processed food is causing a major health problem because it is fuelling the increase in obesity which now affects one in five Irish adults and an estimated 300,000 children. These numbers are rising. This growing problem has very serious implications for people's wellbeing. In particular the increased rates of diabetes and cardiovascular disease are adding substantially to the cost of Ireland's healthcare services.

Social Justice Ireland proposes the introduction of a bad-nutrition tax on salt, alcohol, sugar and trans fats. These are the most common ingredients in fast food, ready meals and soft drinks which are the major cause of obesity. They are also contained in confectionery, cakes, biscuits, sugary drinks, and salty savoury snacks. The revenue generated from this tax should go directly back into resourcing the health service.

Proposal:

Government should introduce a 'bad nutrition' tax on the main components of junk food, fast food and soft drinks. Social Justice Ireland proposes the introduction of a 2% tax on salt, alcohol, sugar and trans fats to yield €15m.

Introducing A Text Tax

A text (SMS) tax would be a simple way for government to raise additional revenue in a broad way from a large base with limited complexity. *Social Justice Ireland* believes that a nominal text tax of one third of one cent should be levied on each SMS sent through mobile phones or any other device.

The Communications Regulator, ComReg, reported in the Quarter 1 2012 report that there were 3,192,051,000 (just under 3.2 billion) SMS messages sent in Ireland during the first three months of 2012. Based on this, there would be an annual SMS volume of 12.6 billion SMS messages. A text tax levied at one third of one cent on each of these messages would provide an annual income to Government of €40m.

Given the scale of this tax, it is unlikely to have much, if any, distortionary effect on SMS senders and it could be easily collected by mobile phone companies and passed on to the exchequer. The mandatory reporting of mobile phone usage data to ComReg by phone operators also provides Government with an easy way to monitor this tax.

Proposal:

Introduce a tax of one third of one cent on each text sent by SMS through mobile phones or any other device. We estimate that this would provide an additional €40m in taxation revenue in 2013.

Working Poor Proposal

Budget 2013 should introduce Refundable Tax Credits

During 2010 *Social Justice Ireland* published a detailed study on the subject of refundable tax credits. Entitled '*Building a Fairer Tax System: The Working Poor and the Cost of Refundable Tax Credits*' the study identified that the proposed system would benefit 113,000 low-income individuals in an efficient and cost-effective manner. When children and other adults in the household are taken into account the total number of beneficiaries would be 240,000. The cost of making this change would be €140m.

The *Social Justice Ireland* proposal to make tax credits refundable would make Ireland's tax system fairer, address part of the working poor problem and improve the living standards of a substantial number of people in Ireland.

The following is a summary of our proposal:

What is a refundable tax credit?

When an individual's income is insufficient to use up all of his or her tax credits, the remaining credit is paid to the individual by means of a cash transfer. In the present system low paid employees i.e. the working poor, lose out as they do not benefit from increased tax credits after any budget.

Making tax credits refundable: the benefits

- Would address the problem identified already in a straightforward and cost-effective manner.
- No administrative cost to the employer.
- Would incentivise employment over welfare as it would widen the gap between pay and welfare rates.
- Would be more appropriate for a 21st century system of tax and welfare.

Details of Social Justice Ireland proposal

- Unused portion of the Personal and PAYE tax credit (and only these) would be refunded.
- Eligibility criteria in the relevant year:

◊ Individuals must have unused personal and/or PAYE tax credits (by definition).

◊ Individuals must have been in paid employment.

◊ Individuals must be at least 23 years of age.

◊ Individuals must have earned a minimum annual income from employment of €4,000.

◊ Individuals must have accrued a minimum of 40 PRSI weeks.

◊ Individuals must not have earned an annual total income greater than €15,600.

◊ Married couples must not have earned a combined annual total income greater than €31,200.

- Payments would be made at the end of the tax year.

Cost of implementing the proposal

⇒ The total cost of refunding unused tax credits to individuals satisfying all of the criteria mentioned in this proposal is estimated at €140,051,823.

Major findings

⇒ Almost 113,300 low income individuals would directly benefit from a refund and would see their disposable income increase as a result of the proposal.

⇒ The majority of the refunds are valued at under €2,400 per annum (or €46 per week) with the most common value being individuals receiving a refund of between €800 to €1,000 per annum (or €15 to €19 per week).

⇒ Considering that the individuals receiving these payments have incomes of less than €15,600 (or €299 per week), such payments are significant to them.

⇒ Almost 40 per cent of refunds flow to low-income working poor households who live below the poverty line.

⇒ A total of 91,056 individuals (men, women and children) below the poverty threshold benefit either directly (through a payment to themselves) or indirectly (through a payment to their household) from a refundable tax credit.

⇒ Of the 91,056 individuals living below the poverty line that benefit from refunds, most (over 71 per cent) receive refunds of more than €10 per week with 32 per cent receiving in excess of €20 per week.

⇒ A total of 148,863 individuals (men, women and children) above the poverty line benefit from refundable tax credits either directly (through a payment to themselves) or indirectly (through a payment to their household). Most of these beneficiaries have income less than €120 per week above the poverty line.

- Overall, almost 240,000 individuals (91,056 + 148,863) living in low-income households would experience an increase in income as a result of the introduction of refundable tax credits, either directly (through a refund to themselves) or indirectly (through a payment to their household).

Once adopted, a system of refundable tax credits as proposed in this study would result in all future changes in tax credits being equally experienced by all employees in Irish society.

Such a reform would mark a significant step in the direction of building a fairer taxation system and represent a fairer way for Irish society to allocate its resources.

Budget 2013 should pursue this policy reform agenda.

You can download a copy of the Refundable Tax Credits Study '*Building a Fairer Tax System: The Working Poor and the Cost of Refundable Tax Credits*' from our website:

www.socialjustice.ie

Alternatively, you can purchase a copy through our website or by contacting the office (see p. 20).

Labour Market Proposal

The past four years have seen Ireland return to the phenomenon of widespread unemployment. The transition from near full-employment to high-unemployment has been one of the major characteristics of this recession.

The implications for people, families, social cohesion and the exchequer's finances have been serious. Economic forecasts indicate that unemployment will remain high in the period ahead.

This dramatic turnaround in the labour market contrasts with the fact that one of the major achievements of recent years had been the increase in employment and the reduction in unemployment, especially long-term unemployment. In 1991 there were 1,155,900 people employed in Ireland. That figure increased by almost one million to peak at 2,146,000 in mid-2007.

Unemployment numbers are now at a record high. According to the CSO's Quarterly National Household Survey, there are 308,500 people unemployed and many more under-employed (not working as many hours at they would like to). In quarter 2 2012 the unemployment rate reached 14.8%.

Of particular concern is the growth in long-term unemployment. There are now 185,100 people unemployed for more than 12 months, representing 60% of the total unemployed (up from 54% a year earlier). As the recession has deepened and persisted, this figure has continued to climb - the long-term unemployment rate is now 8.8% up from 2.2% of the labour force in early 2009. Evidence from the past underscores the need to take long-term unemployment seriously. People who fall out of touch with the active labour market tend to struggle to re-enter it. Policy should be active in avoiding this problem.

Proposal:

Introduce a new programme to ensure real employment at the going hourly rate for the job is available to 100,000 people currently long-term unemployed. Participation must be voluntary.

It should be modelled on the *Part-Time Job Opportunities Programme* that was piloted in the 1994-1998 period. (The current Directors of *Social Justice Ireland* led this pilot programme.) Details of the pilot programme are reported in the box below.

The new programme:

⇒ Would create 100,000 part-time jobs for unemployed people;

⇒ Paid at the going rate for the job;

⇒ Participants working the number of hours required to earn the equivalent of their social welfare payment and a small top-up

⇒ Up to a maximum of 19.5 hours a week.

⇒ Access on a voluntary basis only;

⇒ Jobs would be created in the public sector and the community and voluntary sector;

⇒ Participants would be remunerated principally through the reallocation of social welfare payments.

⇒ Working on these jobs participants would be allowed to take up other paid employment in their spare time without incurring loss of benefits and would be liable to tax in the normal way if their income was sufficient to bring them into the tax net.

Consequently, *Social Justice Ireland* believes that a Part-Time Job Opportunities programme should be established along the lines of the programme piloted in the 1994-1998 period. Additional funding of €50m should be allocated in Budget 2013 - which could grow to €150m in the future if 100,000 places were created. The funding currently being spent on social welfare payments to participants on this programme should be switched to their new employer.

PTJO Pilot Programme 1994-1998

The early 1990s saw high unemployment levels in Ireland and little prospect of jobs being available for some time even though the economy was beginning to recover. Jobless growth was the reality. A proposal made by the current Directors of *Social Justice Ireland* was formally adopted by the Irish Government and announced in Budget 1994.

The proposal sought to create real part-time jobs in the community and voluntary sector principally. Long-term unemployed people could access these jobs on a voluntary basis. They were paid the going rate for the job and they worked the number of hours required to earn the equivalent of their social welfare payment with a small top up. The going rate for the job was agreed with the relevant trade unions and employers.

This programme was piloted in Finglas/Blanchardstown, Co. Laois, Waterford City, four towns in South Tipperary (Clonmel, Carrick-on-Suir, Cashel and Tipperary Town), North Kerry and the offshore islands. It created 1,000 part-time jobs in 162 community and voluntary organisations in those pilot areas within six months of its establishment. These jobs were sustained throughout the pilot period. More than 500 of the original participants departed to take up full-time employment or full-time education during those years and all were replaced by new participants. The market economy is unable to provide anywhere near to the number of jobs required to reduce unemployment anytime soon. This programme contributes to *Social Justice Ireland*'s view that public policy should change so that 1) it recognises that people have a right to work; 2) that unemployed people should not be forced to spend their lives doing nothing when jobs don't exist; and 3) that all meaningful work should be recognised.

Summary of Proposal on the labour market	**Impact of this proposal on Government's Income and Expenditure in Budget 2013**
Introduce a new Part-Time Job Opportunity Programme to provide real, part-time jobs for 100,000 long-term unemployed people.	Transfer of social welfare payments for participants. **Increased expenditure: €50m**

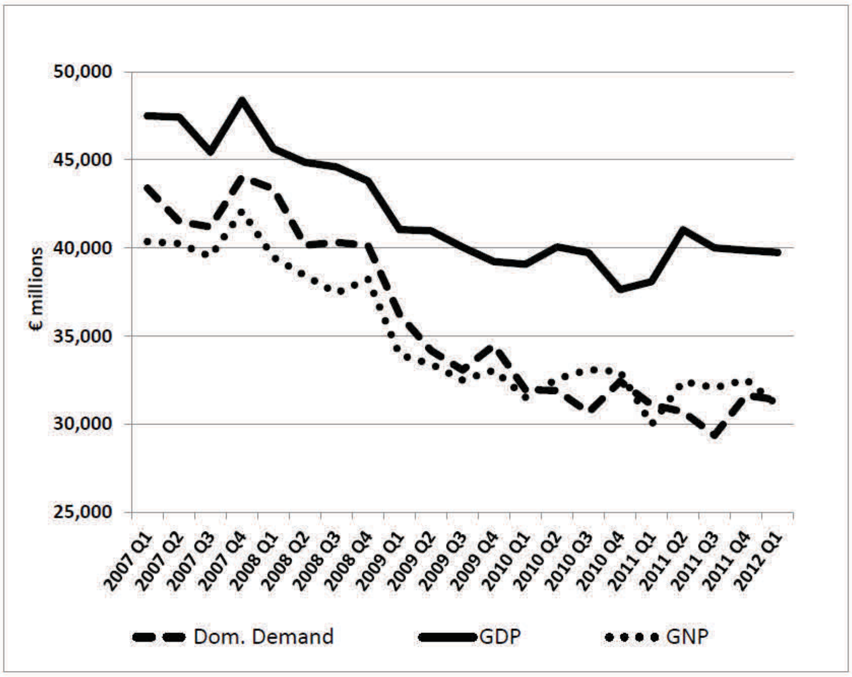
Stimulus to Domestic Economy a key part of any Recovery

Since the outset of Ireland's economic crash, the public policy focus has been on banks, debt, the sustainability of the euro and the specifics of the Troika Bailout agreement. This has been to the detriment of the domestic economy and for the most part public policy has paid little attention to realities of the changing lives of many people and families.

As we have highlighted earlier, the consequences of the recession have been severe on those who had least to do with its creation - a point we continue to make in our meetings with the Troika officials.

The impact of the recession on the domestic economy has been severe. It is reflected in the huge growth in unemployment (see page 2) and the rapid decrease in national income - see chart 8. As the chart shows, while the broadest measure of economic activity has declined (GDP) by just over 16%, there have been far more severe declines in the measures of economic activity that most closely measure what is happening in the domestic economy. Since 2007 GNP has fallen by 23% and domestic demand (the combination of household spending, government current spending and investment) has fallen by almost 28%.

Chart 8: The Decline in Economic Activity, 2007-2012



Source: CSO Quarterly National Accounts.

Based on the Department of Finance's projections for future years, the levels of domestic economic activity are expected to remain very weak.

As it is the domestic economic sector that is the most employment intensive, it is crucial that policy does not continue to ignore this sector—but rather focuses additional resources towards it and towards stimulating demand within it.

In that regard, *Social Justice Ireland* believes that Budget 2013 should include the announcement of a focused off-balance sheet stimulus programme. Such a programme should build on the announcement by Government in July 2012 and outline further investment strategies which would have the dual aim of increasing domestic economic activity while also addressing some of the social and infrastructural deficits which remain in Ireland.

Social Justice Ireland's
Investment Stimulus Projects, 2013-2015

€7 billion Investment Fund from off balance sheet sources

- Provision of 200 Primary Care Facilities across the country
- Retrofitting of Local Authority and Social Housing Units with energy efficient products and devices
- Elimination of prefab accommodation in all primary and secondary schools by 2015
- Extension of the early childhood care and education programme by adding extra facilities and an extra year for each child
- New public healthcare facilities
- A programme of improvement of non-motorway national and local roads
- Investment in renewable energy sources to replace fossil fuel dependence
- Investment in water services and facilities

Proposal:
An off-balance sheet 3-year investment programme of €7 billion targeted at sectors such as those listed in the box on the left should be announced in Budget 2013.

As Government's July 2012 stimulus announcement showed, there are realistic sources where funds can be accessed to facilitate these projects without impacting on the budgetary targets. Budget 2013 should announce this programme and use it to lift the domestic economy by addressing some of Ireland's social and infrastructural deficits.

Pensions Proposal

In 1994 5.9% of people aged 65 and over were at risk of poverty. This number has been very volatile over the past decade and a half. It now stands at 10%. While there have been welcome decreases in recent years to bring it down to this level it is still much higher than it was in 1994. It is also of great concern that so many senior citizens are living on so little.

It needs to be understood that social welfare payments are the key to reducing poverty among older people. Without social welfare payments 88% of all those aged between 65-74 would be living in poverty. Without social welfare payments 88.6% of those aged 75 and over would be living in poverty. Social welfare payments reduce the poverty level among these groups to approximately 10% a fact which underscores the importance of these payments to older people.

The tax break on pensions costs the Exchequer about €2.6bn. 80% of this tax break goes to the richest 20% of the population.* Social Justice Ireland *considers this to be a scandal that should be addressed immediately.

Government's Current Approach

The Government's approach to pensions has been to provide a relatively low State pension and provide large tax-breaks to encourage people to invest in private pension provision. This has resulted in a situation where about €2.6bn of tax is not collected but given instead to those with resources to invest in a private pension. Tax relief is available at the standard rate (20%) for those on low incomes and at the higher rate (41%) for those on higher incomes. In practice this has led to a situation where 80% of the benefit of this tax relief is going to the richest 20% of the population. *Social Justice Ireland* considers this to be a scandal that should be addressed immediately.

Preferred Option

Social Justice Ireland's preferred option on pensions would be to the introduction of a universal pension which would provide an individualised standard payment to all pensioners satisfying the residence condition, make possible an equitable payment to those who worked inside and outside the home, deal with the many anomalies that exist in the Social Welfare system in relation to average contribution conditions and the differential between contributory and non-contributory pensions, largely eliminate means testing and special schemes such as the Homemaker's Scheme, and be simple to administer

Despite these advantages, the Irish Government's Green Paper on Pensions argued that a universal State pension would be contrary to entitlement based on participation in the labour market and would involve significant extra costs.

Clearly the introduction of a universal pension would require a shift from entitlement based on labour force participation to entitlement based on citizenship but that does not mean there would be a significant increase in cost if the narrow definition adopted in the Green Paper were broadened to encompass the cost to the Exchequer of tax expenditure on the private pension system.

Members of the Pension Policy Research Group at Trinity College Dublin have argued the case for adopting this broader approach to pensions policy and learning from the experience of the only country in the OECD, New Zealand, which had introduced a universal State pension and abolished all tax reliefs for saving for retirement.

The Government's Pensions Framework was a great disappointment as it decided to ignore this route and opted instead for slight changes to the current system based on some very questionable calculations which were simply asserted. The basis for the Government's calculations was never authenticated by any independent research and no sources were cited.

New Zealand's experience shows a more radical approach to pension reform than that proposed by Government could help Ireland provide fairer treatment for the majority of taxpayers, who derive little benefit from the existing tax treatment of pension funds, while improving the long-term sustainability of the public pension system

The evidence to support these claims was presented in a paper written by Professor Gerry Hughes and published in 2008 (available at www.socialjustice.ie). Using the criteria of simplicity, adequacy, cost, equity, coverage, effectiveness in delivering pensions, and sustainability he showed how a universal State pension was not just viable but also the fairest option for Ireland.

That the Irish government decided to ignore this approach was unfortunate. Its Pensions Framework does not provide universal coverage, is based on unverified statistics and is inappropriate for the world of the 21st century. The present unfair, unbalanced system should be addressed.

Proposals:

Social Justice Ireland proposes that

- **A universal pension payment for everyone over 65 set at the level of the Contributory Old Age Pension be introduced from July 1, 2013. This would replace the current Old Age Pension.**
- **The tax-break for all pension contributions should be standard rated in Budget 2013. This would increase the tax-take by €700m on a full-year basis.**

This would produce a much fairer distribution of available resources.

For further information on older people and poverty

See: Social Justice Ireland's *Socio-Economic Review 2012* Section 3.1

Summary of Proposals on Pensions	Impact on Government income and expenditure	
Standard rate all pension contributions	**Increased income of:**	**€700m**
Introduce universal pension	**Increased expenditure of:**	**€453m**

Education

Education can be an agent for social transformation. *Social Justice Ireland* believes that education can be a powerful force in counteracting inequality and poverty while recognising that, in some ways, the present system has the opposite effect.

Contributing to higher education costs

There are strong arguments from an equity perspective that those who benefit from higher education, and can afford to contribute to the costs of their higher education, should do so. This principle is well established internationally and is an important component of funding strategies for many of the better higher education systems across the world. *Social Justice Ireland* proposes that Government should introduce a system in which

⇒fees are paid by all participants in third level education

⇒with an income-contingent loan facility being put in place to ensure that all participants who need to do so can borrow to pay their fees and cover their living costs, and

⇒repay their borrowing when their income rises above a particular level.

In this system all students would be treated on the same basis. Tuition and living cost loans would be available on a deferred repayment basis. Repayment based on their own future income rather than on current parental income. Including part-time students would be a positive development.

Proposal:

***Social Justice Ireland* proposes that a new loan scheme along these lines should be introduced. This would reduce Exchequer spending by €445m in a full year.**

Early childhood education

Early childhood education and care plays a crucial role in providing young people with a chance to develop their potential to the fullest possible extent. Age 0-5 is the point at which differences in early health, cognitive and non cognitive skills, which are costly causes of inequality can be addressed most effectively. Early Childhood education has the potential to both reduce the incidence of early school leaving and to increase the equity of educational outcomes.

Proposal:

***Social Justice Ireland* proposes that Government invest an extra €100m in early childhood education.**

Adult literacy

The Programme for Government states that government will address the widespread and persistent problem of adult literacy. No updated targets or strategies have been outlined since the 2007 target set in the NAP inclusion document of reducing the proportion of the population 16-64 with literacy difficulties to between 10%-15% by 2016.

Proposal: Invest in a major step change in adult literacy programmes. ***Social Justice Ireland* proposes a €20m allocation in Budget 2013 as an initial tranche of additional funding for adult literacy.**

Health

Urgent action is required in four key areas if the basic model of community based health and social services to underpin the health system is not to be undermined. All are addressed here.

1. Older People's Services

If older people's health is to be addressed appropriately it is essential that there be support for older people to live at home by providing community based services to meet their needs. A mix of public & private residential care is required. There is an urgent need to address the specific deficits that exist in public residential care (community hospitals) infrastructure.

Proposal: An investment of €325m over a five year period, i.e. €65m each year, enabling 12-15 community nursing facilities with about 50 beds each to be replaced or refurbished each year. ***Social Justice Ireland* proposes €65m should be allocated in Budget 2013 as the first tranche of funding for this purpose.**

2. Primary Care Teams (PCT)

The HSE is developing Primary Care Teams and Social Care Networks as the basic 'building blocks' of local public health care provision. PCTs draw the local health professionals together to provide a one-stop shop for community needs. PCTs provide a single point of contact for the person and the system.

Proposal: An investment of €250m over a five year period is needed to support the infrastructural development of 519 Primary Care Teams required to cover the whole country.

***Social Justice Ireland* proposes €50m should be allocated in Budget 2013 as a new tranche of funding for this purpose.**

3. Children and Family Services

In tandem with the development of PCT services there is a need to focus on health and social care provision for children and families. The obligation on the State to do this has been well highlighted recently.

Proposal: A €250m investment over a five year period is required to address the infrastructural deficit in Children and Family services.

***Social Justice Ireland* proposes €50m be allocated in Budget 2013 as the first tranche of funding for this purpose.**

4. Mental Health Services

A Vision for Change is the national strategy for mental health published in 2006. It sets out how services should be structured and delivered in Ireland. We welcomed the allocation of €35m in Budget 2012 for the Development of Community Mental Health Teams.

Proposal: A further €140m is required over the next four years in order to support the development of extended catchment areas and Community Mental Health Teams.

***Social Justice Ireland* proposes a further €35m be allocated in Budget 2013 for this purpose.**

Social Justice Ireland's Proposals for Budget 2013

TAXATION: Social Justice Ireland's key Budget Initiatives for Budget 2013				
Area	**Proposal**	**Increase in Exchequer Income**	**Decrease in Exchequer Income**	**Balance**
Carry-over	Carry-over from 2012 Budget p.4	€220m		
Carbon	Relief for low-income families and rural dwellers for carbon tax increases in 2011 and 2012		€40m	
	Remove the double income tax relief for Farmers in respect of Additional Carbon Tax	€3.4m		
	Carbon tax increase of €2.50 per tonne (cf item 23 p.19)	€50m		
Households	Site Value Tax to replace the household charge p.10	€340m		
USC	Extend USC levy of 3% to all income in excess of €100,000 irrespective of its source p.10	€50m		
Nutrition	Introduce an anti-bad nutrition tax p.10	€15m		
Gambling	Increase the tax take from gambling (cf item 22 p.19)	€14m		
Text messages	Introduce a tax of one third of one cent on each text sent via SMS through mobile phone or any other device p.10	€40m		
Tax Credits	Make tax credits refundable p.11		€140m	
Pension	Standard rate the tax break on all pension contributions p.14	€700m		
	Eliminate the tax free status of lump sum pension statements	€130m		
Corporate sector	Introduce a 2.5% levy on all corporation profits as a contribution towards solving Ireland's current fiscal problems p.9	€750m		
Tax Breaks	Implement the outstanding Commission on Taxation recommendations on tax-breaks (with the exception of taxing child benefit) p.9	€100m		
Fuel	Remove the price differential between agricultural and road diesel p.19	€48m		
Totals		**+€2,460.4m**	**-€180m**	**€2,280.4m**

Social Justice Ireland's Proposals for Budget 2013

***EXPENDITURE: Social Justice Ireland*'s key Budget Initiatives for Budget 2013**				
Area	**Proposal**	**Decrease in Exchequer Expenditure**	**Increase in Exchequer Expenditure**	**Balance**
Labour Market	Introduce a Part-Time Job Opportunities programme for those who are long-term unemployed p.12		€50m	
Social Welfare	Reverse cuts to fuel, electricity and phone allowances introduced in Budget 2011 p.8		€17m	
Health	Older people programme to replace or refurbish 12-15 units with approx. 50 beds. p.15		€65m	
	Mental Health Services		€35m	
	Primary Care Teams Programme p.15		€50m	
	Children and Family Services Programme p.15		€50m	
	Savings announced by Minister for Health on17/09/12	€200m		
Education	Introduce an income contingent loan scheme for 3rd level students to pay their fees and cover their living costs. p.15	€445m		
	Increase funding for Adult Literacy p.15		€20m	
	Increase funding for Early Childhood Education p.15		€100m	
Housing	Increase provision for Social Housing (cf item 21 p.19)		€20m	
Fuel	Introduce a rebate system for farmers to replace the Agricultural Diesel Price Differential (cf item 10 p.19)		€48m	
Third World	Increase the Aid Budget to approach UN target p.20		€67m	
Public Expenditure (cf item 24 p.19)	Reform of Public Sector sick Leave and Replacement Costs	€175m		
	Croke Park Agreement Pay Bill Net Savings 2013	€361m		
	Croke Park Agreement Pension Bill Net Savings 2013	€59m		
	Reductions in expenditure based on the results of the Comprehensive Expenditure Report 2012-2014	€249m		
	Reduce the cost of Government payments for legal fees	€10m		
	Reduce the cost of public procurement contracts to Government	€124m		
	Savings from using the National Procurement Service for supplies to Public Bodies	€50m		
Capital Programme	Projected Capital Expenditure Consolidation for 2013 (as per Comprehensive Expenditure Report 2012 – 2014)	€550m		
Pensions	Introduce a Universal Basic Pension from July 1 2013 p.14		€453m	
Totals		**+€2,223m**	**-€975m**	**€1,248m**

Social Justice Ireland's Proposals for Budget 2013

Fiscal impact *Social Justice Ireland*'s key Budget Proposals for Budget 2013

Area	Impact on Government Expenditure	Impact on Government Revenue	Impact on Government Borrowing
Increases in expenditure	+€975m		
Decreases in expenditure	-€2,223m		
Overall change in Government Expenditure	**-€1,248m**		
Increases in revenue		+€2,460.4m	
Decreases in revenue		-€180m	
Overall change in Government Revenue		**+€2,280.4m**	
Total impact of proposed Budget Initiatives			**€3,528.4m**

Investment Projects 2013-2015

€7 billion Investment Fund from off balance sheet sources

- Provision of 200 Primary Care Facilities across the country
- Retrofitting of Local Authority and Social Housing Units with energy efficient products and devices
- Elimination of prefab accommodation in all primary and secondary schools by 2015
- New public healthcare facilities
- Extension of the early childhood care and education programme by adding extra facilities and an extra year for each child
- A programme of improvement of non-motorway national and local roads
- Investment in renewable energy sources to replace fossil fuel dependence
- Investment in water services and facilities

Investment Projects Funding

As Government's July 2012 stimulus announcement showed, there are realistic sources where funds can be accessed to invest in projects without impacting on budgetary targets.

Social Justice Ireland's stimulus and investment proposal 2013-2015 (project details in box on left) would be entirely funded from off balance sheet sources.

The sources of funding that have been identified for these social and infrastructural projects are:

- National Pension Reserve Fund
  There is currently €5.8bn in the NPRF discretionary portfolio. We propose that €2.5bn of this portfolio be directed towards funding the projects outlined in this proposal.
- CCSC Borrowing on Capital Markets
  A re-launch of a New National Recovery Solidarity Bond targeted at corporations that make very large annual savings and an additional €1bn in funding could be raised this way through domestic and international sources.
- European Investment Bank and Council of Europe Bank
  The €3.5bn identified above could be matched by funds of €3.5bn from the European Investment Bank and the Council of Europe Bank to invest in the infrastructure projects outlined in *Social Justice Ireland's* investment stimulus projects.

Budget 2013 - Summary of Key Proposals

In this Policy Briefing *Social Justice Ireland* sets out a range of fully-costed proposals that would (i) reduce Government's borrowing; (ii) protect the vulnerable, (iii) provide substantial, targeted investment; (iv) make the tax system fairer; (v) protect public services; (vi) increase domestic demand; (vii) retain social welfare rates and Child Benefit unchanged and (viii) distribute the 'hits' in Budget 2013 more fairly. Among our major proposals are the following:

1. Reduce **borrowing** by €3.5bn.
2. Do this through tax increases and expenditure reductions on a **ratio of 2:1**. P.7
3. Introduce a Part-Time Job Opportunities Programme to create **100,000 part-time jobs for people who are long-term unemployed**. This would cost €50m in 2013 and would be a positive step towards addressing long-term unemployment in a meaningful way. P.12
4. **Make tax credits refundable** in Budget 2013. At a cost of €140m this proposal would directly benefit 113,000 low income individuals and begin to address the 'working poor' issue. P.11
5. **Extend the USC levy of 3% to all income in excess of €100,000** irrespective of its source. This would address the anomaly in the present system whereby only self-employed earners are subject to this additional 3% USC levy. This would increase income by an additional €50m in 2013. P.10
6. Introduce **a levy of 2.5% on all corporate profits** in 2013. This would provide additional revenue of €750m for the Exchequer. It would enable Corporate Ireland to play a meaningful part in aiding Ireland's recovery. It would also be an acknowledgement of the many benefits Ireland offers, including natural resources and the various financial incentives made available to many companies based here. P.9
7. Implement the Commission on Taxation recommendations on **tax expenditures**, with the exception of proposals on Child benefit. This would save €100m in 2013. P.9
8. **Scrap the household charge** and replace it with a **Site Value Tax**. The introduction of an SVT is a necessary part of a fairer taxation system. It would bring in an additional €340m in 2013. P.10
9. Introduce **a universal basic pension** payment for all people over the age of 65 from July 2013. This would be set at €230.30, the current level of the Contributory Old Age Pension. **Standard rating the tax break** for all pension contributions to 20% would increase the tax-take by €700m in 2013 and would help fund the universal basic pension payment. This would be a fairer and more equitable way of organising the pension system in Ireland. P.14
10. Remove **the price differential between agricultural and road diesel**, and replace this pricing arrangement with a rebate system for farmers whereby they can claim the price differential for agricultural diesel. This proposal is largely cost neutral and would have a significant impact on reducing fuel laundering and criminal activity.
11. Provide **an investment package of €7 billion** for the domestic economy to drive Ireland's recovery. This focussed, off-balance sheet programme would have the dual impact of increasing domestic economic activity while also addressing some of the social and infrastructural deficits which remain in Ireland. P. 13/18
12. Introduce **a tax of one third of one cent on each text sent by SMS** through mobile phones or any other devices. This would provide an additional €40m in taxation revenue in 2013. P.10
13. Introduce **a 'bad nutrition' tax** on the main components of junk food, fast food and soft drinks to yield €15m in 2013. P.10
14. Invest €65m to enable 12-15 **community nursing facilities** with approximately 50 beds each to be replaced or refurbished in 2013. P.15
15. Invest €50m for the infrastructural development of **Primary Care Teams** in 2013. P.15
16. Invest €50m for the infrastructural development of **Children and Family Services**. P.15
17. Invest €35m to support the development of **Community Mental Health teams**. P.15
18. Introduce **an income contingent student loan facility** to allow students to borrow to pay for third level fees and living costs. This would save the exchequer €445m in 2013. P.15
19. Invest €100m in **Early Childhood Education and Care** from the ages 0-5. P.15
20. Invest €20m in **Adult Literacy** programmes. P.15
21. Increase the provision for **Social Housing** by €20m.
22. Increase the tax take on **gambling** as per Budget 2012.
23. Increase **carbon tax** by €2.50 per tonne in Budget 2013 to bring the overall carbon tax up to €22.50 per tonne.
24. Reduce **public expenditure** through measures identified in the Comprehensive Expenditure Report 2012-2014, National Procurement Service and Croke Park Implementation Body.

Budget 2013 must be a Fair Budget

The key test for Budget 2013 is that it is fair. As Government considers the details of the December Budget, it is faced with a country in an exceedingly difficult position. The growth forecast for 2013 at 2.2% is ambitious. However, unemployment is expected to stay above 14.5%. More than 700,000 people are at risk of poverty. The plight of the working poor is still being ignored. Services are being cut back, welfare payments have been reduced and poor people, who had no part whatsoever in producing the current crisis are being forced by government to carry an inordinate part of the burden.

In this Policy Briefing *Social Justice Ireland* has presented a series of proposals that are fair.

Impact of these proposals

Taken together the proposals contained in this Policy Briefing would:

- Introduce some tax reform;
- Produce a fairer sharing of the burden and protect the vulnerable;
- Address the working poor issue;
- Produce real part-time jobs for 100,000 unemployed people;
- Make progress towards a better healthcare system and produce greater equity in the education system;
- Move towards attaining the UN ODA target;
- Ensure the corporate sector makes a fairer contribution;
- Provide infrastructure investment;
- Make the pension system fair.

Social Justice Ireland believes that Government decisions on Budget 2013 and beyond should be guided by a vision of building a society where the well-being of all is promoted and supported. The economy's purpose should always be to move in this direction.

Protecting the World's Poorest

Social Justice Ireland believes that in Budget 2013 Ireland's overseas aid budget should not be targeted unfairly again. Despite Ireland's current challenges it is important to bear in mind that many people in the world are in a far worse situation and have been in this situation for a very long time.

Ireland and other countries in the better-off part of the world should not abandon the world's poorest at this crucial time.

Over recent years the ODA budget has borne a disproportionate amount of the cuts, falling by more than €280m. In 2012, Ireland will give €639 million in overseas aid; an amount equivalent to 0.50% of GNP. The Irish Government made a commitment to reach a target of spending 0.7% of our national income on overseas aid by 2015. ***Social Justice Ireland* strongly urges Government to provide an additional €67m in Budget 2013 towards reaching that 2015 ODA target.**

Social Justice Ireland

We're on the web
www.socialjustice.ie

Recent Publications from *Social Justice Ireland*

- Shaping Ireland's Future: Socio-Economic Review 2012
- Does the European Social Model have a Future?
- Policy Briefing on Poverty and Income Distribution
- Analysis and Critique of Budget 2012
- Sharing Responsibility in Shaping the Future
- The Future of the Welfare State
- Building a Fairer Tax System: The Working Poor and the Cost of Refundable Tax Credits

All of these and more are available on our website at www.socialjustice.ie. Printed copies can be purchased from the Social Justice Ireland offices.

Support *Social Justice Ireland*

If you wish to become a member of *Social Justice Ireland* or make a donation to support our work are welcome do so through our website at *www.socialjustice.ie* or by contacting our offices directly.

Social Justice Ireland is a research and advocacy organisation of individuals and groups throughout Ireland who are committed to working to build a just society where human rights are respected, human dignity is protected, human development is facilitated and the environment is respected and protected.

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