STRONGER TOGETHER
CONGRESS
Irish Congress of Trade Unions

# Congress Budget 2022 Priorities

# *No Going Back : For A Fairer Future*

## Contents

## Foreword

*This is the second set of budgetary recommendations that the Irish Congress of Trade Unions (ICTU) has issued during the Covid-19 pandemic, the most severe global health crisis in living memory.*

*Due to the enormous personal and communal efforts made since March 2020, as well as the unprecedented international cooperation to develop vaccinations, we have been able to lift many of the most restrictive measures. We are reopening society and the economy, step by step, but with a long way to go yet.*

*It is clear that we are not going back to the way things were – and there should be 'no going back' to the old economic model. The indispensability of basic public services and of the welfare state was brought into sharp focus and we need a 'new deal' or new economic model to ensure a safe and secure future for all.*

*The pandemic exposed the deep flaws and failings of our pre-pandemic economic model. From the additional demands it imposed on already over-stretched health workforce in under-funded hospitals, to those on low pay and with precarious terms and conditions suffering most in the work-place, to the immediate recognition of the inadequacy of the social welfare system for the hundreds of thousands made redundant.*

*Despite the positive trajectory of many economic indicators over recent years the previous economic model let many people down – for example, children and young people in crowded classrooms and lecture theatres, sick people on waiting lists, and young couples unable to set up their own homes.*

*And it did not equip us with the tools, principally proper collective bargaining and social dialogue, which would enable us to address the many employment challenges we face. These challenges include the need to transition to zero* *greenhouse gas emissions in a just and fair way, adapting to rapid technological change at work, minimising the impact of Brexit, reducing precariousness at work and inequality, and developing a new economic and industrial strategy as the old tax avoidance-based FDI strategy comes under threat.*

*The pandemic has made us aware of our inter-dependence on each other, of the importance of effective political structures at all levels, and of the need for better public services and public goods.*

*If we are to truly recover from the pandemic, deal with its long-term consequences, and rise to the challenges and responsibilities we face, we will have to work together, improve how we do so, and build better public services and goods, nationally and internationally.*

*Congress advocate for a radical progressive vision of for Ireland's economy and society. ICTU's Budget 2022 recommendations – For a Fairer Future [tbc] – set out our key priorities for the short and medium term to this end. Now is the time to invest in our people, our public services, and our public infrastructure. There can be no return to the failed policies of austerity.*

*We look forward to engaging with the Government and with other stakeholders to achieve these goals.*

*Patricia King*

General Secretary,

Irish Congress of Trade Unions

## 1. Economic Outlook and Congress Position

We are now well over one year into the worst global pandemic in a century. Covid-19 has caused unprecedented disruption to societies and economies across the globe. There has been a sharp rise in extreme poverty, particularly within emerging economies as jobs have been lost and income levels have fallen.

The measures taken to contain the virus have either interrupted or stopped entire sectors of economic activity both in Ireland and internationally. Millions of people across the globe have lost their lives while tens of millions more lost their livelihoods.

Congress believes that the crisis has shown up weaknesses in Ireland's pre-pandemic economic model. The relationship between workers, business and the state was fundamentally altered by the crisis, and there have been enormous sacrifices made by workers in essential and face-to-face services.

Society and the economy have fundamentally changed. Basic services and the welfare state have shown themselves to be the indispensable bedrocks of people's economic well-being.

There should be no going back to the pre-pandemic economic model and the Government must do whatever it takes to ensure an inclusive, just and sustainable recovery. The policies we choose and values that guide us will shape the strength and the inclusiveness of the recovery.

### *1.1 Context*

Ireland's real GDP grew by 5.9% in 2020. However, this growth masks the enormous differential impacts of the pandemic by sector. Gross Value Added (GVA) declined significantly in a range of sectors including *Accommodation and Food* services, *Construction*, *Wholesale & Retail*, *Financial & Insurance*, and *Arts & Entertainment*. In addition, personal consumption fell by an enormous 10.4% in real terms, while modified gross national income fell by 3.5% in real terms.

The unemployment rate averaged almost 19% in 2020, while employment levels fell by 350,000 people and hours worked fell by 8.5%. Job losses were concentrated amongst lower skilled workers, young workers and part time workers. The youth unemployment rate pushed above 60% in April of 2021. Even so, household incomes were largely protected by government supports. In addition, labour market conditions are now improving. The Covid adjusted unemployment rate fell from 27% in February to 13.5% in July.

The vaccine rollouts are gathering pace in many countries and fiscal and monetary policy continue to buttress national and regional economies. Business sentiment and business expectations are improving. The Chinese and US economies are already well on their way to recovery while the EU and the UK should return to their pre-crisis output levels sometime in mid-2022.

The Congress view is that it will take a number of years before unemployment and employment rates return to their pre-crisis levels. Given the unprecedented nature of the crisis, it is as yet unclear the extent to which there will be significant labour market scarring. However, it is clear that the shock will have long-lasting social, economic and political implications. The role and power of the State in protecting households and businesses has never been more evident. We must not forget this lesson.

### *1.2 Outlook*

The easing of lockdown marked the beginning of what we believe will be a prolonged economic expansion. This outlook assumes: (A) ongoing success in the vaccine rollout, (B) a full or almost full opening of the economy and society, and (C) a cautious approach to removing targeted supports for weakened but viable businesses.

Economic growth will be fuelled by the confluence of a number of factors:

- The realisation of an unprecedented level of pent-up demand for activities constrained during the lockdown (primarily face-to-face services),
- Increased public investment from fiscal policy,
- Increased private investment as economic uncertainty fades (SME saving rose significantly in 2020),
- The normalisation of the household savings rate from its current excessive and historically high level,

- Increased demand for exports as trading partners experience strong demand-based recoveries (e.g. the EU recovery plan)

Crucially, we should not use previous recessions as a baseline for the pace of recovery. The Covid-19 recession was a policy induced freeze on supply. The dynamics are therefore qualitatively different from previous demand-side balance sheet recessions such as the great financial crash. In particular, household incomes have largely held up.

Previous recessions were characterised by an overleveraged private sector carrying very significant debt. On this occasion, the economy's productive capacity has broadly been protected, and there may be minimal scarring effects. The impact of unwinding the Government's pandemic supports is uncertain. However, policy makers appeared to have learned from previous crises. While the precise scale of private sector failure will remain unclear for some months and could be severe, the June economic stimulus should ameliorate the damage as the economy transitions away from lock down.

There are a number of other risks to the recovery. Most obviously, virus mutations could lead to further lockdowns and the global economy cannot recover until vaccinations are available in the Global South. Also, savings have been concentrated in higher income households and it may be that the bounce-back in spending will be significantly more muted than we expect. Finally, there is residual uncertainty over the long-term disruption caused by Brexit.

Overall, the extent of structural damage to the labour market remains unclear. However, scarring should not be as severe as during the great financial crash as there is no equivalent sectoral collapse akin to the structural collapse in construction post-2008. Labour market conditions should rapidly improve over the next two years with employment growth of close to 11% in 2022. Even so, unemployment levels will still be elevated, at around 7.5% to 7% of the labour force by the middle of 2022. We expect it will be end-2023 before the labour market is fully or almost fully recovered to pre-pandemic unemployment levels. Congress believes that fiscal and monetary policy should remain highly expansionary in the short-to-medium term in order to ensure the recovery is not derailed.

### *1.3 Public Finances*

The public finances were on an improving path prior to the pandemic. The debt burden fell from 166% of GNI* in 2012 to 95.6% in 2019. Inevitably, the onset of the pandemic and the introduction of the Covid-19 supports reversed this downward trend, with the debt ratio increasing to circa 112% of GNI* in 2021. While the pandemic has pushed the debt ratio higher, the direct impact on the deficit is likely to be mainly transitory.

The Government's *Summer Economic Statement* (July, 2021) makes clear that the public finances will remain in deficit until at least 2025 and likely well beyond, with a deficit of over €20 billion in 2021. Even so, much of the 2021 deficit represents once-off costs, interest rates are likely to remain very low thanks to the ECB's 'whatever it takes' support, and there will be no external pressure to return to austerity policies.

Strong employment growth and the removal of once-off Covid-19 supports will see the deficit fall significantly as of 2022, in both nominal as well as per cent of GDP terms. Congress's view is that the best way to fix the public finances is to restore employment levels. The economy's growth potential remains strong and such growth, if realised, will gradually erode the debt burden over time.

International changes in the taxation of multinationals will have consequences for Ireland's public finances and potentially for the ability to attract foreign direct investment. While welcome from a tax justice perspective, the international tax reforms will necessitate Ireland developing a more rounded industrial strategy.

Congress's view is that the enormous Covid-related income and business supports were necessary and greatly ameliorated the damage that could have been done to the economy. This package of supports buttressed the economy's potential output and will pay for itself in the long-run. Indeed, the cumulative increase in debt from the 2020-21 periods will only add around half a billion to annual interest expenditure.

It is crucial that budgetary policy remain supportive as the economy and society recovers. The Government should use the opportunity provided by low interest rates to borrow to invest in rebuilding the economy and supporting the green and digital transitions.

Congress welcomes the Government decision not to pursue an austerity strategy in the years ahead.

In the medium-term, it will be necessary to address the chronically low levels of government revenue in Ireland. We discuss the options for increasing revenue in Section 4. Congress's view is that by far the greatest scope to increase government revenue (in the sense of exploiting areas of relative under taxation) is via increases in employer PRSI. The major bulk of reforms in this area are better timed for after the pandemic response phase ends, i.e. post-2022, although there is some scope to begin the process of reforms in Budget 2022.

A final point to note in relation to fiscal policy is that prior to the crisis Ireland had low levels of public spending relative to Western European norms. Per capita public spending in Ireland (excluding interest) was around €2,000 less than the average for comparator high-income EU countries. Congress regrets that the fiscal plan as outlined in the Summer Economic Statement implies will keep per capita spending below that of the average for high-income EU countries.

Ireland's low level of spending is manifestly inadequate and has significant negative implications for the future provision and quality of public services and infrastructure. There are similarly negative implications for the future sufficiency of welfare payments given the increasing demands of an ageing population. We are already experiencing ongoing crises in housing and health, and chronic underfunding of early years care, higher education and public transport.

As such, it is the view of Congress that public spending increases should be prioritised in Budget 2022 and beyond, and that the tax cuts set out in the *Summer Economic Statement* should be abandoned. Permanent tax cuts are unaffordable and are unjustified from a growth perspective and also from an equality perspective. Our priorities for public spending are outlined in Section 2 and Section 3.

### *1.4 Broad strategy*

Our view is that the Government should continue to support the recovery and should continue to refrain from austerity policies. Budget 2022 should be about rebuilding our collective economic and social infrastructure via higher levels of spending on collective early years care, on education, on health, on public transport, on water, and on public housing services. All social protection payments in Budget 2022 should exceed inflation in order to protect and increase real incomes and to ensure no one is left behind.

Budget 2022 should also facilitate the digital and green transitions via greater funding for relevant public investment but also via greater funding for re-skilling workers, through apprenticeships and higher education. Adequate funding should be set aside to ensure the move to a zero-carbon future is achieved in a manner consistent with a just transition for workers.

Over the medium term there will need to be significant reforms on the revenue-side in order for us to address the chronic underfunding of public services. The 'elephant in the room' of employer PRSI should finally be addressed with a commitment to gradually increase the 'social wage' to workers in the form of improved social insurance benefits. The plan to cut taxes over the next four years should be abandoned. There should be no going back to the old low tax and low spend model.

## 2. Creating more and better jobs for all within an inclusive recovery

'The implementation of the principles in the European Pillar of Social Rights will be essential to ensure the creation of more and better jobs for all within the framework of an inclusive recovery.'

European Council's Porto Declaration, 9 May 2021.

The pandemic hit an Ireland that was failing to adequately address fundamental weaknesses of its economic model. These included a mediocre employment performance compared to other high-income European countries, very high levels of market income inequality and very high rates of low pay. Ireland was also struggling to meet the major challenges posed by decarbonisation, digitisation and technological change, an ageing population, Brexit, and a changing geo-political environment, particularly tax avoidance by trans-national corporations. The international tax reforms now clearly on the horizon necessitate the development of a more-rounded industrial strategy based on education, innovation, quality of work and quality of life.

Covid-19 not only exposed but exploited the weaknesses of the pre-pandemic model, as shown by the speed at which it spread in workplaces with the poorest terms and conditions, and disproportionately affected those on the margins of that model, particularly young workers, women, low-skilled and migrant workers.

Despite the emphasis on social solidarity in the early stages of the pandemic, some of the political decisions that have been taken as the economy has reopened reveal a determination to revert to 'as before', such as the decision to cut the Pandemic Unemployment Payment (PUP) whilst at the same extending lucrative and ineffective tax breaks for businesses that have consistently refused to respect the state's industrial relations institutions.

The fundamental failings of the pre-pandemic economic model is the principal reason why Congress has argued that Ireland simply *cannot* go back to that model.

We argue instead for an alternative model that sees Ireland's commitments under the UN Sustainable Development Goals, particularly SDG 8 on decent work and SDG 10 on reducing inequality, and the European Pillar of Social Rights as providing not only the framework for an *inclusive* recovery but also a framework for addressing the challenges facing Ireland.

We see the Tánaiste's 2018 description of the European Pillar of Social Rights as even more relevant in 2021 than three years ago, when he described it as:

> '…a political compass that will help guide our collective actions in the years ahead. At both national and EU levels, the social Pillar will help us chart the best course in dealing with the challenges that come with globalisation in the 21st century. Best of all, it will enable all our citizens to participate effectively in a world of such rapid change.' [1]

This section sets out Congress's recommendations in a number of key areas in order to achieve the SDGs and to implement the principles of the Pillar of Social Rights, starting with the objectives of creating more and better jobs within an inclusive recovery.

### *2.1 Transform the wage subsidy scheme into a genuine Short-Time Work Scheme*

Congress has been advocating for a number of years for the introduction of a genuine Short-Time Work Scheme (STWS) to minimise the impact of Brexit on employment by supporting the jobs of workers in vulnerable but viable firms.

While Ireland has had 'short-time work support' for many years, as the Government has said this is 'a form of Jobseeker's Benefit' for employees with sufficient PRSI contributions 'who have been temporarily placed on a shorter working week by their employers' (DSP, 2020).

Congress's more ambitious proposal is based on the effective STWSs in place in other European countries, particularly Germany, Austria and the Nordics. These schemes provide state supports for workers in firms or sectors hit by a reduction in demand, but on condition that participating firms meet certain criteria, including the conclusion of a collective agreement so that participation addresses the needs of both employers and employees and the promotion of training during non-worked time. These schemes are often complemented by sectoral collective agreements which ensure a higher replacement rate for participating workers of up to 100% in some cases. The IMF says Germany's STWS 'Kurzarbeit' scheme,

---

[1] An Taoiseach, Leo Varadkar TD, Dáil debates, 8 June 2018.

which is based on these principles, is 'widely considered the gold standard of such programs' (IMF 2020).

The Employment Wage Subsidy Scheme (EWSS) and its predecessor the Temporary Wage Subsidy Scheme (TWSS) have helped to mitigate the impact of the pandemic on jobs and incomes. The Government has agreed to continue the EWSS until 31 December 2021. It also intends to 'review and refine as necessary the 'short-time work scheme…in line with international best practice by 2022'. It has indicated that it will also 'consider' the 'question of an employer contribution to employee wages under the scheme'[2] (Government of Ireland, June 2021).

The EWSS should be transformed into a genuine STWS, modelled on the most effective schemes in place in Germany, Austria and the Nordics. This would incidentally be in line with IMF advice to the Government that 'Income support measures should become increasingly conditional on re-skilling, and further shift toward subsidising new hiring in the expanding sectors. Business support measures should also be increasingly targeted to affected but viable firms.' (IMF, 12 May 2021).

Particular attention also needs to be focused on aviation. As an island economy and one that now faces additional challenges as a result of Brexit, aviation is crucial for international connectivity. Aviation will be one of the last sectors to re-emerge and to recover fully from the pandemic, with some forecasts suggesting it could be in the middle of the decade before it reaches pre-pandemic levels of activity. Decisions could be taken outside of Ireland concerning companies that operate in the aviation sector and to focus on what is required to keep a functioning aviation sector in Ireland. The aviation sector would be an ideal fit for the negotiation and implementation of a sectoral short-time work scheme, to support this crucial sector and its workers as it recovers.

**Recommendation: Transform the Employee Wage Subsidy Scheme into a genuine Short-Time Work Scheme modelled on effective STWSs of Germany, Austria and the Nordics.**

[2] The weak exhortation under the TWSS that a participating employer was 'expected to make best efforts to maintain the employee's net income as close as possible to normal net income for the duration of the Subsidy period', was not carried over into the EWSS. Congress does acknowledge that many employers did make and continue to make such efforts.

### *2.2 Use the Brexit Adjustment Reserve to safeguard and promote jobs*

The focus on Covid-19 since early 2020 has naturally diverted attention away from the impact of Brexit, including on employment in the sectors and areas most affected.

As discussed above, Congress has been calling for some time for the introduction of a genuine Short-time Work Scheme in order to minimise the impact on workers in vulnerable but viable firms. We have also been recommending the adoption of a Brexit Adjustment Assistance Fund to support the reskilling and upskilling of workers who may lose their jobs because of Brexit.

Ireland is now expected to receive in the region of just over €1 billion from the new EU Brexit Adjustment Reserve agreed in June 2021. This is approximately one-fifth of the total allocation for the 2020-2025 period, clearly demonstrating the disproportionate impact of Brexit on Ireland.

Congress welcomes the fact that this funding can be used to fund 'measures to support employment, including through short-time work schemes, re-skilling and training in affected sectors' (Article 5 (1) (d) of Commission proposal). We also welcome the fact that the (draft) regulation requires member states to involve the social partners, civil society, and local and regional authorities, in implementation of the Reserve.

The Government should ensure the involvement of all relevant stakeholders in the implementation of the Brexit Adjustment Reserve, including at regional and local level and at sectoral and firm level.

***Recommendation – Use Brexit Adjustment Reserve funding to establish a genuine short-time scheme and to re-skill and train workers most affected, involving trade unions.***

### *2.3 Introduce a statutory entitlement to paid training leave*

Meeting the needs of workers who may be affected by Brexit, decarbonisation, or digitalisation will require a considerable increase in work-place training. One of the three headline targets agreed at the Porto Social Summit in May 2021 is that at least 60% of adults take part in training each year by 2030. There needs to be a substantial expansion of the further education and training sector to address unemployment and upskilling.

The OECD has confirmed that Irish businesses provide less training to employees than those in other OECD countries, and that Ireland provides no statutory entitlement to training leave, as is common in the majority of European countries that have comparatively high training participation. France for example compensates workers undertaking training leave between 80% and 100% of their wage. The OECD accordingly recommends the provision of statutory leave and paid training leave, amongst other measures, adding that these would encourage training up-take by both younger and older workers (OECD 2020).

The OECD has confirmed that workers covered by collective agreements are one-third more likely to take part in training that those who aren't, and that even non-union members benefit from being in a workplace where employers engage with unions, with 38% of such workers reporting a recent training period compared to 25% of workers in workplaces where employers decline to engage with unions (OECD 2019).

***Recommendation: The Government should begin the introduction of a statutory entitlement to paid training leave for all workers.***

### *2.4 Make progress towards the Living Wage*

The National Minimum Wage (NMW) is €10.20 an hour for an adult aged 20 or over since 1st January 2021. This equates to 83% of the €12.30 an hour Living Wage[3] calculated by the Living Wage Technical Group in July 2020.

This rate falls short of the previous Government's commitment to 'increase the minimum wage to €10.50 per hour *by* 2021'.

The current *Programme for Government – Our Shared Future* commitment to 'progress to a living wage over the lifetime of the Government' is a *de facto* recognition of the inadequacy of the current NMW. The Low Pay Commission is examining how Ireland could move towards a Living Wage, with a report expected to be completed in the second half of 2021.

In the interim, Congress reiterates our March 2021 submission to the Low Pay Commission that the NMW be increased by at least 30 cent an hour to €10.50 from the 1st of January 2022, i.e. to the level committed by the previous Government for 2021.

[3] For a single adult with no dependents, working full-time.

Progression to the Living Wage must also be considered within the context of Ireland's commitments under the European Pillar of Social Rights to fair wages (principle 6), collective bargaining (principle 8) and gender equality (principle 2).

The minimum wage rate must also be considered alongside the negotiations taking place on the Directive on adequate minimum wages, issued by the European Commission in October 2020. This directive seeks to ensure the adequacy of statutory minimum wages by assessing them against the international adequacy indicators of at least 60% of the national median wage and 50% of the national average wage[4]. Crucially, the directive recognises that the best way of achieving this is through collective bargaining, pointing out that

> '…countries with high collective bargaining coverage [i.e. of at least 70%] tend to display a lower share of low-wage workers, higher minimum wages relative to the median wage, lower wage inequality and higher wages than the others.' (European Commission, October 2020).

It should also be noted that the European Commission estimates that Ireland would, in time, see the greatest 'savings of any EU country in expenditure on state supports to low-paid workers with children, amounting to approximately 0.25% of GDP.[5] Furthermore, as the National Women's Council points out, achieving an NMW of 60% of median wages would also reduce Ireland's gender pay gap by 10%.

***Recommendation: Raise the NMW to at least €10.50 in January 2022 as part of the process of moving towards the Living Wage.***

---

[4] These indicators are in fact the same as those accepted by Minister Mary Harney who introduced Ireland's NMW in 2000. The National Minimum Wage Commission in 1998 had recommended the introduction of an NMW of 'around' two-thirds of the then national median wage. This recommendation was accepted by Minister Harney and implemented, albeit after some delay. The European Commission estimates Ireland's NMW of €9.80 an hour in 2019 at around 45% of the national median wage.

[5] Approximately €2.4 billion was spent on the Working Family Payment, which is paid to low-earning workers with children, between 2015 and 2020 (DSP, August 2021, Table G1, p.65).

### *2.5 Ensure that all businesses in receipt of state support respect basic rules and norms*

The period since March 2020 has seen an enormous increase in the (already high) level of state support to business. The new supports include grants, loans, tax deferrals etc. The IMF estimates that tax cuts and business supports amounting to more than €2.2 billion were provided in 2020, with tax deferrals and lending and guarantees amounting to a further €7 billion in Ireland in 2020.

This support is in addition to expenditure on the Temporary Wage Subsidy Scheme (TWSS) and the Employee Wage Subsidy Scheme (EWSS) paid to subsidise the pay of employees in businesses that were affected by the public health restrictions. This support was clearly needed to maintain the economy's productive capacity and the jobs of hundreds of thousands of workers whose employers availed of the TWSS and the EWSS.

But unlike the governments of some other European countries, the Government has not ensured that this support is provided on the condition that benefiting employers respect basic societal rules and norms. Some other European countries have insisted that companies in receipt of Covid-19 state support do not pay dividends or bonuses or engage in share buy-backs, or have explicitly prohibited support for companies domiciled in a jurisdiction that is on the EU 'black-list' of non-cooperative tax jurisdictions. In July 2020, the European Commission adopted an advisory Recommendation on making state financial support to firms conditional on the absence of any links, including by the firm's beneficial owners, with jurisdictions on the EU black-list. Is not clear what, if any, specific action Ireland has taken in response - the Minister for Finance has stated that he is 'not aware whether any companies receiving public supports in Ireland are registered in jurisdictions that are included on the EU list of non-cooperative tax jurisdictions.'[6]

Substantial amounts of state support is given to businesses that refuse to respect the right of their employees to bargain collectively and to businesses who collectively have decided not to engage with the state's industrial relations machinery established by the Oireachtas. At the same time, the Government endorses the adoption of EU recommendations that all eurozone member states, individually and collectively over 2021/2022, take action to 'strengthen social dialogue and collective bargaining'. Furthermore, the new rules for the Common Agricultural

[6] Reply to written question no.27489.21, 25 May 2021

Policy over 2023-27, from which Ireland is expected to receive over €12 billion over the coming years, will promote new 'social conditionality' for primary producers aimed at ensuring compliance with labour law and relevant collective agreements. There is no reason why social conditionality should not also apply for all businesses availing of state support, including tax credits[7], to promote collective bargaining and to guard against tax avoidance.

***Recommendation – All businesses that receive state support must respect basic rules and norms against tax avoidance and promoting collective bargaining, including their full and active participation in the state's industrial relations machinery, as well as commitments to provide decent work.***

### *2.6 Pursue socially responsible public procurement*

The Government spends billions in public procurement from the private sector each year. The programme for government commits to 'evaluating and managing the…social impacts of procurement strategies within the State' (p.25) and to ensure that 'procurement policy for social housing has strong social clauses' (p.56). Socially-responsible public procurement including to promote collective bargaining is possible to varying degrees under existing EU public procurement legislation, but is left to the discretion of member states. Ireland has so far largely declined to avail of the discretion to promote collective bargaining through procurement. Recent research commissioned by Fórsa points out that some countries such as Denmark and the Netherlands have adopted specific measures to promote collective bargaining through public procurement (Eustace, 2021).

Building on the commitment in the programme for government concerning the social impact of procurement, equivalent measures to those adopted in some other high-income European countries should be implemented in Ireland. This would also be in line with Article 9 of the draft Directive on adequate minimum wages.

***Recommendation: Pursue socially responsible public procurement to promote collective bargaining.***

[7] See for example FSU-GWUI Decent jobs in games sector a must

### *2.7 Tackle bogus self-employment*

The November 2020 NESC report *The Future of the Irish Social Welfare System: Participation and Protection* discussed a number of reforms to address the problem of bogus self-employment. These included a single PRSI rate, social dialogue, sectoral employment orders and/or collective agreements focused on the 'dependent' self-employed and/or platform workers. Other potential reforms to help address the problem include the implementation of the Competition (Amendment) Act 2017 enabling trade union representation of 'false or dependent' self-employed, and the establishment of a tripartite group (e.g. the LEEF) or similar body to explore and recommend further effective options to combat 'false' self-employment (NESC, 2020).

NESC also points out (p.99) that the Government had committed in 2019 to develop legislation 'to make it a criminal offence to wilfully misclassify a person as self-employed when he or she is an employee', including penalties and anti-victimisation measures. The Department of Social Protection's *Ministerial Brief, Part b* (June 2020) acknowledged that false self-employment can result in the loss of employer PRSI contributions to the Social Insurance Fund and the 'loss of employment rights protections for employees as employees misclassified as self-employed may believe they cannot pursue a case in the WRC', and it reiterated the commitments given by the Government the previous year.

However, it is not clear what has happened on foot of these commitments since then: in May 2021, the Minister for Social Protection stated that she 'put great value on the Code of Practice on Determining Employment Status', and did not refer to the commitments to develop new legislation.[8]

Ireland is committed under the 2019 EU Recommendation on Access to Social protection for Workers and the Self-employed, to 'preserving the sustainability of the [social protection] system and implementing safeguards to avoid abuse', by submitting a plan by 15 May 2021 setting out 'measures taken at national level'.

[8] Minister for Social Protection's answer to Dáil written PQ no.25945/21, 18 May 2021.

NESC also proposed (p.118) that additional data be collected 'where it would be useful to help deliver key goals of [its 2005 report] The Developmental Welfare State', including on false self-employment.

***Recommendation: Make it a criminal offence to wilfully misclassify a person as self-employed, including through penalties and anti-victimisation measures.***

### *2.8 Reinstate tax relief for trade union subscriptions*

Congress has been advocating for a number of years for the restoration of tax relief for trade union subscriptions previously in place between 2001 and 2010.

The Department of Finance's September 2020 Tax Strategy Group paper on income tax (20/02) included an 'Update on Review of Tax Treatment of Trade Union Subscriptions.

This paper rejected any comparison with the tax relief provided to the self-employed and businesses in respect of subscriptions to business groups such as IBEC and ISME as well as the IFA. It justified the disparity in tax treatment on the grounds that in order for an expense to be deductible for a PAYE worker, it must be incurred 'wholly, exclusively and *necessarily*' by an individual in the performance of the duties of their employment, whereas for a self-employed individual or a business, it must be incurred 'wholly and exclusively' for the purposes of a trade. It's key argument in relation to trade union subscriptions was that 'In the case of IFA subscriptions, this expense may be deducted by the sole trader as it is beneficial to the trade of being a farmer. A similar argument can be made regarding the tax deductibility of subscriptions to IBEC and ISME.' (p. 32).

Temporarily leaving aside the fact that workers join a trade union (i.e. without fear of victimisation) because they also believe that it will be beneficial to them, this line of argument ignores the fact that a considerable number of trade union members are self-employed and that some entire unions or sections of unions are comprised entirely of self-employed workers. This is *de facto* acknowledged by the Competition (Amendment) Act 2017.[9]

[9] This amended the Competition Act 2002, to provide that Section 4 of that Act (which prohibits anti-competitive agreements, decisions and concerted practices) to specify that it shall *not* apply to collective bargaining and agreements in respect of a 'relevant category of self-employed worker', and providing specific exemptions for voice-over actors, session musicians, and freelance journalists.

The fact that self-employed trade union members cannot avail of tax relief that is supposedly provided to all self-employed workers calls into question whether the tax relief that is provided for subscriptions by the self-employed to business organisations and to farming groups is itself justified.

Removing this disparity in the treatment of self-employed trade unions and all other self-employed workers could obviously be achieved by reinstating the tax relief for subscriptions to trade unions.[10]

***Recommendation – Reinstate tax relief for trade union subscriptions***

### *2.9 Ensure social welfare achieves income adequacy and alleviate poverty*

The programme for government states that 'policy decisions throughout the course of the Government will consistently seek to improve living standards for the most vulnerable in society' (p.74).

On foot of another commitment in the programme for government, the Government has established a Commission on Taxation and Welfare in April 2021.

While the terms of reference of the Commission do not explicitly refer to the need to address the issue of income adequacy, they do ask it to consider the November 2020 NESC report on the future of the Irish social welfare system, which does propose 'a 'trajectory for reform' towards ensuring income adequacy and alleviating poverty.

Budget 2022 must act on the commitment in the programme for government to consistently seek to improve living standards for the most vulnerable. Congress has previously called on the Government to increase all welfare payment rates by at least a higher percentage than expected inflation in the following year, and we reiterate this call for Budget 2022. Furthermore, Congress also recommends additional supports for people more at risk of poverty or enforced deprivation than the population at large, including households with older children and households headed by one adult. The Vincentian Partnership for Social Justice

---

[10] Alternatively, it could also be done by abolishing the tax relief that is currently made available for subscriptions to business and farming organisations.

has again highlighted these groups as consistently having the greatest risk and depth of income inadequacy, where social welfare meets less than 90% of Minimum Essential Standard of Living (MESL) need (VPSJ, June 2021).

***Recommendation: Increase all welfare payment rates by at least a higher percentage than forecast inflation in 2022 and provide additional supports for people at the greatest risk of income inadequacy.***

### *2.10 Ensure sustainable pensions*

Congress campaigned for and welcomed the decision to repeal the planned increase in the qualifying age to 67 years in January 2021 and to 68 years in January 2028 as part of the Social Welfare Act 2020, and to establish the Pensions Commission on foot of the commitment in the programme for government.

Congress is taking an active part in the work of the Commission, including by responding to the public consultation on state pensions opened by the Commission early in 2021, and will continue to do so.

Congress therefore reiterates its position as set out in that submission.

***Recommendation: Do not increase the qualifying pension age.***

### *2.11 Retain the Flat Rate Expenses regime*

Congress has been campaigning for a number of years for the retention of the Flat Rate Expenses (FRE) regime for employees, highlighting the already disadvantageous tax treatment of employees compared to the self-employed under the Tax Consolidation Act 1997 and the particularly negative impact that abolition would have on low-paid workers.

The September 2020 Tax Strategy Group paper on income tax included an 'Update on Review of Tax Treatment of Employment Expenses including Flat Rate Expenses'. This sought to justify the disparity in the tax treatment of employee and self-employed expenses on the grounds that whereas for an employee, the 'appropriate level of remuneration' and the 'apportionment of costs' (i.e. expenses) can be '*negotiated and agreed* with their employer', for the self-employed 'the case has traditionally been made that a more *flexible* expenses regime should apply, reflecting the more *flexible* nature of their work' (emphasis added).

The Tax Strategy Group did acknowledge that this assumed an 'equivalence of bargaining power between employee and employer vis-à-vis wages, which may be *especially less apparent* in the case of lower paid workers'.

The Tax Strategy Group paper concluded that 'in the current unprecedented social and economic circumstances the issues that arise from seeking to adjust or withdraw what may be seen as a modest tax benefit, especially from those on lower incomes, need to be carefully weighed.'

Revenue announced in November 2020 that due to the impact of Covid-19, it would defer any changes to the FRE regime until January 2022 pending decisions by the Government on the policy options put forward by the TSG on various matters relating to employment expenses

Congress maintains that the conclusion of the September 2020 Tax Strategy Group paper in relation to the FRE regime as well as Revenue's justification for its decision remain valid.

The disparity in the tax treatment of employees and of the self-employed represents a further inequity in the tax treatment of employees and of the self-employed that incentivises bogus self-employment.

***Recommendation: Maintain the existing Flat Rate Expenses regime.***

# 3. Public Spending Priorities

### *3.1 Housing*

Ireland is continuing to experience a major housing crisis. This crisis is of such a magnitude that it is now giving rise to other societal problems, such as delaying or preventing the retirement of older workers due to continuing high housing costs.

The programme for government commits to 'increase the social housing stock by over 50,000 over the next five-years, the majority of which is to be built by local authorities, Approved Housing Bodies and State agencies' (p.55), and to 'reduce our reliance on the use of HAP for new social housing solutions, as the supply of social and public housing increases' (p.56).

Covid-19 has had a major impact on construction. While projections of housing completions vary, they all suggest that supply will largely fall short of the estimated demand (European Commission, June 2021:9).

Congress continues to advocate for a much more ambitious Government strategy for the construction of public housing on public land. Our February 2021 proposals for Ireland's *National Recovery and Resilience Plan* recommended that almost all of the discretionary spending (i.e. aside from the obligatory allocations for the green and digital transitions) under Ireland's allocation from the EU Recovery and Resilience Plan go towards the construction of A-rated public housing on public land over 2021-2022, to be rented on cost-rental principles. We note that the ESRI now also recommends a significant increase in the provision of publicly-provided housing over the coming years (McQuinn, June 2021).

Congress further argues, in contrast to the commitment in the programme for government to continue to allow the sale of social housing,[11] that public housing remain in public ownership.

[11] Albeit with the requirement that tenant-purchasers be in situ for 10 years, a reduction in the discount to a maximum of 25% and giving Local Authorities the first call on purchase.

The programme for government also committed to holding a referendum on housing but it is not clear what progress if any has been made on this commitment over the past year. Congress therefore urges the Government to fast-track work on this commitment.

***Recommendation: Drastically increase investment in the construction of public housing on public land, and the provision of cost-rental housing. Fast-track work on the referendum on housing.***

### *3.2 Health*

A dysfunctional two-tier health system and the slow pace of reform in introducing Sláintecare meant that Ireland's health system was ill-prepared for the outbreak of Covid-19 in Ireland. In early 2020, the OECD warned that due to the lack of universal coverage as well as the long-waiting times, unmet needs for medical care in Ireland was above the EU average and that Ireland also recorded the highest-bed occupancy rate among EU countries (OECD 2019), while the European Commission warned that Ireland's 'two-tier health system, where those with the ability to pay for treatment privately get faster access to care, including in public facilities, combined with inappropriate use of some hospital resources and the lack of universal primary care, contribute to long waiting times for patients in the public health system' (Commission, 2020).

Congress acknowledges and welcomes the fact that a number of health measures that were previously rejected, largely for ideological reasons, were swiftly adopted and implemented because they were seen as the most effective way of tackling the pandemic. Health workers, including migrant workers, many of whose employment situation is highly precarious, have made an enormous contribution towards ensuring the effectiveness of these measures.

The programme for government states that 'many of the healthcare responses to COVID-19 are important elements of Sláintecare, and we will identify how to keep the gains. Underpinning our approach will be the provision of more health services in the community, increases in capacity, including bed, ICU and critical care capacity, and the promotion of good public health policy' (p.45), and also commits to 'examine, in advance of Budget 2022, appropriate funding measures to support the implementation of Sláintecare' (p.23).

The Government needs to make more rapid progress towards a universal public health system, funded by taxation and free at the point of use. We reiterate our support for Sláintecare, which is needed now more than ever, particularly given its emphasis on the development of community services and on universality.

Budget 2021 saw an estimated €4 billion increase in healthcare capacity, 'partly temporarily and partly permanently (IMF June 2021:6). Further permanent investment is needed, including a substantial increase in funding for supports to help people with mental health issues.

The IMF has now recommended that the Government direct further investment in health (IMF, June 2021:11), while the European Commission has recommended that the Government strengthen 'the coverage, adequacy, and sustainability of health and social protection systems for all' in 2022 (European Commission, June 2021).

**Multi-annual funding and long-term investment**

Funding for the public health service must be provided on a multi-annual basis for longer-term planning and investment in key areas. Funding should include separate budget provision for:

- Future proofing in respect of staffing needs to address ongoing shortages of critical clinical staff, to ensure staff development and coherent recruitment and retention planning;
- For PPE to serve ongoing needs and assist stockpiling of supplies;
- The vaccination programme and staffing needs arising;
- A capital budgeting programme focused on public ownership for publicly delivered health care, including the long-term care system (of which 82% is delivered by the private sector, with the majority of this on a 'for profit' basis);
- De-congregation of hospital and other health care settings to reduce infection transmission.

**Bed Capacity & Waiting Lists**

The 2018 bed capacity report notes that without reform over 7,000 acute beds will be required to cater for projected demand. Even with significant change there will still be a net requirement for "acute hospitals beds in the order of 2,590 in the public system by 2031."

Bed capacity is wholly inadequate, putting severe pressure on public hospitals and emergency departments. Over-crowding raises very serious patient and staff safety issues, which must be addressed through increased bed capacity supported by funded staffing measures. Access to either single or dual occupancy rooms must be determined by patient need and not by cost factors.

Where **private wards** are in existence, these will become available for public usage and help increase capacity. As an interim measure and to ensure all available capacity is realised on a 'needs basis', it will be necessary to remove private services from these wards. Given existing capacity issues, a significant expansion is also required within acute hospital services. Current **residential care** service capacity is inadequate and ensures that people often remain in beds for longer than necessary.

Removing private care from public hospitals will help reduce waiting times and ensure that people are taken from waiting lists in rotation and on the basis of need, not on ability to pay. To ensure equity of access can be maintained, other key issues must be addressed: development of primary care services, universal health care, staffing and funding.

**Equality of Access, Staffing and Primary Care**

The time has come for private practice to be removed from public hospitals. This will lead to a loss of revenue for the State. The resources required following the removal of private practice from public services must be sufficient to ensure the maintenance of adequate staffing at all times, as a priority in delivering safe patient care. Section 4 discusses options for increasing government revenue.

It is imperative that where there is a change in bed designation from private to public, adequate staffing is put in place. This staffing should be based on the Staffing Taskforce and as part of the overall health workforce plan. There must be full funding for the Taskforce on Nurse Staffing reports to ensure staffing is determined as set out in this official policy. This will require a minimum of €20 million each year in 2022, 2023 and 2024.

It is essential that in removing private health care from public hospitals that the underdeveloped nature of current primary care services is addressed. The goal is to develop a primary care health service which works, at a minimum, on a seven-day basis, and is accessible 24 hours a day, in major urban areas.

Congress calls for all health professionals providing primary care services to be directly employed. Privately employed practice nurses must be employed by the State and under the direction and governance of the public health system. This will assist development and expansion of the nursing-led services that are required and proven to benefit patients and reduce costs of care.

**Sláintecare Delivery**

Congress supports the establishment of a single-tier health service funded from general taxation. The preferred funding option set out in the Sláintecare report is through the creation of a **National Health Fund,** which includes a mixture of general taxation and specifically earmarked dedicated funds. Work must urgently start on drawing up the legislation for all areas set out in the report's recommendations, including the Irish (Sláinte) Health Act, which will provide the legislative basis for a universal entitlement to health and social care for everyone living in Ireland. In addition, the Sláintecare Implementation Office must immediately identify all legislation that needs to be amended to ensure the full delivery of the Sláintecare programme and commence work on this, as a priority.

**GP & Constant Contracts**

GPs and consultants must be afforded the opportunity to move from existing contracts to a direct public contract, working on a seven-day roster system, while existing contracts for both GPs and consultants could be retained but not renewed.

The Sláintecare report proposes that public hospitals be used to treat public patients, with private patients being treated in private hospitals. Ultimately, this will require renegotiation of contracts for those consultants who have private practice rights in public hospitals. The report also recommends an increased reliance on primary and community care and the introduction of free at the point of use GP care for all.

**Abolish Private Tax Reliefs**

We must see a phased abolition of all tax reliefs pertaining to private health insurance along with plans to end the contracting of services to provide direct care and a phased ending of subventions to private nursing homes.

**Budget Pooling**

Pooled budgets should be established across primary and social care. As recommended in the Sláintecare report, there should be a phased pooling of funding to support integrated care.

Pooled budgets are seen as critical to the seamless delivery of integrated services as money in the pool loses its health/social identity and staff can decide how the pooled resources are spent across the spectrum of health or social care services.

**Public-Private Relations**

The potential increase in activity in private hospitals may place consequential pressures on critical care in public hospitals. To address the key issues arising from this, there must be a Service Agreement between public and private hospitals which, for example, could grant public hospital access to private facilities for diagnostic imaging services.

***Recommendations – Move towards multi-annual funding of healthcare, increase annual investment in healthcare, expedite delivery of Sláintecare, abolish private healthcare in public hospitals, and eliminate all private tax reliefs.***

### *3.3 Early years*

Ireland's market-based model of early years care and education failed to meet the needs of children, of parents (particularly lone parents), women and of society at large. It left parents paying some of the highest fees in Europe, workers exposed to poor terms and conditions resulting in very high level of staff turnover, and many children failing to receive the quality services that provide the best social investment that any society can make for itself.

Ireland's model was particularly ill-prepared to meet the needs of key workers during a pandemic, which again resulted in the adoption of emergency measures that previously had been rejected, largely for ideological reasons.

The programme for government commits to supporting 'the establishment of a Joint Labour Committee in the childcare sector and the drawing up of an Employment Regulation Order, which would determine minimum rates of pay for childcare workers, as well as terms and conditions of employment'.

This is a positive step and one that the trade union movement has been seeking for many years. The Government needs to go further. It should retain the emergency model adopted for the early years' sector in response to the Covid-19 pandemic, with decent employee compensation in this sector paid by the Government, with parents only paying non-labour costs, and fees regulated by the Government.

As recommended by the early years' coalition involving SIPTU, the Women's Council and others, Budget 2022 should introduce a €75 million affordability package and a €75 million professional pay package to move employees towards the entry level of the Mercer Pay scales.

***Recommendation: Introduce a €75 million affordability package and a €75 million professional pay package to move employees towards the entry level of the Mercer Pay scales.***

### *3.4 Education*

The NERI has previously drawn attention to Ireland's considerable under-spend on education on a per-pupil basis at all three educational levels relative to other high-income European countries. OECD Education at a Glance reports indicate that primary school classes in Ireland are the second highest among (11 peer) high-income European countries. The underspend is particularly large at third level, where Ireland spends less than 60% of the average of other high-income European countries. Under-investment in education represents a significant policy failure with serious long-term negative implications for economic growth, as highlighted by the NERI (Goldrick-Kelly, Mac Flynn and McDonnell, 2020).

There needs to be progressive increases in capitation per student for both primary and post-primary students, and a substantial increase in funding in third level, including in the Institutes of Technology and the emerging Technological University sector, as well as for increased access (i.e. transfer and progression) routes between further and higher education. More needs to be done to encourage more students from traditionally under-represented target groups into higher education. In addition, teacher education should be incentivized through the payment of students in their final year.

The pandemic exposed historic underspending on ICT in schools, with a lack of devices for pupils and training for staff particularly evident. There needs to be a continuation of Covid supports to all sectors of the education system, including ECCE, for at least the 2021-2022 academic year.

The IMF has highlighted that the impact of the pandemic on the Irish labour market has disproportionately affected people with lower education levels, and has recommended that the Government direct more investment to physical and social infrastructure, including in education (IMF, June 2021).

Eurostat data indicates that the proportion of young people neither in employment nor in education or training ('NEETs') rose from 10% in 2019 to 12% in 2020, and is now above the EU-27 average of 11% for the first time in a number of years, and well above the rates of other high-income European counties such as the Netherlands (4.5%) and Sweden (6.5%).

Just 53% of Irish individuals (aged 16-74) report having basic or above basic digital skills, below the EU-27 average of 56% and well below the rates of 79% in the Netherlands and 76% in Finland. In addition, the proportion of Irish adults who reported taking part in education and training over a four-week period was 11% in 2019, above the EU-27 average of 9% but again well below the highs of 28.6% in Sweden and 27.6% in Finland. The new 10-year strategy for adult literacy, numeracy and digital literacy must lead to increased investment to improve literacy, numeracy and digital literacy. While Ireland's early school leaving rates remain low by European standards, higher rates are recorded for marginalised groups, particularly members of the Travelling community. There should be a substantial increase in School Completion Programme (SCP) and DEIS provision, staring with the progressive roll-out of the Home School Community Liaison Scheme to all schools, and not just DEIS schools. Capital investment in buildings in the Youthreach sector also needs to be increased.

Investment in education more than pays for itself economically, by increasing the productive capacity of the economy. Given that Ireland already lags peer countries both in spending and in many areas of performance we need to significantly increase investment in education at all levels, including to progressively reduce the pupil teacher ratio at all levels, and the student-lecturer ratio to the OCED average. Specifically, investment on a pupil/student basis needs to move towards at least the average of other high-income western European countries. In short, if we want to increase the long-run productive capacity of the economy, we need to significantly increase the amount of money we spend per pupil on education.

There also needs to be an expansion of pastoral supports in schools, such as year heads and guidance.

This also means planning for the future. The numbers of pupils and students in primary, post-primary and tertiary education have risen significantly in recent years and are expected to continue to rise in post-primary and tertiary education, until at least the middle of this decade. At primary level, this represents an opportunity to reduce class size and increase per capita funding.

Finally, we need to considerably increase investment in apprenticeships, particularly in specific sectors such as construction.

***Recommendations: Start to increase per pupil spending to peer country norms, focusing investment on reducing class sizes, reducing the digital divide in education, further lowering the early school leaving rate particularly for disadvantaged pupils, and on raising digital skills and adult training levels. Increase funding for third-level and to improve access routes. Increase spending on construction related apprenticeships.***

### *3.5 A Just Transition towards decarbonisation*

The commitment in the programme for government to achieve a 51% reduction in overall greenhouse gas emissions by 2030, and to achieve net zero emissions by 2050, are the very minimum that Ireland must do to ensure we play our part in addressing the climate crisis. Ambitious programmes to decarbonise the economy must form part of Budget 2022. However, we remain concerned about the limited recognition in the programme for government for workers affected by decarbonisation.

Research by the NERI indicates that the five economic sectors that produce approximately 80% of Ireland's (territorial) non-household emissions employed approximately 185,000 workers, or approximately 1 in 12 of all workers[12] (Goldrick-Kelly and Nugent, 2020). Some of these sectors are concentrated in specific regions such as peat production in the Midlands and agriculture and food processing in the Border, Midlands and Mid-West.

The actual impact on employment will depend on the measures taken to reduce emissions. NESC (March 2020) estimated that an increase in Ireland's carbon tax to €80 a tonne by 2030 would result in a gross loss of over 7,200 jobs by 2030, with the largest proportionate job

[12] These are *Crop and animal production, hunting and related service activities*; *Electricity, gas, steam and air conditioning supply*, *Manufacture of other non-metallic mineral products; Land transport and transport via pipelines; Sewerage, waste management, remediation activities*

losses occurring in peat (-12%), natural gas supply (-11.8%), petroleum (-11.2%) and transport (-4.8%). The programme for government commits to increase the carbon tax to €100 per tonne by 2030, to be achieved by an annual increase of €7.50 per annum to 2029 and €6.50 in 2030. The impacts on jobs should therefore be greater than estimated by NESC.

NESC did estimate that the impact on job losses could be reduced if the carbon tax revenue were recycled. The programme for government does commit (p.23) to legislate to hypothecate all additional carbon tax revenue into a Climate Action Fund raising an estimated €9.5 billion over the next ten years, to be used on targeted social welfare (€3 billion) 'and other initiatives to prevent fuel poverty *and ensure a just transition'* (emphasis added). Funds raised from the Carbon Tax should be ring fenced to create a dedicated '*Just Transition Job Creation, and Income and Poverty Protection Fund'*.

It is not clear however what proportion of the carbon tax revenue will be invested in ensuring a just transition for workers. This needs to be clearly set out in Budget 2022 in order to determine whether the proposed measures will address the needs of affected workers. This is also crucially important to ensure public support for decarbonisation. The OECD has recently pointed out that public acceptability of environmental taxes increases 'if corresponding tax revenues are earmarked for environmental or social measures' (OECD 2021, 38).

At the same time, the Government must also follow through on the broader commitments in the programme for government concerning the just transition, including to prepare a Just Transition Plan, 'to frame the work of a permanent Commission for Just Transition, and to identify and prepare for challenges that will arise in a number of sectors and regions', and to put the Just Transition Commissioner on a statutory footing. It is committed under the EU Just Transition Regulation to publish a 'territorial just transition plan' in order to draw down Ireland's allocation of approximately €77 million under the EU Just Transition Fund regulation.

**Just Transition needs Social Dialogue**

In accordance with international treaty obligations and commitments entered into, and in line with the recommendations set out by NESC on this issue, the Government must establish structured social dialogue on the transition process in the form of a *National Just Transition Commission*, to be specifically tasked with developing an agreed national framework for the Just Transition process in Ireland. The Commission would comprise representatives of government, trade unions, employers and civil society - with additional expertise as required - and would draw up the necessary plans and policies, identify the resources required and oversee the implementation of the Just Transition process nationally. It would report regularly to the Oireachtas Committee on Climate Action, and its work should be carried out in accordance with the ILO''s guidelines for a just transition (ILO 2015).

The focus of the Commission's work would be on maximising job creation/job retention and prioritising decent work and skills development. This would include guidance on new *Emission & Employment Impact Statements* to be developed across each sector. These statements would set out the likely job losses and job creation opportunities arising from emission targets and reductions in each sector. They would inform the setting up of Sectoral Dialogue processes and structures (i.e. energy, manufacturing, construction, transport etc), to bring together all key stakeholders to identify employment opportunities, training/reskilling plans and investment opportunities. Priority would be given to those sectors and regions most impacted or vulnerable, or where there is a known/planned date and timeframe for the closure of power plants or other key components of energy infrastructure (i.e. Moneypoint or the Derrinlough Briquette Factory). In these instances, work should commence immediately on devising the plans and supports to assist the workforce and the wider community in the transition process. Support and resources for at-risk enterprises should be contingent on their participation in national/or sectoral dialogue, as appropriate. National and sectoral transition plans would be subject to regular review and revision, with agreed targets and progress reports issued on an annual basis.

***Recommendation: Ring-fence the carbon tax for just transition spending e.g. job creation, re-skilling and poverty proofing. Establish a National Just Transition Commission - based on social dialogue – to develop and oversee a national just transition framework.***

### *3.6 International obligations*

The programme for government retains the previous Government's commitment to reach the UN Overseas Development Aid (ODA) target of 0.7% of GNI by 2030, and states that a monetary expenditure floor will be set on the basis of 2019, to be calculated over a rolling current three-year average.

Congress reiterates its commitment to achieving a target of at least 0.7% of GNI by 2025 at the latest. This should be done by legislating for the 0.7% target. In addition, Ireland should also aim to achieve the UN target of at least 0.15% of GNI going to the Least Developed Countries (LDCs) in line with SDG 10.b, prioritise the attainment of SDG 8 promoting decent work, and support debt cancellation and debt restructuring for poorer countries, particularly as they seek to tackle and overcome Covid-19.

In this regard, Ireland should increase its support to Covid-19 Vaccines Global Access (COVAX), the international effort to ensure global supply and access to COVID vaccines, and provide additional funding to increase the global manufacturing capacity of vaccines over and above what is already committed through the Team Europe initiative.[13]

***Recommendation: Make real progress towards ensuring that at least 0.7% of GNI goes to ODA by 2025. Increase Ireland's contribution to Covid-19 Vaccines Global Access (COVAX).***

[13] The Minister for Foreign Affairs told the Oireachtas Joint Committee on Foreign Affairs, Trade and Defence on 14 November 2020 that Ireland had allocated over €140 million to the global Covid-19 response 'to date'.

## 4. Paying for it: A Sustainable Revenue Base

### *4.1 Comparing revenue bases*

There is no immediate cause for concern about the sustainability of the public finances. Eventually public spending and government revenue will have to become much more closely aligned. The necessary social and economic investments identified in the earlier sections of our submission will require a much broader and more resilient base for government revenue. Even so, major initiatives to increase revenue should wait until the economy is in recovery. On the other hand, the plan to cut taxes in each of the next four budgets should not proceed.

Budget 2023 is the correct time to begin a multi-year process of gradually increasing annual per capita government receipts from taxes and social contributions. Of course, certain targeted reforms that increase taxes are still desirable in Budget 2022, for example reforms to the system of tax expenditures and to the taxation of capital stocks. Increasing taxes in these areas will not in any way impede the economic recovery.

**Table 4.1: Aggregate Taxes and Social Contributions as a percentage of national output in 2019, (GDP and GNI*)**

| | Taxes/SSCs (% output) | Gap (%) | Gap (€bns) |
|---|---|---|---|
| EU (GDP) | 39.1 | | |
| Ireland (GDP) | 22.1 | | |
| Ireland (GNI*) | 36.8 | -2.3 | -4.7 |
| **Consumption** | | | |
| EU | 11.1 | | |
| Ireland (GNI*) | 11.3 | +0.2 | 0.4 |
| **All Capital** | | | |
| EU | 8.4 | | |
| Ireland (GNI*) | 9.4 | +1.0 | 2.1 |
| **Capital Stocks** | | | |
| EU | 2.7 | | |
| Ireland (GNI*) | 2.2 | -0.5 | -1.1 |
| **All Labour** | | | |
| EU | 19.5 | | |
| Ireland (GNI*) | 16.0 | -3.5 | -7.5 |
| **Labour** (paid by employers) | | | |
| EU | 7.6 | | |
| Ireland (GNI*) | 4.3 | -3.3 | -7.0 |

**Sources**: European Commission Data on Taxation; CSO National Accounts; Author Calculations

**Notes**: EU data includes the UK as it was still an EU member in 2019. The 'gap' refers to the percentage point gap between revenue in Ireland (% of modified GNI) and revenue raised in the EU (% of GDP). A positive gap means that Ireland raises more revenue than the EU average. Figures do not add up due to rounding and double counting.

An important question we need to consider is whether combined taxes and social contributions in Ireland are high or low relative to other Western European or to other EU countries. If they are already high, then this may suggest limited scope for generating additional revenue. On the other hand, if government revenue is relatively lower than in peer countries, we can infer that there may be significant scope to increase government revenue without generating any negative economic effects.

GDP is often used in comparisons of different countries tax ratios and revenue capacities. However, GDP is of limited value as a comparator for Ireland. This is due to the enormous multinational tax planning related distortions to Ireland's headline GDP. Instead, we can use Ireland's GNI* as a proxy for its revenue capacity.

Table 4.1 shows that cumulative taxes and social security contributions (SSCs) in Ireland (% of GNI* basis) were below that of the EU average (% of GDP basis) in the last pre-pandemic year of 2019. In that year the gap to the EU average was equivalent to €4.7 billion on an annual basis. This suggests that there is indeed significant scope to increase total government revenue over the short-to-medium-term.

### *4.2 Consumption taxes*

Table 4.1 shows that Ireland generates relatively large amounts of revenue from **consumption taxes** (this is mainly VAT and Excises), while Table 4.2 shows that Ireland has a high effective or Implicit Tax Rate (ITR) on consumption.[14] In particular, Ireland is an outlier in its very high receipts from Excise taxes e.g. on alcohol and on tobacco, reflecting the interplay between fiscal policy and health policy. The academic literature shows that consumption taxes on necessities are generally regressive, meaning that these taxes disproportionately fall on lower income households.

An important policy implication is that there may be limited scope to introduce net increases on consumption taxes in a manner consistent with progressivity, unless the increases are restricted to luxury goods. This in turn has implications for our ability to manage a just carbon transition through increases in pollution-based taxes such as carbon taxes.

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

One option would be to have any carbon tax increases offset by cuts to VAT on necessities. Alternatively, carbon tax increases could be offset by increasing social protection payments and/or by hypothecating (earmarking) carbon tax receipts for green public transport subsidies, for retrofitting subsidies for low-income households and for a re-skilling fund for workers made unemployed due to government decisions related to the zero-carbon transition. While earmarking of tax revenue is not necessarily efficient, public acceptability of environmental taxes such as carbon pricing may increase if corresponding tax revenues are earmarked for environmental or social measures.

A final point is that higher taxes on consumption could generate progressive and growth enhancing outcomes if the revenue is then used to reduce the cost and expand the provision of universal basic services such as public housing, childcare, eldercare, education, health and public transport.

**Table 4.2: Implicit Tax Rates in 2019 (aggregate effective tax rates by type of activity)**

| | | |
|---|---|---|
| **Consumption** | | |
| EU | 17.0 | |
| Ireland | 19.7 | |
| **Capital** | | |
| EU | 23.6 | |
| Ireland | 14.1 | |
| **Labour** | | |
| EU | 36.2 | |
| Employee | | 20.6 |
| Employer | | 15.6 |
| Ireland | 33.5 | |
| Employee | | 24.3 |
| Employer | | 9.2 |

**Source**: European Commission Data on Taxation

**Note**: Data for 'Capital' is for the median country.

### *4.3 Capital taxes*

Ireland also generates relatively large amounts of revenue from **capital taxes**. However, Ireland's current level of revenue is being distorted upwards due to the extremely high receipts that are currently being yielded from corporation taxes. It is highly unlikely that current corporation tax yields are remotely sustainable given the increasing international pressure for greater tax justice and for a fundamental reform of the taxation of multinationals.

Table 4.1 and Table 4.2 offer a nuanced picture for taxes on capital. Table 4.1 suggests that receipts from taxes on capital are high. As it happens, this is a function of the relatively large proportion of capital income in Ireland relative to Irish GDP, and the commensurately elevated receipts from corporation tax. On the other hand, Table 4.1 also shows that taxes on wealth and property (capital stocks) are comparatively low. Table 4.2 similarly suggests that effective tax rates on capital are relatively low. The disparity with Table 4.1 is explained by the distorting impact of multinational tax planning on Ireland's economic data, and in particular on the amount of capital income.

In terms of economic growth, OECD research[15] makes clear that the most growth friendly taxes are taxes on capital stocks (wealth) and property, and in particular taxes on immovable property. In addition, these taxes are generally progressive if properly designed. Household wealth tends to be much more unequally distributed than household income. Table 4.1 suggests that Ireland's 'under-taxation' of capital stocks (i.e. wealth) relative to other EU countries was in the order of €1.1 billion in 2019. The NERI[16] has made a series of proposals for reforming the taxation of capital stocks. In particular, the NERI proposes that government should introduce a tax on net household wealth in excess of €1 million, and should phase out the various reliefs associated with the Capital Acquisition Tax and the Local Property Tax.

It is the view of congress that these forms of taxation (e.g. LPT on non-principal residences, new and higher taxes on net wealth and wealth transfers, elimination of tax breaks and exemptions related to capital stocks) offer the most promising 'low hanging fruit' for increasing government revenue in the short term. Congress believes that Ireland's under-taxation in this area should be eliminated as soon as possible (i.e. starting in Budget 2022) with further revenue gains desirable and achievable over the short-to-medium-term.

However, such reforms, while eminently desirable and justifiable from both an economic and an inequality perspective, can only form a modest component of restoring the public finances to a sustainable path as the potential yields from these tax types is relatively small. The

[15] OECD (2008) *Do Tax Structures Affect Aggregate Economic Growth? Empirical Evidence from a Panel of OECD Countries,* OECD Working Paper No 643

[16] McDonnell, T. (2019) *Taxing Property: Suggestions for Reform*, July 2019, NERI Working Paper No 63

government should introduce measures to increase taxes on capital stocks in Budget 2022. Such measures would have almost no employment impact.

### *4.4 Labour taxes and social contributions*

There is one inescapable fact that emerges from Table 4.1 and Table 4.2. Combined taxes and social security contributions (SSCs) from labour income are very low by EU standards. Specifically, Table 4.1 shows that the low level of social security contributions (PRSI) from employers accounts for the entirety of the nominal gap between Ireland and the EU average. On the other hand, Table 4.2 illustrates that while implicit taxes on labour income are low, the combination of effective taxes and SSCs paid by employees is *not* low when considered in aggregate across the economy.

In other words, the gap in labour taxes is explained the relative absence of employer payments in Ireland. Income from self-employment is another area that is taxed relatively lightly in Ireland.

Thus, by far the greatest scope to increase government revenue (in the sense of exploiting areas of relative under taxation) is via increases in employer PRSI and to a lesser extent self-employed PRSI. It is the Congress view that significantly increasing employer PRSI must form an essential component of public finance stabilisation and of equitably dealing with long-term economy-wide transitions such as ageing and the move to a zero-carbon future.

Even so, the current period of economic uncertainty and high unemployment is not the right time to introduce significant discretionary measures to increase revenue from labour. This would hamper the speed of the recovery. Instead, we propose that the major bulk of reforms in this area are better timed for when the economic recovery has been embedded. Thus, the process of gradually increasing employer PRSI should begin in earnest in Budget 2023.

However, one option for accelerating this process and which Congress supports would be to increase employer PRSI for the proportion of wages in excess of €100,000. Such a measure would have almost no impact on the generally lower paid economic sectors that have been most affected by the pandemic, but would nevertheless generate significant revenue.

### *4.5 Congress revenue proposals*

Over the medium term there will need to be significant reforms on the revenue-side in order for us to address the chronic underfunding of public services and in order to implement the transition to a zero-carbon economy in a manner consistent with climate justice.

In addition to the measures already identified in this section, Congress is of the view that the new Commission on Taxation and Welfare should undertake a comprehensive item-by-item review of the system of tax expenditures (tax reliefs). Tax expenditures are a form of hidden public spending that tends to deliver larger benefits to higher income households. The Combat Poverty Agency pointed out that the impact of these types of relief is to undermine the principle that people should pay tax in proportion to their ability to pay. [17]

In addition, because tax expenditures narrow the tax base, it is necessary to either set tax rates higher or to reduce the provision of public services and social transfers. Tax expenditures often have significant deadweight costs and can distort economic activity – as was evidenced by their role in the pre-2008 asset boom. All tax expenditures should undergo regular rigorous and transparent cost benefit analyses that consider environmental and equity impacts and all tax expenditures should also have a built-in sunset clause of no longer than three years.

Overall, Congress is proposing a number of measures on the revenue side:

- Our view is that reforms to capital taxation should begin in 2022. Specifically, Congress propose the introduction of:
    - A net wealth tax on households with net assets worth more than €1 million
    - Greater tax contributions from inherited wealth (reforms to the CAT rate and to the system of CAT related tax expenditures)
    - An increase in the rate of the LPT in Budget 2022, as it applies to non-principal residences and to properties worth in excess of €1 million
- In relation to taxation of labour, Congress proposes that:

[17] Combat Poverty Agency (2005) *Submission to the Department of Finance on the Review of Tax Reliefs and Exemptions on High Earners*

- Reforms to social insurance should start in 2022 with an increase in employer and self-employed PRSI on those earning in excess of €100,000
- Social Security Contributions (PRSI in Ireland) forms part of every worker's social wage. Social insurance helps protect workers in the event of loss of income related to inability to work or to find employment. Our view is that the scale and sufficiency of Ireland's PRSI system should be brought fully into line with that of Western European norms over the medium-term (3 to 6 years)

- In relation to taxation of consumption, Congress proposes:
  - Increases to excises on pollution (e.g. diesel, cars, packaging and single-use plastics) as well as on other activities and items associated with negative health or social outcomes (e.g. tobacco and betting).
- In addition, Congress propose a review of the system of tax expenditures to eliminate unjustified or overgenerous measures and improve the equity of the tax system.
- Finally, the plan to cut taxes in each of the next four budgets should be abandoned.

## References


Eustace, Alan (May 2021) *Collective Benefit – Harnessing the power of representation for economic and social progress*

DSP (July 2020) *July Stimulus – Social Protection*

DSP (August 2021) Statistical Information on Social Welfare Services - Annual Report 2020

Department of Finance (September 2020), *Tax Strategy Group Papers, TSG 20-02 Income Tax*

Department of Health (January 2018), *Health Service Capacity Review*

Department of Social Protection (November 2020), *Short-Time Work Support*

McQuinn, Kieran (June 2021), *With 'g' greater than 'r' should we be borrowing to increase Irish housing supply?*

European Commission, (December 2020), *Establishing the Brexit Adjustment Reserve*

European Commission (May 2021), Commission Notice, *Buying social – a guide to taking account of social considerations in public procurement, 2nd edition*

European Commission (June 2021), *2021 Stability Programme of Ireland*

Goldrick-Kelly, P. and Nugent, C. (2019) Matching Skills needs with skills reserves: protecting workers and communities for a Just Transition NERI Working Paper Series, NERI WP 2019/N065, Dublin: NERI.

Government of Ireland (2020), *Programme for Government – Our Shared Future*

Government of Ireland (July 2021) *Summer Economic Statement*

ICTU (May 2020), No Going Back

ILO (2015), *Guidelines for a just transition*

IMF (June 15 2020), *Kurzarbeit: Germany's Short-Time Work Benefit*

IMF (June 2021), *Ireland 2021 Article IV Consultation*, IMF Country Report No. 21/123

NESC (March 2020) *Addressing employment vulnerability as part of a just transition*

NESC (November 2020), *The Future of the Irish Social Welfare System: Participation and Protection*

OECD (November 2019), *Negotiating Our Way Up: Collective Bargaining in a Changing World of Work*

OECD (February 2020), *Economic Surveys Ireland 2020*

OECD (March 2021) *Towards a people-centred green transition*

Vincentian Partnership for Social Justice (June 2021), MESL Pre-Budget 2022