SIPTU

Services Industrial Professional & Technical Union

Squeezing the Social

Budget 2022

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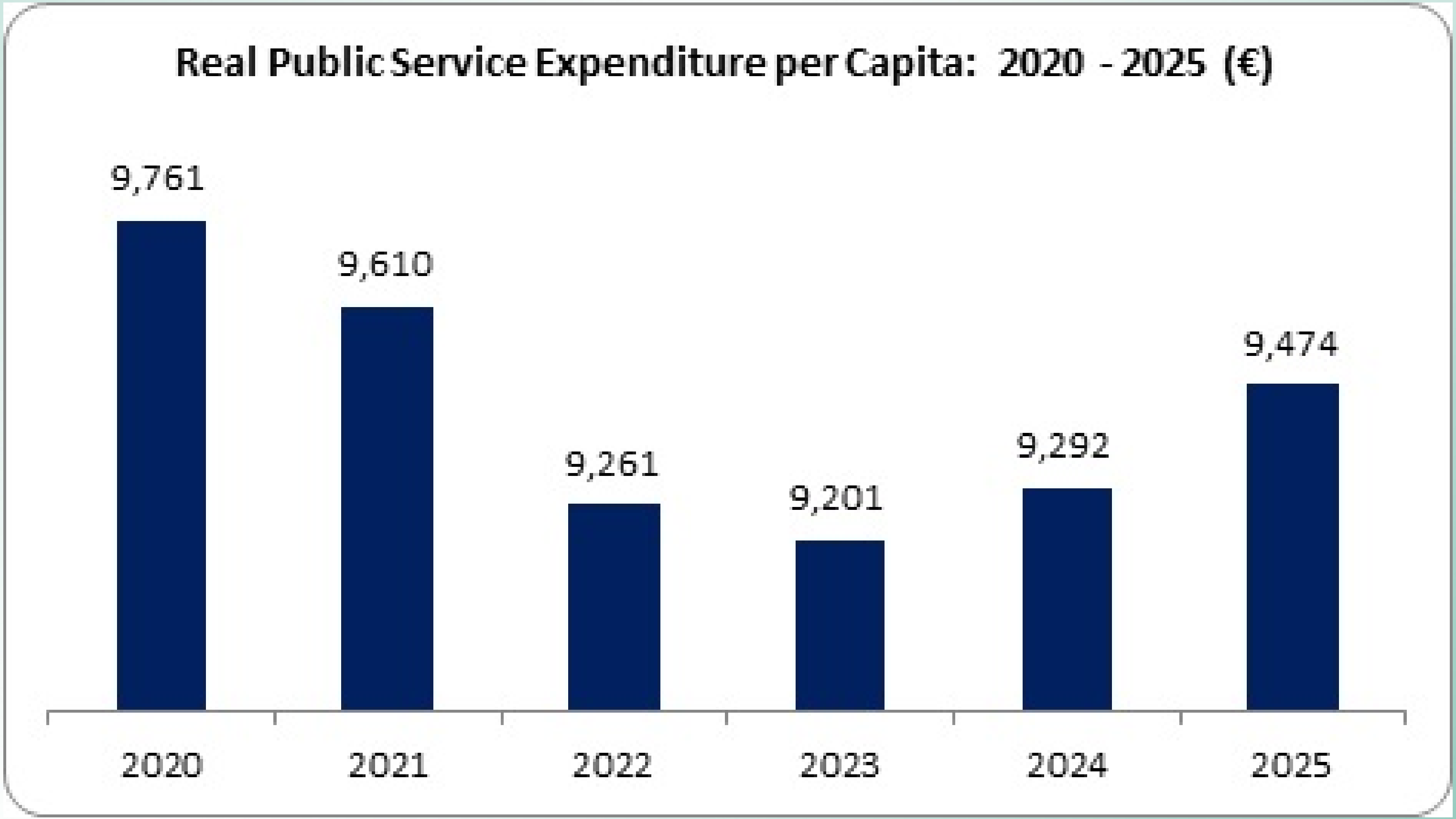
Fiscal Rollercoaster

- It's been quite a fiscal rollercoaster ride this year.
- In April, in the Stability Programme Update, the Government projected a small deficit of €800 million, or -0.2 percent of GDP in 2025.
- Then in the Summer Economic Statement, the Government revised this projection downwards to a deficit of €7.4 billion, or 1.5 percent of GDP.
- In last week's budget, the Government revised this again – a surplus of nearly a €1 billion, or 0.3 percent of GDP.
- This turnaround has occurred because of a sharp post-pandemic recovery resulting in higher tax revenue and lower expenditure – namely, unemployment payments.
- So what's wrong with that? Isn't a balanced budget a good thing? Here's the rub. Current spending is being squeezed, in order to pay for a balanced budget.

Spending on Public Services



Squeezing the Social

- While public service expenditure – in particular, on the health sector - experienced a dramatic increase in 2020 owing to the pandemic (11 percent), the Government intends to keep future increases at or below the rate of inflation.
- A similar process is at work in Social Payments which will fall 15 % in real terms between this year and 2025. Much of this is due to the fall in unemployment payments. However, from 2022 on, the increase in pensioner numbers will be greater than the fall in unemployment – yet Social Payments spending continues to decline. Something has to give.

Projected Real Expenditure on Social Payments: 2020 – 2025

	2020	2021	2022	2023	2024	2025
Real Expenditure (€ million)	38,530	37,450	32,839	31,559	31,769	31,744
% of GNI*	18.5	16.7	13.9	12.8	12.5	12.0

Bright Spot

- The one bright spot is the growth in public investment – increasing over 60 percent in real terms up to 2025.
- However, the NDP's buffet approach doesn't give one confidence.
- And the IMF has found that there is a public investment efficiency gap of 58% compared to advance economies.
- Fiascos like rural broadband and the children's hospital could quickly burn through the investment budget.

Public Investment: Real Expenditure 2020 – 2025 (€ million)

2020	2021	2022	2023	2024	2025
8,785	9,487	11,187	12,873	13,700	14,248

Squeezing the Social

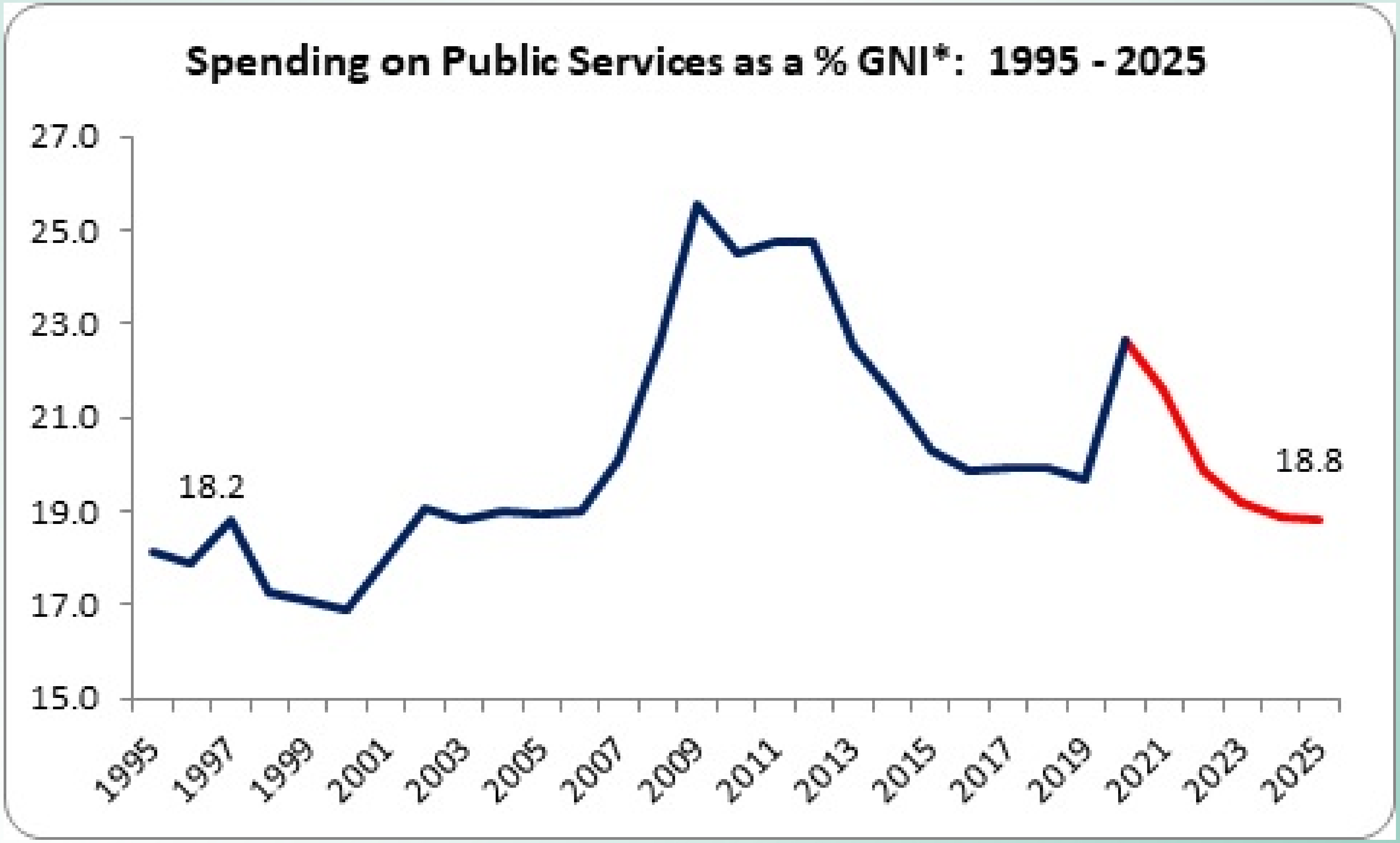
- Primary government expenditure will flat-line between 2020 and 2025.
- In essence, we will see public services and social protection paying the price for a balanced budget.

Primary Spending 2020 and 2025			
	2020	**2025**	***%***
Real Primary Spending (€ million)	99,393	101,190	*1.8*
Real Spending per capita (€)	19,902	19.329	*(-2.9)*

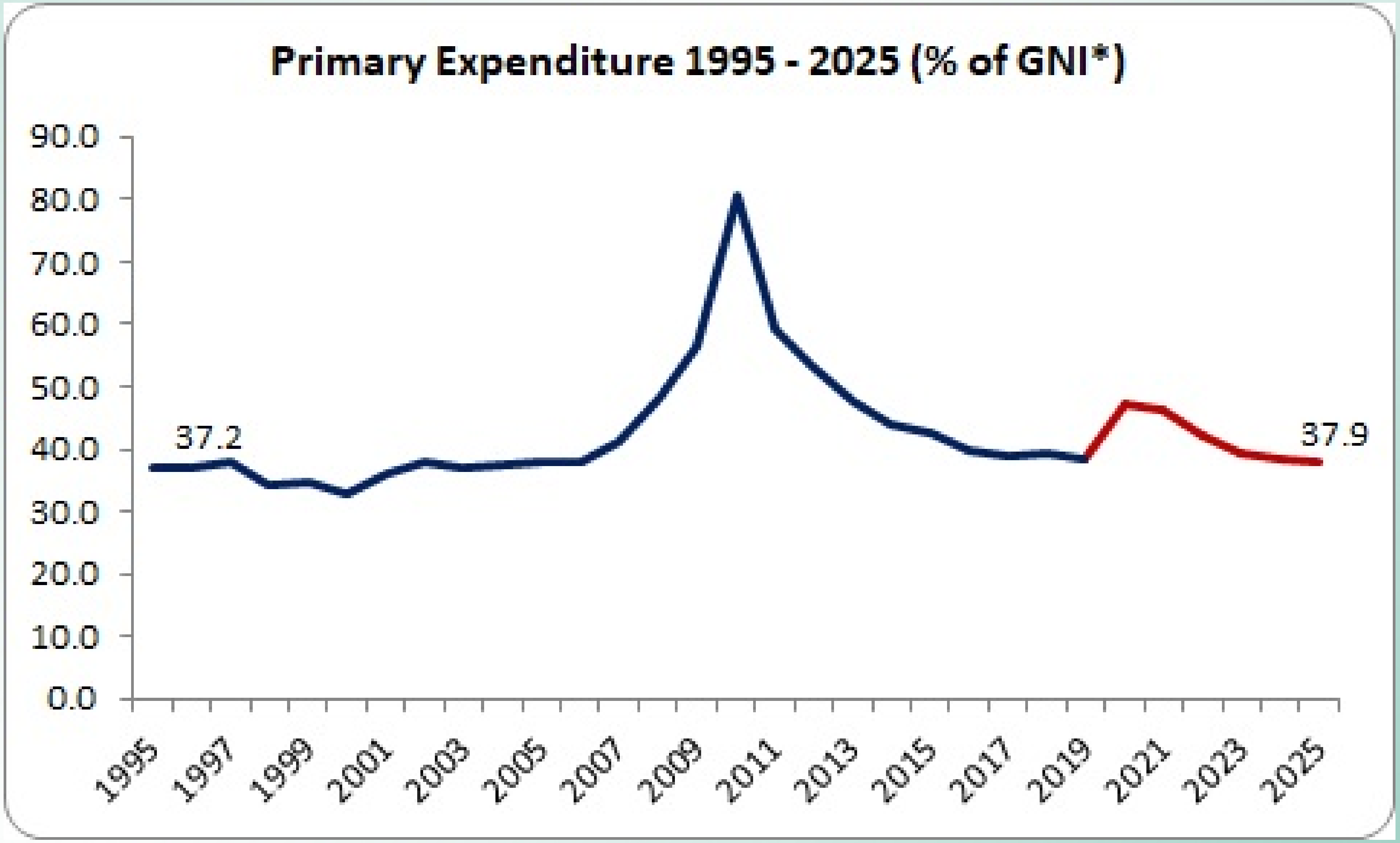
No Big State, No Utopia

- In 2020 there were significant increases in expenditure. As noted public services spending increased by 11% while social payments increased by 24%. Overall spending increased by 19%. Big increases to reflect the severity of the public health crisis.
- The Government will be pulling back these increases by maintaining expenditure in real terms over five years.
- This will be facilitated by a public debate that assumes that Ireland is already a 'Big State', or that we are becoming a 'Big State' – that public spending and taxation has already grown to new, unprecedented heights. One newspaper headline asked: '*'How are we going to pay for the Irish big state utopia?'*
- This is utterly untrue. All the evidence available from the Government projections show that we will continue to operate under a low-tax, low-spend, low-service model.

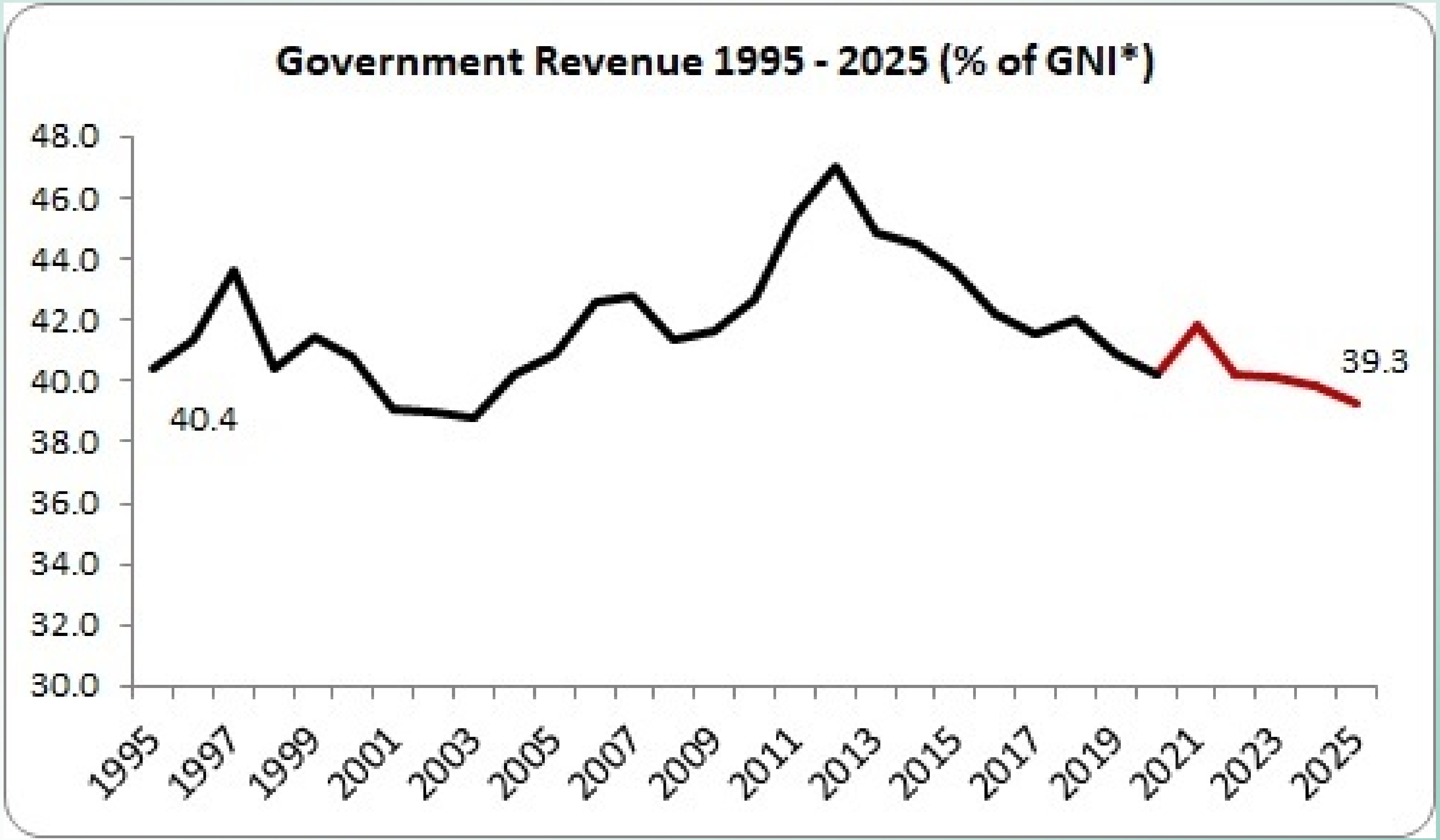
Spending on Public Services



Total Primary Spending

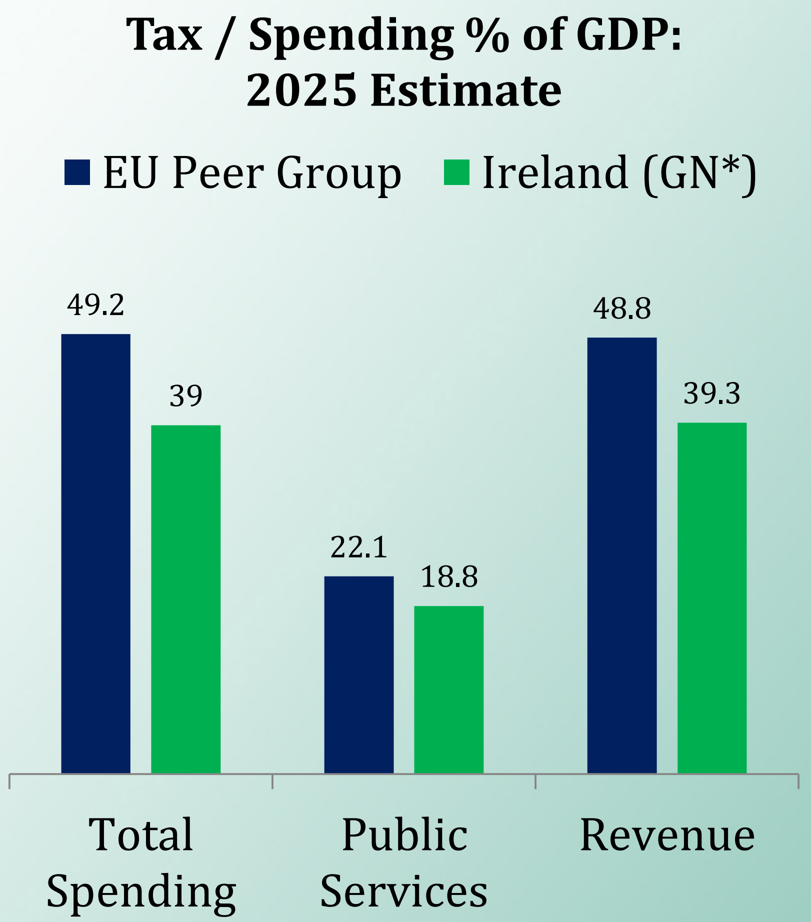


Government Revenue



EU Comparisons

- Spending and taxation are returning to pre-crash levels – a period that could not be described as 'big state'.
- Another way to test this thesis is to compare tax/spending with our EU peer group (other high-income economies).
- Ireland lags behind our peer group. Even if we account for older age demographics (without accounting for our youth demographic) we'd have to spend approximately €10 billion with €7 to €8 billion more on public services.



IMF Projected Debt Levels: 2025

- In 2025 Irish debt levels are projected to be lower than the Eurozone average. Given that Ireland's debt carries the additional burden of the banking crisis (namely, Anglo Irish and Irish Nationwide), this is a good performance.
- This projection contrasts with much of the commentary that effectively scare-mongers over Irish debt levels.

Further and Faster

- The Government is moving further and faster than what is required by the (currently-suspended) Fiscal Rules.
- The Rules allow for a structural deficit of 1 percent.
- There is no requirement for a balanced budget.

General and Structural Budget Balance: 2021 – 2025 (%)

	2021	2022	2023	2024	2025
GGB	-3.1	-1.8	-0.2	-0.1	0.2
SBB	-0.2	-0.2	-0.1	0	0.2

An Alternative Approach: Fiscal Manoeuvre

- An alternative fiscal strategy would max out the fiscal limits. SIPTU has proposed a 2% deficit by 2025. But even using the limits of the Fiscal Rules, this would raise considerable resources for investment in the social infrastructure.
- Using GNI* we could spend from €2 billion in 2022 to €3.4 billion in 2025 (static calculation)
- Using GDP, spending would nearly double

Additional Revenue Using Fiscal Rules SBB Target: 2022 – 2025 (€ billion)

	2022	**2023**	**2024**	**2025**
GNI*	1.9	2.3	2.7	3.4
GDP	3.7	4.4	5.1	6.5
Total Additional Revenue: 2022 - 2025				
GNI*	10.3			
GDP	19.7			

Alternative Approach: Facilitate Revenue Increases

- Fiscal manoeuvre and deficit spending is not intended to fund all the necessary measures in the social infrastructure (public services, social protection). This will require increases in government revenue.
- Using the Fiscal Rules parameters allows us to phase-in revenue increases to limit disruption and negative impacts. For instance, there is a clear need to increase employers' social insurance. However, this should be phased in over a long period in almost homeopathic annual increases, rather than ramping it up in pursuit of an unnecessary balanced budget.
- Social need requires an urgent policy response. Revenue increases will (and should) lag, ensuring they are consistent with economic growth the evolution of the economic cycle. Fiscal manoeuvrability allows this to occur.

It Starts with the Fiscal

- From a reading of the budget projections, the Government appears intent on maintaining the low-tax, low-spend, low-service economy. Of course, they could be giving themselves some room for movement, knowing they cannot meet their fiscal targets without impacting on public service and social expenditure. But just as likely they could make room for tax cuts.
- The Government's starting point is to maintain a small state – not create a big state, or a social state.
- In the years ahead, people will rightly criticise the government's response to actually existing social conditions. However, the main issue will not be one of prioritisation or increasing taxes on 'the rich'.
- It will be the unnecessary, premature and damaging drive to balance the budget in the short-term. That is what we must address.

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