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Services Industrial Professional & Technical Union

Budget 2023: 3 Days Later

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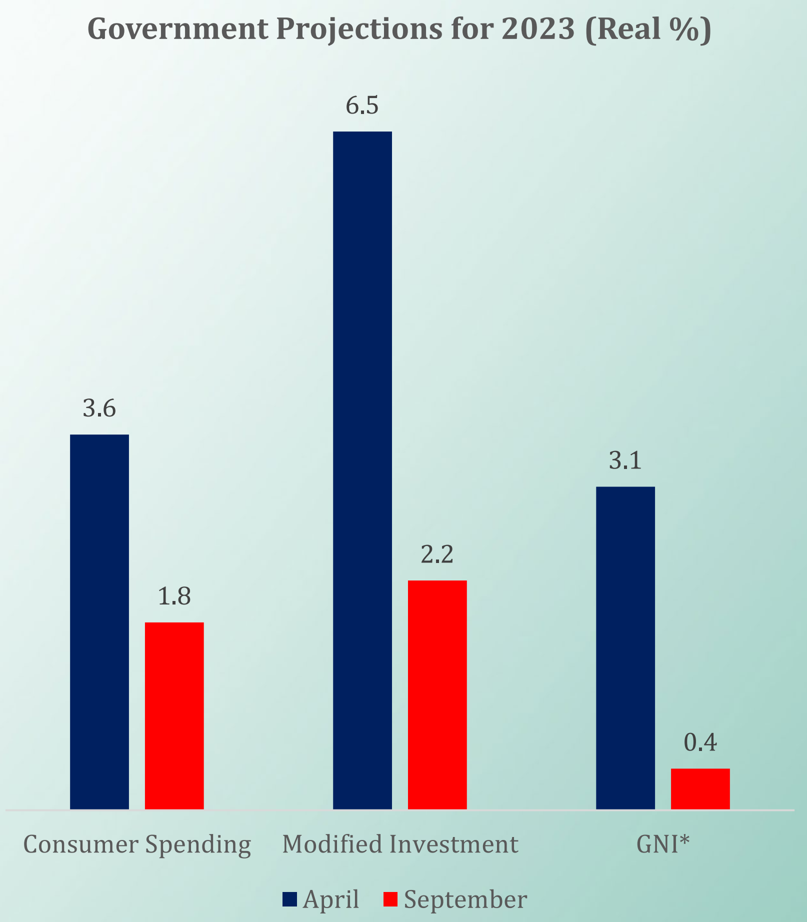
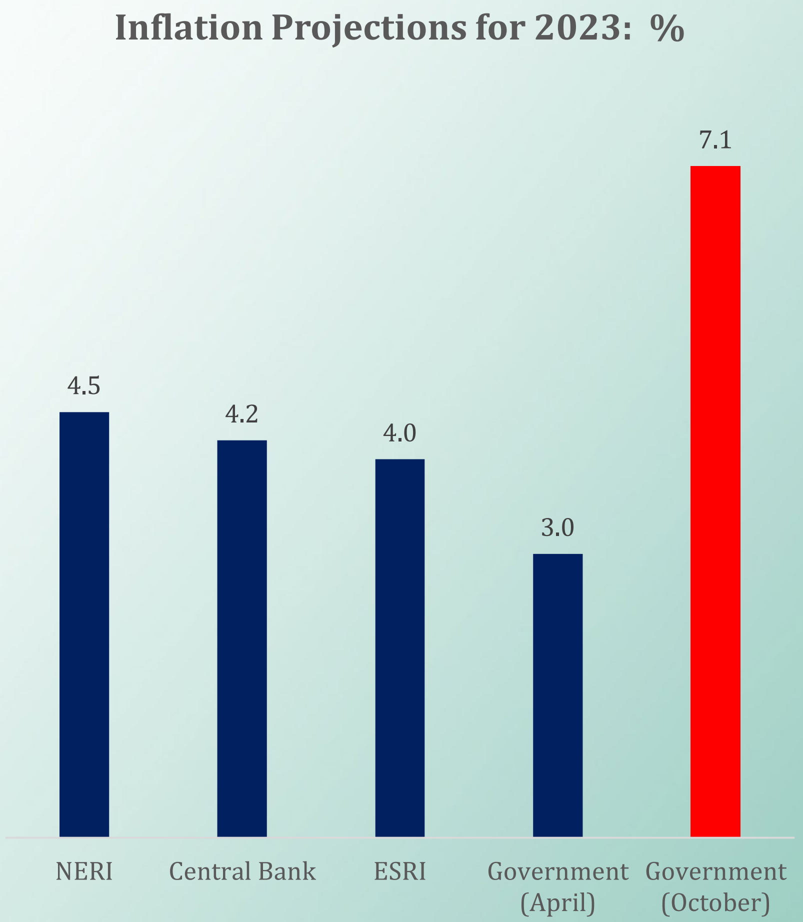
3 Days Later: Growth

- It took up to 3 days after Budget 2023 for the commentary to focus on vital economic and social projections.
- The first issue is the projected flat-lining in growth. GNI* is expected to collapse to 0.4% – essentially no increase at all.



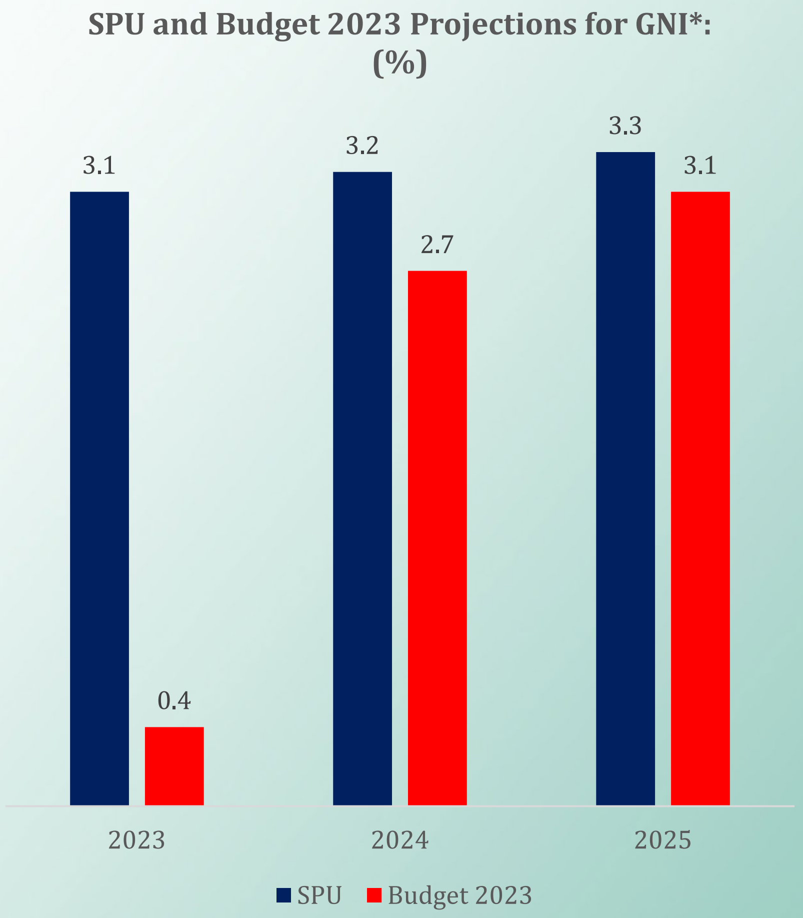
3 Days Later: Inflation

- The second issue that took time to emerge is the high level of inflation the government is expecting next year: 7.1%.
- This was unexpected. Other forecasters were projecting between 4.0% and 4.5% for 2023.
- Over the two years inflation is projected to run at 16%



Stagflation?

- A flat-lining economy and high inflation: 'stagflation'.
- The Government projects the economy will return to growth levels as previously projected.
- We should be cautious about projections beyond a short-term horizon – especially in uncertain times. However, the Irish economy recovered faster than expected when coming out of the recession, Brexit and Covid.
- But there are two big differences.



Rising Interest Rates

- First, we've had a low inflation environment over the last decade.
- Second, interest rates are rising. This will dampen economic activity (consumption, investment, employment) at a time when Ireland and the Eurozone is threatened with recession – with no guarantee that inflation, driven by production-constraints, will be impacted.
- The DoF used to regularly publish the impact of a 1% interest rate rise. The last one was from Budget 2020.

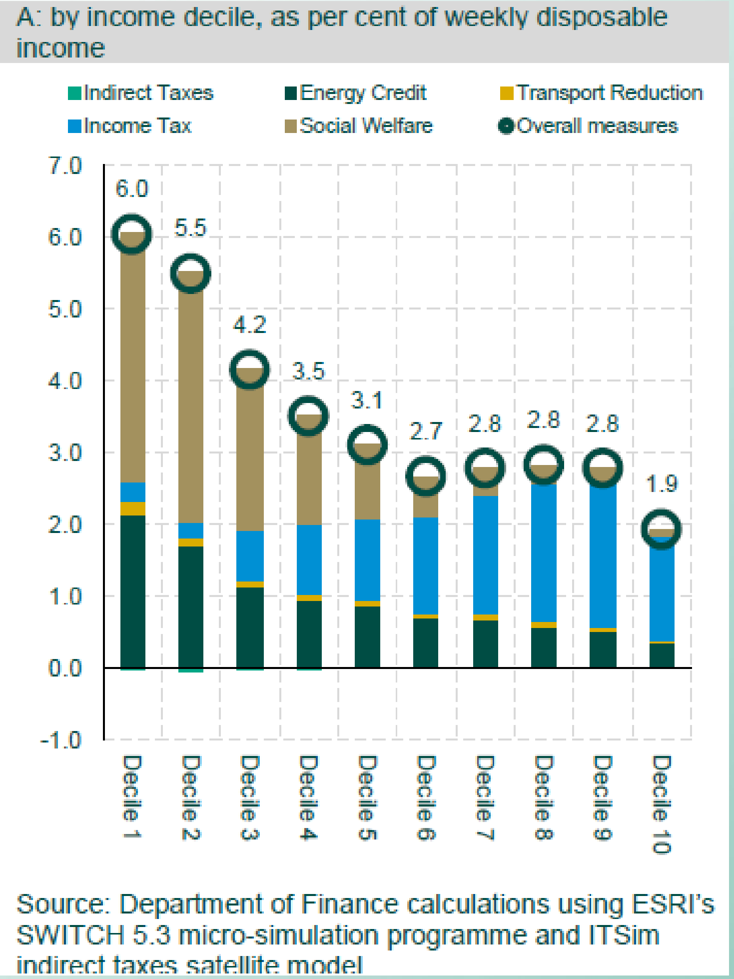
Impact of 1% Point Increase in Interest Rates: Budget 2020

	1st Year	After 3 Years
GDP	-0.6	-1.3
Employment	-0.1	-0.7
Unemployment	0.1	0.5

What will the impact be with economies slowing down and inflation rising?

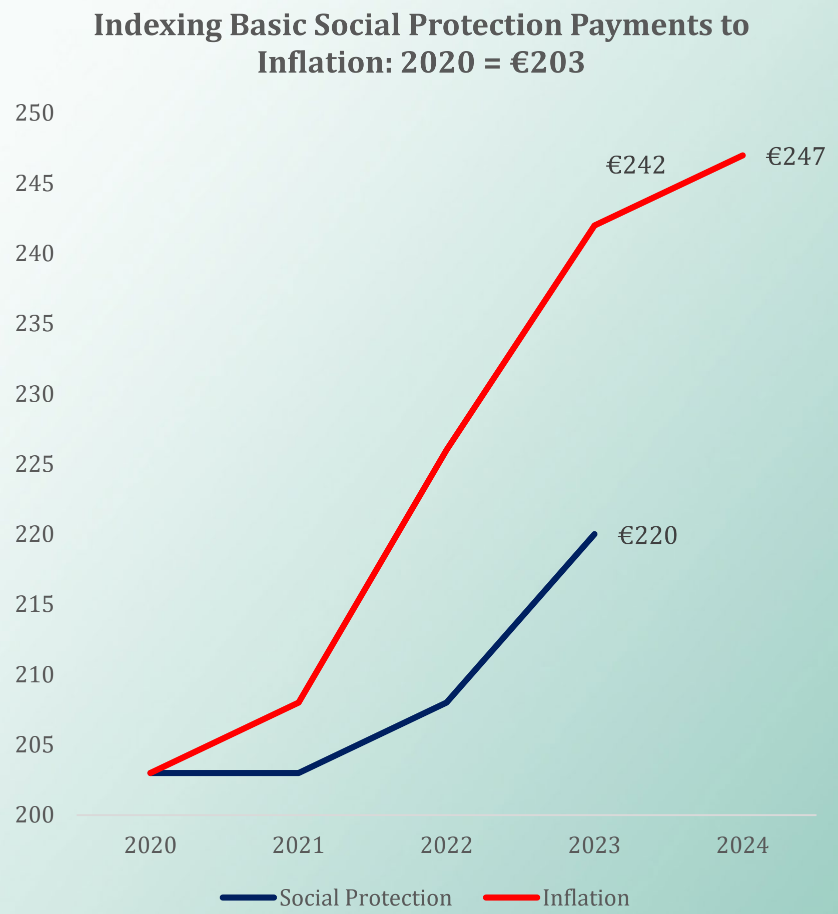
3 Days Later: Rising Poverty

- It took the ESRI to point out what should have been obvious: that reliance on once-off measures can lead to growing poverty and deprivation.
- The government produced a distributional analysis that showed a highly progressive budgetary impact. However, this included once-off measures.



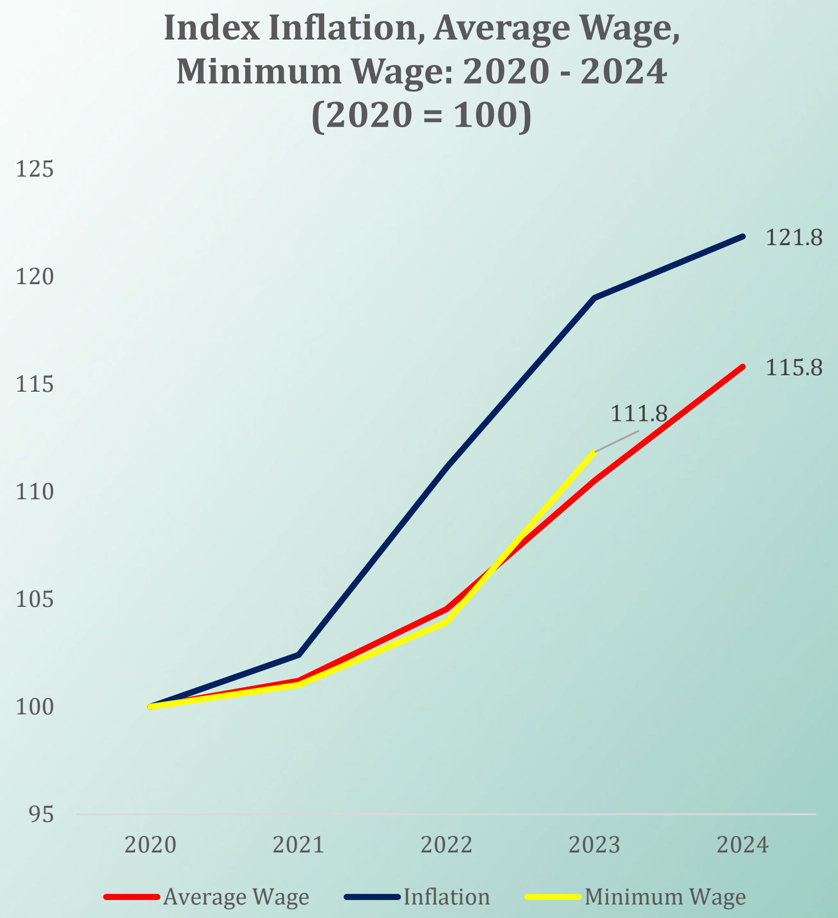
Real Cuts in Living Standards

- *'One-off measures . . . will insulate most households from rising prices this winter . . . However, . . .many lower-income households will experience real cuts in living standards in the latter half of 2023 without a repeat of the welfare bonuses, lump-sum payments and household energy credits.'* – **ESRI**
- The basic Social Protection rate increased to €220. If linked to inflation since 2020 it should be €242 next year and €247 in 2024. It is difficult to see how substantial cuts in living standards can be avoided.

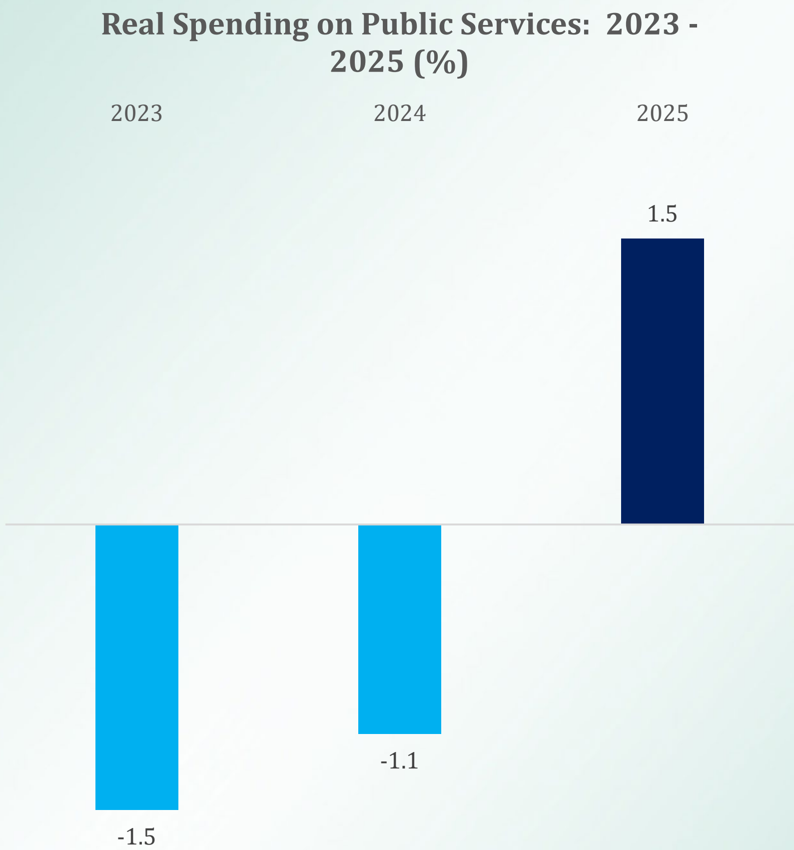


Real Cuts in Wages

- Similarly, wages have fallen behind inflation. However, average wage growth is expected to exceed inflation in subsequent years.
- Inflation will effectively wipe out the increase in the minimum wage. And as to the Living Wage, it will take 10 years to achieve at the rate of the growth in 2023.



Advances in Public Services . . . But



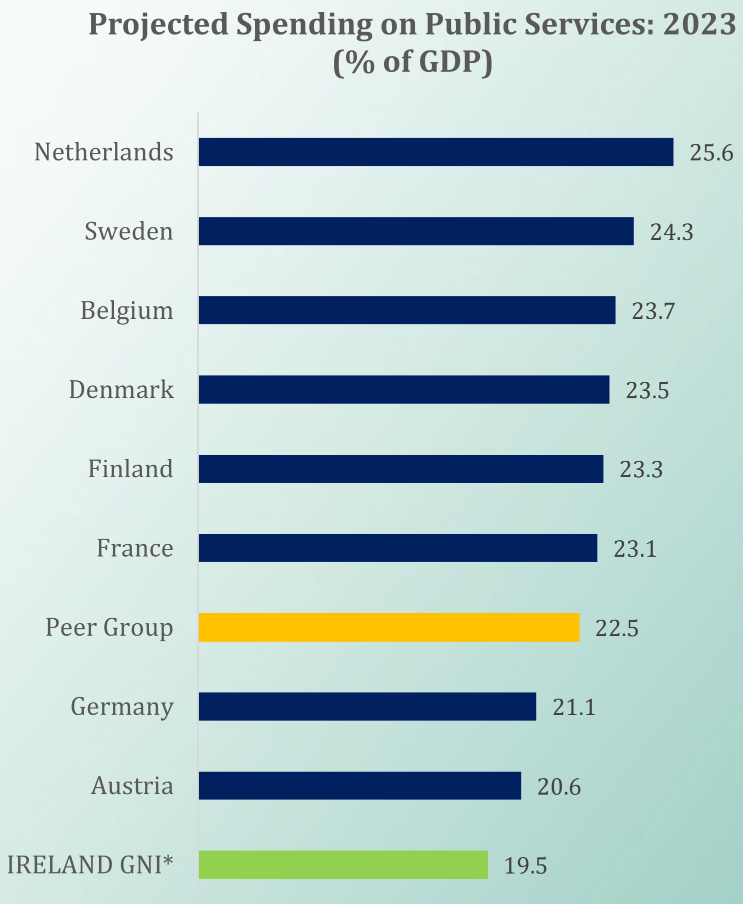
- Budget 2023 contained positives in public services:
- **Childcare** (25% cut in fees)
- **Education** (free school books, reduction of pupil/teacher ratio, expansion of free school meals)
- **Health** (GP visit cards for 400,000, abolition of in-patient charges, expansion of free contraception)
- **Transport** (continuation of 20% fares reduction)
- But – overall public services to be cut over next two years. Increases in some areas to be paid for by real cuts in others.

Energy Issues

- The Government has opted for household / business subsidies over price regulation. Not going to revisit this issue but some basic points:
- Price regulation criticised because it is a state subsidy to energy companies. However, electricity credits / Temporary Business Energy scheme are also subsidies to energy companies. They set the price while state subsidises households / businesses to pay that price (similar to HAP subsidies to private landlords)
- Price regulation criticised because the state would take the risk of rising prices. Yes. Yes. Yes. That's the point. If the state doesn't take the risk, households and businesses will – and this could lead to a further slump which would increase costs to the state.
- Government says it doesn't want to chase inflation. However, RTE calculated that electricity prices rises in the coming weeks will increase average electricity bills by €400. That's two-thirds of the electricity credit used up before it even rolled out.

Fiscal Issues: High Spending?

- A lot of commentary on Ireland being a high-spending state. This assertion breaks down when compared to our EU peer-group (other high income countries).
- Comparing spending on public services (doesn't include social protection/pensions) finds Ireland at the bottom of the table.
- We'd have to increase spending by over €8 billion on public services to reach our peer group average nest year.

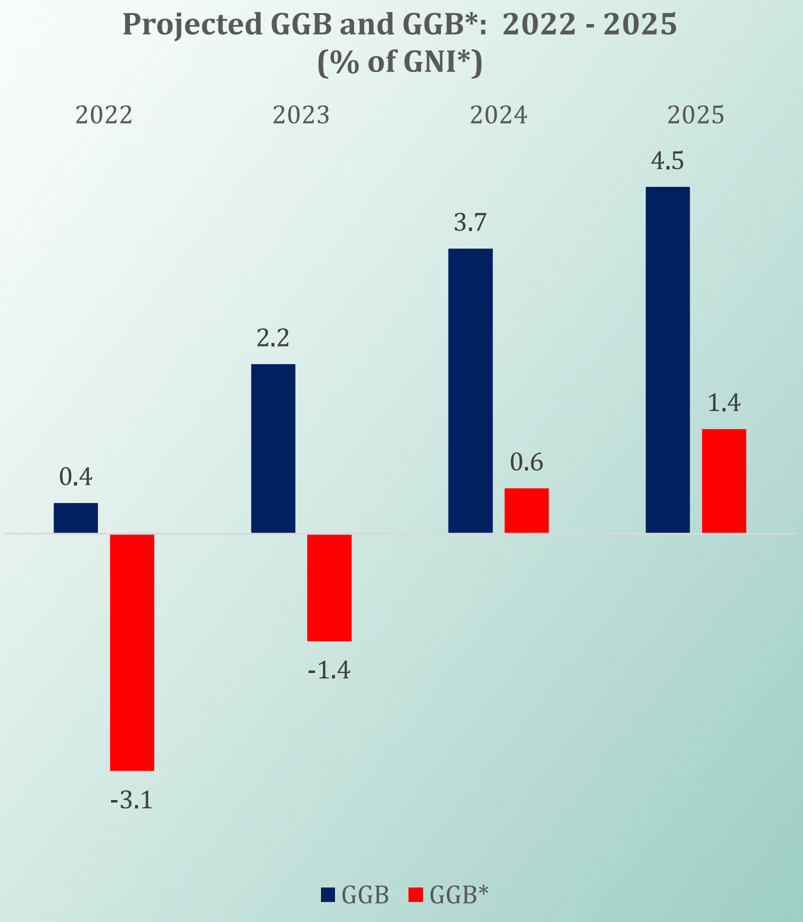


Fiscal Issues: High Debt?

- A lot commentary focuses on our debt – *'the highest level of debt in the world'*.
- Actually, Irish public debt level is below the Eurozone average. And it is falling faster than the Eurozone average. In 2023, Irish debt is projected to be nearly 9 percentage points below Euro average. By 2025, it is projected to fall to nearly 18 percentage points below the Eurozone average.

A New Measurement: GGB*

- We have modified national income, domestic demand, investment, imports and current accounts. So why not the general government balance, or GGB?
- GGB* measures our deficit/surplus by excluding '*estimated windfall corporation tax receipts*' which the DoF estimates to be €10 billion in 2023.



Need to Intervene in this Debate

- This is a legitimate measurement but the orthodoxy is likely to use this as a weapon for real fiscal contraction (squeezing spending below the rate of inflation). Progressives will need to intervene on this. There are two issues:
- The speed at which we decouple windfall tax receipts from the budget.
- More importantly, what do we do with the money? Do we put it in a rainy fund? Pay down debt? Invest in revenue-generating assets – in particular, renewable assets (renewables, battery/pump storage, retrofitting)? Private/public enterprise start-ups?
- The issue of windfall tax receipts is no longer abstract. Job losses / freezes have been announced in several tech companies: Flipdish, Intercom, LetsGetChecked, along with Meta (Facebook), Twitter, PayPal, Docusign and Apple. This could slow overall employment growth, income and corporate tax receipts.

Fiscal Policy is (should be) a Function of the Economy

- There is an unfortunate tendency to see fiscal policy (budget) as the main driver of economic policy. While certain measures can advance or undermine economic performance, our ability to generate revenue for a more active social state derives from the robustness of the market economy itself. A high value-added market sector can produce resources for higher spending.
- Little attention is paid to this. We either fall back on multi-national-driven ‘enclaves’ (IMF description), treat companies as cash cows (tax revenue, wages) or put on the green jersey and cheer ‘Irish’ business.
- However, a quick survey of key comparative data shows we need to take the market economy more seriously.

Underperforming Market Economy

- To reach our EU Peer Group average:
- **Private sector (non-public) investment** would need to increase by over 20%, or €7 billion
- **Productivity per hour worked** would need to increase by 20% (we sustain an overall level of productivity by working over 200 hours more per year than the average EU peer group worker).
- **R&D investment** would need to increase by 37%, or €1.6 billion.
- **Employee Compensation** in the market economy would have to rise by 20%, or €6.50 per hour (this doesn't factor in purchasing power).
- Corporations overall would have to increase their **expenditure on environmental protection** (pollution abatement, wastewater management, biodiversity, R&D). by six-fold, or over €1 billion (though public spending by Irish water would have to be factored in).

Cohering to Economic and Social Objectives

- This data needs to be interrogated as it is difficult to isolate authentic market economy (without multi-national distortions).
- However, it raises a question for progressives: how to frame our budgetary demands and critiques within the context of promoting market activity – and just as importantly, how do we make such (primarily private sector) activity cohere with economic and social objectives.
- Calls for tax breaks and government grants at budget time to provide support for market activity has little to do with the significant structural and systemic reform needed; it is about redistributing public funds to corporate balance sheets.
- This is a big task – but a necessary one. We cannot hope to have an optimal social state while carrying the burden of a sub-optimal business model.

The Guiding Principle

- And the guiding principle behind a new business model that coheres to social and economic objectives can be summed up in the phrase from the radical democratic American tradition:
- *'Whenever there is a problem in the governance of a nation, there is only solution: more and more democracy.'*

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