BUDGET 2014

THE BATTLE OVER RECOVERY

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Budget 2014: Political Impotence

- Budget 2014 was of a piece. It contained no innovation, no reform, no invention.
- It maintained the austerity drive with deflationary adjustments.
- The over-riding concern in this budget was political: ‘to accommodate the Labour Party’s need to gain something (i.e. less austerity) within the fiscal parameters required by the Stability and Growth Pact. To this end, the cost of the budget (the actual amount of adjustments) has been fudged – to the point that we don’t know the fiscal impact.
- Ultimately, this budget is an exercise in political impotence. The Government does not see, or believe, that there is a public role in economic policy, apart from fiscal and supply-side considerations. Otherwise, we are at the mercy of ‘market forces’. This is the legacy of budget 2014.

1. Stimulus – The Tax-Break Way

- €500 million stimulus into job creation – though nearly 80 percent from retention of the low VAT rate. A number of micro-measures –impact is likely to be minimal at best

1. **CGT Entrepreneurial Relief**: allows a clawback of CGT paid if invested into new activity.
2. **Start Your Own Business:** tax exemption for long-term unemployed who start business.
3. **Home Improvement Relief**: households to claim back 13.5 percent of renovation cost if with registered builders

- Are people with a capital gain reluctant to reinvest because they paid tax on it. How many will benefit even through they were going to reinvest anyway (deadweight).
- Are the LTU not setting up new businesses because they have to pay income tax?
- Home improvement scheme could be useful – but, again, how many will benefit for work they intended to carry out anyway (and will this still be competitive with black-market activities?).
- There is no analysis, no background documents, no evaluation.

Tax Break Stimulus

- There is little evaluation on tax breaks but there is some data:
- (1) **SARP** – Government set aside €5 million to fund this tax-break programme. In the first year only six people availed of the scheme, costing only €16,000.
- (2) **Foreign Earnings Deductions**: Government set aside €1 million for this relief but only 12 individuals took this up at a cost of €61,000.
- These had effectively no impact. And we don’t know how many would have to come Ireland or gone to the BRICS countries on business even if there wasn’t relief.
- Tax-break incentives can address defects if applied forensically. But they give the impression of doing something while ignoring the real problem: the loss of demand through austerity policies.

2. Investment Stimulus Cut

- Trade union movement supports investment as the means to drive employment, productivity and growth.
- The Government announced a temporary €200 million investment package from the sale of the National Lottery to be spread out over three years: approx. €65 million per year.
- However, the Government announced a permanent cut of €100 million. This will cancel out the temporary investment.
- The Government will have cut investment by €6 billion cumulatively up to 2016.

3. Austerity: How Much More?

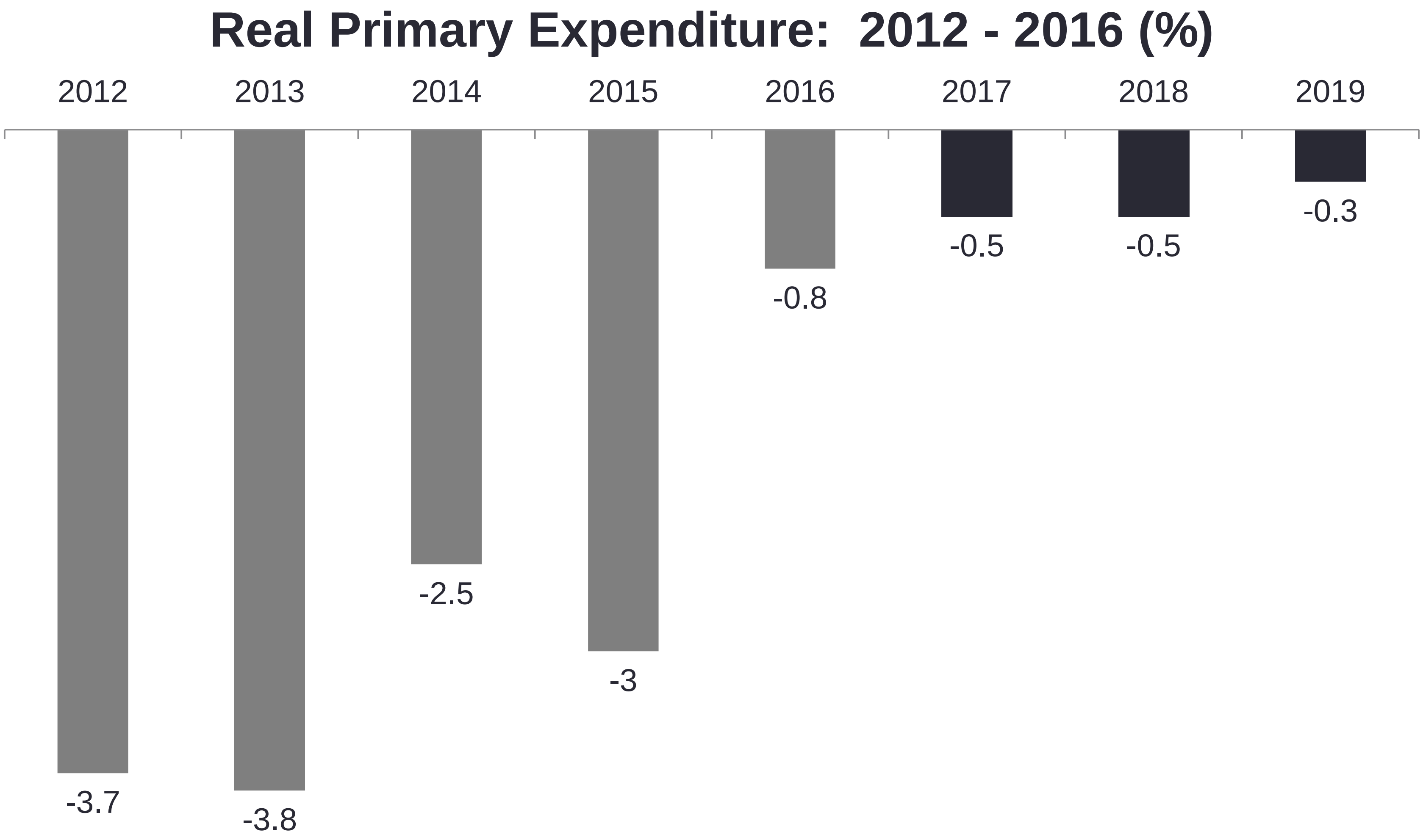
- Hard to know how much further down the road we must travel when we can’t accurately state where on the road we are.
- Just as the Government refuses to detail the ‘cost’ of Budget 2014, they likewise refuse to give the true picture of our fiscal state. In both cases they have the information. And in both cases they either withhold, ignore or ‘mould’ the data to fit the narrative of ‘hitting targets’.
- This goes to the very heart of an open, honest and accountable policy.

Deficits and Deficits

- There is no one single consistent source for measuring the underlying deficit and the underlying primary deficit.

Deficit Estimates for 2012		
	Budget 2014	**CSO**
UNDERLYING DEFICIT *(% of GDP)*	-13,551 *(-8.2%)*	-15,114 *(-9.2%)*
UNDERLYING PRIMARY DEFICIT *(% of GDP)*	-7,376 *(-4.5%)*	-9,202 *(-5.6)*

Long-Term Austerity: Under the Table



DoF Scenarios:

- The Department of Finance long-term scenarios assume that general expenditure will rise by only 1 percent annually – less than inflation - while nominal GDP will rise by over 4 percent.
- In real terms, public expenditure will continue to fall. With demand rising (increase elderly costs, more children in education, etc.) – this will continue to squeeze other expenditure.
- The DoF envisages a budget surplus by 2019 even though in their scenario unemployment will still be in double-digits.
- Up to 2015 we will have *nominal* austerity; for years after we will have *real* austerity.

Future Challenges

- Up to now, the debate has been ‘what kind of consolidation’(i.e. austerity). In the future the debate will be ‘what kind of recovery’.
- We have lost the battle over austerity. We must ensure we don’t lose the battle over the recovery.
- (1) **Macro-economic:** We did not confront the austerity orthodoxy over deficits, growth and counter-cyclical policies. In the future we must occupy this ground with an expansionary agenda. Let’s be clear: the orthodoxy intends to frog-march us down the road to surplus budgets – in which social equity, public provision and economic efficiency will be the main casualties. We must create an alternative model.

Future Challenges

- **(2) A New Fiscal Balance**: We must challenge the consensus that our future lies in continuing with out low tax / low spend model. This will be difficult:
- People, with low wages and high debts, will believe they are being targeted (again)
- The corporate sector will continue to plead special status
- The progressive agenda was weak before the crash (even Irish social democracy argued for tax cuts). That agenda has been weakened further during the crisis.
- **(3) Wages and Incomes:** employee compensation is well below our peer group (other small open economies) and the average of other EU-15 countries. We must challenge the discredited notions of ‘wage competitiveness’ with a new agenda that seeks to raise the wage floors – through an income strategy, labour rights and social protection.

Future Challenges

- (4) **Social Certainty**: issues such as pensions, health and education will dominate as the orthodoxy forces us to consume these services through private markets – and, so, *increase social uncertainty*. We must develop strategies to show that it is only through collective consumption that we can increase certainty. Social insurance will play a major role .
- **(5) Enterprise:** Business in Ireland is too important to be left to Irish business. We have one of the weakest indigenous business sectors in the EU. Compared to our peer group, we'd have to create 100,000 indigenous manufacturing jobs just to reach the average of other small open economies. We must put forward our own proposals to create a strong indigenous sector. This means challenging an enterprise strategy that is over-reliant on foreign capital and tax ~~haven~~ efficient incentives.

Final Note

- **(6) Banking and Private Debt**: we must put debt back on the agenda: banking and private debt. These issues are complex but it must start from simple premises – the banking debt must be rejected and private debt must be written down.
- **Unity, Unity, Unity**
- In this new agenda – we must end our silo mentalities and sometimes sectarian attitudes. We must maximise unity among trade union and civil society forces. If we don't do this, the future will not be ours, it will be someone else's.