

UNITED LEFT ALLIANCE

Budget Statement December 2011

Austerity Is Not Working: Tax The Rich, Invest In Jobs

Next weeks budget will see further drastic cuts in the living standards of workers, the unemployed and the poor. Since the onset of the crisis in 2008 government policy has focused on bailing out banks and speculators and making the working class pick up the bill. Hardly a cent has been taken from those who have the real wealth in society. The effect of this policy has been lengthening dole queues and impoverishment with rising inequality in a society that was already deeply unequal. The wealth of the super-rich has increased throughout the crises.

Despite promising otherwise the Labour party in government is continuing with the programme of austerity at the behest of the EU, the IMF and the ECB. While governing to the super-rich tax-exiles, by inviting them to the Farmleigh Conference, Labour Ministers are imposing hardship on pensioners and the poor by removing heating units and cutting benefits. Labour has caved in to the demands of the markets.

The only way out of the current crises is to generate real economic activity and create jobs. The policy of austerity has been a disaster for ordinary people and has been a total failure.

The ULA is calling for a change in direction. We say call a halt to all payments related to paying for the private debt of the banks. This would immediately reduce debt interest payments to the state significantly. We are calling for a radical shift in taxation policy so that those with the real wealth pay according to their ability to pay. We say tax the rich and use the money for a state funded programme of job creation.

In this document the ULA is calling for a:

- An assets tax on the wealthy to raise €10 billion per annum.
- Increases in the effective tax rate for those earning over €100,000 per annum to generate €5 billion per annum
- Effective taxation of tax exiles.
- A reversal of cuts and the abolition of the Universal Social Charge
- A state programme of investment in infrastructure to create 150,000 jobs over five years.
- No privatisation of state companies and state investment in modern companies using the €5.3 billion in the National Pension Reserve Fund.

Across Europe country after country is falling prey to speculators with the financial market system wrecking social and economic havoc. The financial markets system and its anti social speculation for private profit have led not only to economic devastation but to serious attack on democratic rights. Witness the change of governments in Greece and Italy as a result of diktats of markets and of EU leaders acting as agents of markets.

The ULA believes there can be no just or sustainable solution to the current crises by bowing to the dictatorship of finance and the markets. There is no solution, only worse crisis, on the basis of 'satisfying the markets.' We favour democratic public control of key economic resources as the only way to ensure that peoples needs are put before the profits for the few. There can be no reliance on private investors to create jobs. The investment strike in the private sector continues.

Austerity is driving down domestic demand – sustaining mass unemployment, high welfare costs and low tax revenues. This is being done so as to divert borrowed monies into bank-bond and interest payments. The wealthy are being protected while working people suffer, based on a policy that is deepening the recession and making the economic crisis worse.

It is possible that the Eurozone economy and the single currency will collapse. Therefore, it is all the more necessary for the Labour movement in Europe to break from austerity and to jointly promote a Europe-wide alternative including a state led programme of socially-useful investment to halt the slide into depression. Its time to put people before profit.

Austerity Is Not Working

The policy of austerity has been a disaster for ordinary people and has been a total failure.

- ▶ **Unemployment has risen** to almost 450,000, with 180,000 out of work for over a year. Youth unemployment is over 25%. Despite cuts, welfare spending has risen by €2.8 billion a year since 2008.
- ▶ **Tax revenues** have fallen by €15.9 billion since 2007.
- ▶ **The tax burden on individuals has risen since 2007** from 63% to 69% of tax paid. This is dampening demand when it is low and middle income earners who are hit.
- ▶ **Domestic demand has fallen** and is now 25% below the 2008 level
- ▶ **Profits are growing and investment is falling.** Between 2009 and 2010 profits of non-financial corporations rose by €2.6 billion to €37.8 billion.
- ▶ **Investment has fallen** by €30 billion since 2007. There is a private sector investment strike.
- ▶ **Debt is rising along with unsustainable interest payments.** Despite an unrelenting focus on imposing austerity to reduce the budget deficit, the deficit increased to €19.7 billion in 2010¹. This is not because of high public spending but because of a fall in tax revenues.

The debt burden is imposing an unsustainable burden of interest payments which has risen from €2 billion in 2008 to €4.9 in 2010. It will be €6.8 billion in 2012. The single biggest rise in government spending from 2008 to 2010 was an increase in debt interest payments. This increase is due to borrowing to bail out and recapitalise the banks and to fund the continuing fiscal deficit.

In November €700 million was paid to unsecured Anglo bond holder. A further €3.6 billion will be paid by the end of June 2012. This should not be paid. We say call a halt to loan, bond and interest payments on bank debt. Use the resources to fund investment in jobs.

It is quite clear that a change in direction is required. Therefore the ULA is demanding, alongside our demand to stop paying bank debt, that a fully progressive tax system be put in place to fund public services and create jobs. Focusing on meeting the immediate demands of the EU/IMF and financial markets will plunge us deeper into recession.

¹ Michael Burke at TASC Conference see <http://wp.me/pKzXa-i5>

Taxation

The ULA is demanding taxation based on the ability to pay. To date the burden of adjustment has fallen on low and middle income earners while the vast wealth of the super rich remains untouched. We are calling for:

A Tax On Wealth

The top 1% of Irish adults hold 28.1% of all wealth and the top 5% hold 46.8% of all wealth.²

The net financial assets of Irish households increased by €45 billion from 2008 to 2010.³

We estimate that the top 1% hold €131.5 billion and the top 5% hold €219.3 billion of total net wealth.⁴

Not a penny in tax is being paid on these assets.

Every 1% tax on the top 5% would yield roughly €2 billion. A 5% rate of tax would bring in about €10 billion per year. The ULA believes that this is the order of tax levels that should be debated now with a view to urgent implementation.

Increase The Tax Take From High Earners

High incomes are very lightly taxed in Ireland and the burden of income tax-

² Credit Suisse, Global Wealth Report, Nov. 2011

³ Central Statistics Office, Nov 2011 (Financial wealth below is made up of cash, shares, pension and insurance funds (net equity) and business assets/liabilities of self-employed/sole traders. Land, housing and non-financial personal property (e.g. yachts, art, etc.) are not included. Net financial wealth refers to gross financial wealth minus liabilities -almost all liabilities refer to loans-loans include mortgage loans and credit card debt)

⁴ Credit Suisse estimates that financial assets make up 47 percent of total assets (Table 2-4 on page 71 in Credit Suisse Report). This means that there is €311 billion in financial assets and €351 billion in non-financial assets for a total of €662 billion (using latest CSO data). After financial liabilities of €194 billion, total net wealth is €468 billion. As 28.1% of net wealth is held by the top 1%, they hold 131.5 billion of total net wealth. As 46.85% of net wealth is held by the top 5%, they hold 219.3 billion of total net wealth.

ation on low and middle incomes was hugely increased by the imposition of the Universal Social Charge and by reduction of personal tax credits and threshold for paying the higher rate of tax..

Those earning over €100,000 per annum have a total income of c. €20 billion⁵ and pay €4.86 billion in income tax.

We know that those **individuals** in receipt of incomes over €100,000 only paid 31.4% of all income tax in 2008. Due to heavy impositions on those in receipt of low incomes in more recent budgets this percentage has probably decreased.

Revenue figures show that the highest paid 10,677 (0.5% of earners) earned €6.01 billion (7.33% of all income) in 2009: an on average €563,000. It can reasonably be assumed that such people avail of considerable tax breaks and have the advice of tax experts. They paid €1.738 billion in income tax in 2009, just 29% of their income, leaving them with an "after-tax" income of €4.27 billion: an average of €400,000.

Through a combination of increased minimum effective tax rates and higher marginal tax rates, ULA calls for an additional €5 billion in income tax be raised from those earning over €100,000.

Because of massive tax reliefs enjoyed by high earners the use of minimum effective tax rates is a sure means of extracting additional tax from high earners. This would require a scale of minimum effective tax rates on all income ranging from the current level of 30% as incomes exceed thresholds of €100,000, €150,000, €200,000, €250,000 etc. The minimum effective rates may have to be as high as 60% for those earning above €300,000. There must be no increase in the effective tax rates of those with gross incomes below €100,000.

While retaining this revenue target, adjustments of taxation will be necessary within this group in order not to penalise tax payers with an adult dependent.

Increase The Take From Tax Exiles

The Domicile Levy introduced in Budget 2011 to address the problem of tax exiles has generated a paltry €1.5 million and is clearly totally inadequate.

It is reasonable to expect that citizens of Ireland who have income generated in Ireland and/or assets held in Ireland should pay tax to the Irish state. The United States expects its citizens resident abroad to pay US income tax when their earnings abroad exceed a certain threshold.

The kind of measures that should be acted on include:

1. Assets Tax: An assets tax on net global personal assets.
2. Income Tax: A minimum effective income tax rate of at least 50% on annual global income in excess of €200,000.
3. Current Domicile Levy of €200,000 introduced in Budget 2010 to be increased substantially.

Reverse the Cuts, Abolish the Universal Social Charge

The above measures plus the refusal to pay for bank debt would generate the resources to allow for:

- The reversal of cuts in Social Welfare which have taken place in recent budgets amounting to €1.7 billion.
- The abolition of the Universal Social Charge which further increased the burden of tax onto low and middle income recipients
- Cuts in personal tax credits to be restored; the reversal of the reduction in the income level above which the higher 41% rate applies.
- The reversal of cuts in Health, Education and Community services which were imposed in recent budgets; no further cuts and no increase in student fees; ending the moratorium on replacement of retiring public servants and taking on necessary new staff.
- Plans to tax homes and water to be set aside.

Invest In Jobs: Get People Back To Work

The current crises cannot be resolved without a state led programme of investment. Austerity is destroying jobs and will continue to depress the economy. It is futile to expect private investors, who are effectively on strike, to create the necessary jobs.

The ULA is proposing:

1. Reverse the Cuts In Capital Spending

The cut in the capital programme proposed by Fine Gael/Labour at a cost of 10,000 jobs must be set aside at a cost of €750 million, allowing major projects such as Metro North, school and hospital building and refurbishment and the Monaghan-Derry motorway to proceed

⁵ Revenue Commissioners Statistical Report 2010

2. Invest In Infrastructure

An emergency state programme of infrastructural investment to begin the process of getting 150,000 people back to work and to commence training, upskilling and adult education of unemployed people immediately .

Direct government job creation through public works is necessary to promote effective demand and halt the deepening crisis.

An **Emergency Programme of Necessary Public Works** - in addition to the Public Capital Programme – should be put in place to ensure that not less than 150,000 are taken off the dole and working within three months and that this programme be maintained for at least five years.

Examples of a wide range of **necessary public works** that could play a major role in environmental care and in creating improved social and educational services for society could include:

- ▶ Replacement of all non-compliant water mains throughout the state including connections to domestic houses ensuring that the pipes are laid below the potential frost level.
- ▶ A national rainwater harvesting programme to include all public buildings starting with schools, public housing, government buildings and motorways.
- ▶ Sustainable Urban Drainage to be implemented throughout the state.
- ▶ Complete all necessary flood relief schemes throughout the state .
- ▶ Works to construct new road base and wearing course to ensure that all national secondary and county roads have adequate base and surface layers to survive 25 years of the weather extremes of recent years.
- ▶ Retrofit all public buildings with insulation while ensuring proper ventilation.
- ▶ All public buildings/sites not in use to be upgraded/renovated/refurbished to provide public facilities – public elder care, public child care, public playgrounds, heritage centres and museums. No sell off of any public property.
- ▶ Demolish all unfit social housing and replace with environmentally sustainable and aesthetically pleasing social housing.
- ▶ Train/employ 30,000 childcare workers to provide high quality public childcare in a national childcare infrastructure.
- ▶ Noting the significant literacy and numeracy problems identified by the OECD, employ/train 10,000 adult education teachers to provide literacy, numeracy, computer applications and language course to long term unemployed people with a target of attaining FETAC level 5 within five years to open the way to third level courses.
- ▶ Establish computer software training/conversion courses in the IOTs for 10,000 unemployed workers having a third level maths qualification. Provide the necessary resources to the IOTs.

The ULA estimates the net cost of such a programme as €26 billion over five years. This takes into account savings from welfare payments, additional tax revenue, material and other costs and a multiplier effect from additional economic activity.

This programme could be funded through a combination of taxation of the wealthy and sources such as workers' pensions funds. These funds have € 70 billion invested outside the state and pension contributors are currently receiving tax benefits greater than in any European country.

Where the fund is invested outside the state, we would reduce the tax benefits on annual contributions to zero. Pension funds trustees who insist that they are obliged to invest where returns are highest can continue to do so but without Irish taxpayer subsidy.

3. Invest In Modern Industry

State investment in modern industry through state companies must commence using the €5.3 billion in the Pension Reserve Fund as the investment strike in the private sector continues. There must be no privatisation of state companies.

It is clear that reliance on Foreign Direct Investment incentivised by low corporate tax rates has failed to develop a sustainable economy. There are 100,000 qualified people on the dole and 4000 post-doctoral researchers mainly in casual employment. These must be enabled to contribute to Ireland rather than to other countries through emigration.

State companies must not be sold off but used to develop modern state-owned industry

The state through companies such as the ESB, An Post and Coillte must begin to create advanced modern industry in areas such as off-shore wind and other clean energy generation, superfast broadband, food processing, pharmaceuticals, electronic devices etc. Such industries, efficiently run, would give a far greater return to the Irish People than that provided by multi-national companies with an effective corporate tax rate of 4-7%. State owned industries would not be subject to pull outs such as seen in Dell, Talk Talk, Aviva and MBNA .