THE STORY BEHIND BUDGET 2015

(AND A BETTER STORY)

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Two Principles

- There are two principles that inform the following analysis.

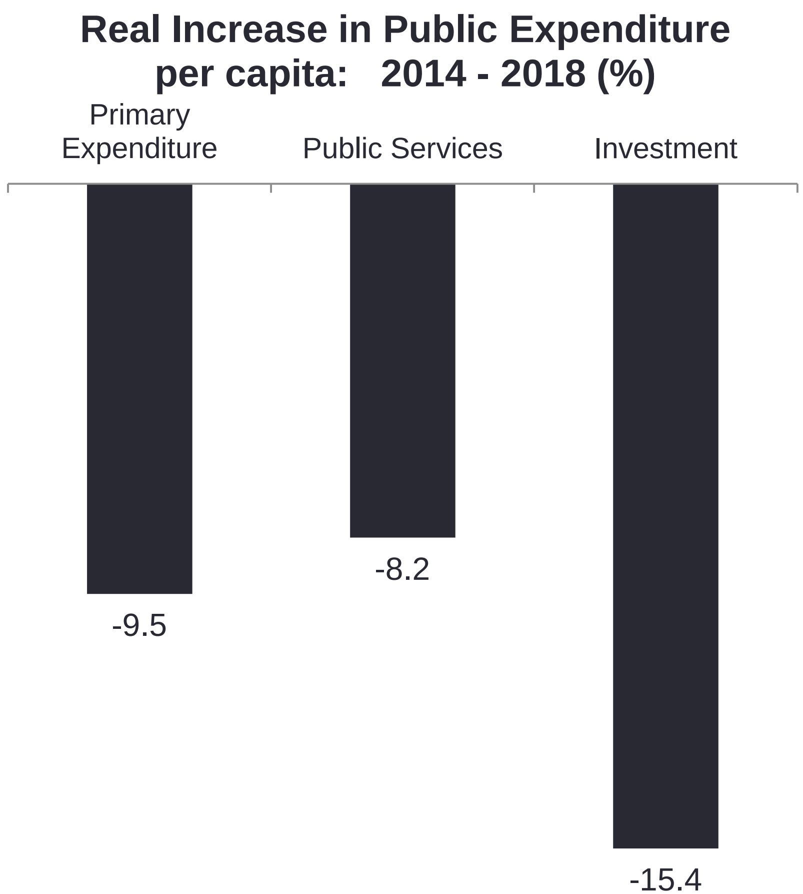
1) That social equity and economic efficiency are inextricably intertwined. It is not a matter of obtaining one to achieve the other, never mind sacrificing one in pursuit of the other. Efficiency is not optimised if not fully informed by equity and vice-versa. They are two sides of the same coin.
2) There is a dense and complex web of social and economic relationships which connect and impact on each individual. They may not be seen or readily apparent but they're impact is nonetheless identifiable and measurable.

1: The New Phase of Austerity

- Contrary to declarations, austerity has not ended. It is entering into a new phase.
- The first phase of austerity has been nominal. It involved positive adjustments – expenditure reductions, tax increases. These were announced in actual Euros and cents. This amounted to over €30 billion.
- The second phase of austerity will be *real.* It will fall after inflation – or be cut in real terms. Public expenditure will not keep pace with inflation and therefore the value of social transfers, public services and investment will be eroded. We can measure this using the data produced by the Government in its budget papers.

Real Cuts in Public Expenditure

- Real primary spending per capita will fall by nearly 10 percent over the next four years – or €4 billion.
- Public service expenditure per capita will fall by over 8 percent – or €2.4 billion.
- Investment per capita will fall by over 15 percent – or nearly €400 million.
- Public finances will gain from reduced unemployment costs but much will be cancelled out by increased elderly-related expenditure.



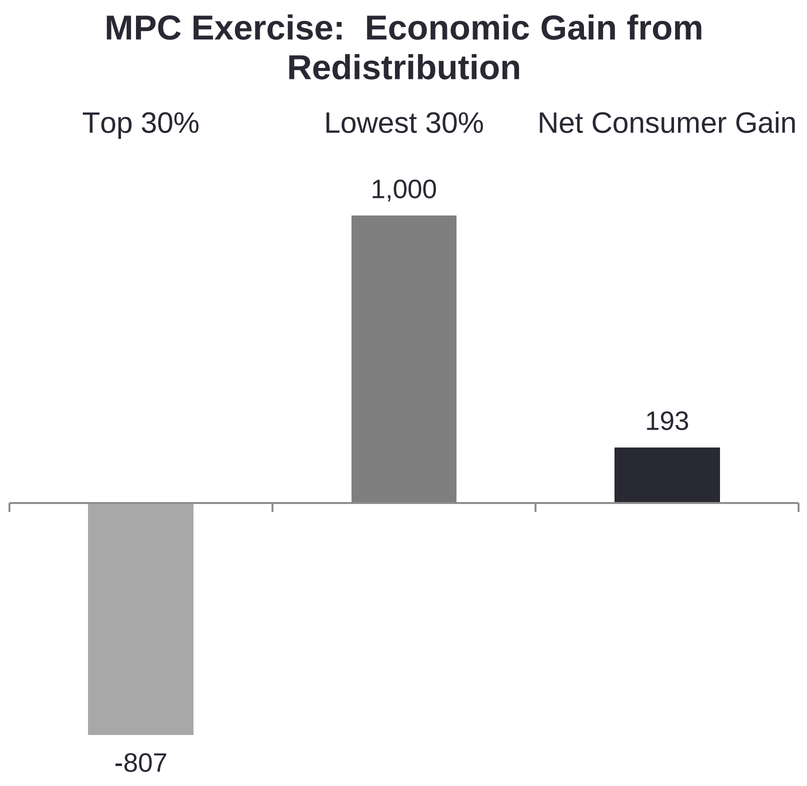
2: Wrong-Way Redistribution

- It appears the budget is significantly regressive.
- Social protection rates will be cut in real terms
- Tax cuts for many low-average income groups will result in marginal gains which, in turn will be wiped out by water charges.
- Higher income groups, net of water charges, will gain.
- Higher income groups are experiencing rises in their weekly incomes

- In the last year:
  - Managers / professionals gained 3 percent in weekly income (with average incomes of €60,000).
  - Clerical / shop-floor workers lost 1 percent (with average incomes of €24,000)
  - Production and craft workers lost 9 percent (with average incomes of €25,000)
- Groups who are gaining most in the market are also gaining from government policy.

Redistribution: Equitable and Efficient

- Exercise: economic gain from redistributing €1 billion from top 30% households to lowest 30%.
- Marginal propensity to consume (defined as expenditure as a fraction of income) : the top 30 percent has a MPC of 0.81. The lowest 30 percent: 1.0.
- Gain: €193 million or 19 percent of the amount redistributed.
- Gain: less reliance on social protection payments, resulting in fiscal benefits
- Gain: less import-dense expenditure by high income groups, resulting in further gains.



3: Prioritising Living Standards

- We assume that Governments can only boost living standards by increasing income through tax cuts. A narrow focus on Euros and cents to promote individual consumption.
- In continental European countries, living standards are promoted through social solidarity and collective consumption.
- In the social model, people can seek improvements in their living standards through the public realm. They don’t need to exclusively rely on private exchange.

Example: Childcare

- In Ireland, a household can pay up to €800 a month and more for a childcare place. In most other continental countries, childcare can cost as little as €150 per month and even less for the low-paid. Why the difference?
- In other European countries, childcare is financed through the public sector and delivered as a public services.
- In Ireland, childcare is delivered through an economic-charging model (cost of individual childcare places must be recouped through fees).
- If the Government rolled out affordable childcare, households with childcare could expect reductions of up to €500 to €600 a month – or thousands of Euros a year. This reduction in childcare fees would boost living standards and deliver more than any tax cut.

Example: Public Transport Fares

- In other countries, public urban bus transport receives a high level of public subvention, or subsidy (approximately 60% of total revenue). This ensures expanded services and affordable fares. In Ireland, Dublin Bus receives an extremely small subvention (29%).
- If the Government doubled the subvention to Dublin bus (this would still leave us short of continental cities), half could go to expanded services and half could go to reducing bus fares. This would mean a reduction of €350 per year (based on a monthly pass) for bus users.
- This, again, is more than any tax cut would achieve for the low-paid using public transport.

Example: Prescription Medicine Subsidies

- In Ireland, if you don’t have a medical card, you can get relief of 20 percent on medical expenses, meaning you have to pay 80 percent of the full cost for prescription medicines. This can burden households and doctors report many people do without medicine because they can’t afford it. What’s it like in other countries?
- **Austria**: €5.40 per item, with many medicines provided free
- **Belgium**: a staggered system which subsidises medicine form 27 percent to 86 percent with many medicines free. Patients in hospital pay 62 cents per day.
- **Finland**: 35 percent of medicine costs are refunded with no one paying more than €610 per year, many medicines free
- **Sweden**: Subsidies of between 50 and 90 percent with many medicines free. No one pays more than €600 per year.
- Many Irish households would receive a substantial reduction in costs if we adopted measures that apply in other countries.

Economically Beneficial and Socially Reinforcing

- Each of these programmes have economic benefits:
- Greater demand arising from reduced costs to households
- Increased employment from higher demand and public service provision (childcare places, expanded public transport
- Fiscal benefits from higher employment and increased consumer spending
- In Ireland, social protection is seen as poverty amelioration – something for poor people that costs those in work (the squeezed middle).
- But in collective consumption everyone has a stake – contributing according to means and receiving according to need. This creates a social glue (solidarity) that is the stuff of community building.

4. Constructing the Nation

- Investment is the key to driving economic growth.. If a business doe not invest in new equipment, up-skilling employees, expanding operations, it will eventually fall behind their competitors and may end up going out of business. The same with the economy:
- Imagine how we could improve business if we had a next generation broadband network connected to every enterprise and household in the country.
- Or if we had a state-of-the-art water and waste system that didn’t leak.
- Or if every building in the state had the best energy conservation ratings possible
- Or if we had the best possible educational facilities from pre-primary to university.
- We would be a far wealthier country.
- Investment is the key to modernisation and nation-building – a process that can directly impact on, and improve, each of our lives.

A Tale of Two Investment Companies

The ESB

- The ESB was formed as part of a national drive to bring Ireland into the 20th century.
- It brought lights to every city, town and house.
- It promoted business development.
- Was managed by people dedicated to a national mission.
- It was the foundation of modernisation and a transformative process that touched everyone.

Irish Water

- Formed as part of a financial mechanism to take investment ‘off-the-books’
- Mired early on in controversies over bonuses and consultancy contracts
- Viewed as intrusive (PPS numbers) and charging for personal activities (showers, personal hygiene).
- Seen as a cost through charges which inherently regressive
- 100,000 marched against charges and Irish Water is viewed with suspicion and contempt by many.

Investment's Benefits

- The IMF and many Irish economists have long argued the economic benefits of investment: raises GDP, creates employment and lowers debt. Just like a business, public investment pays for itself over the long-term by creating wealth and income-generating benefits.
- However, investment must be imbued with a socially-minded and transformative mission:
- Rolling out pre-primary and childcare
- Modernising our infrastructure – energy, water, transport
- Retrofitting every building to save money and provide warmth for all people
- We need a major investment drive but to obtain public understanding and support it must be – and seen to be - public service-focused.

The Ties that Bind

- **Paul Krugman**: *my spending is your income*
- **Paul Simon**: *one man's ceiling is another man's floor*
- When we redistribute, we promote the living standards of the poorest – they in turn spend that money that helps me get a job or get a pay rise.
- When we subsidise public transport, we expand services to accommodate more people and helps reduce traffic so that my car commute doesn't take as long.
- When we invest, we share in the transformative process and the results that flow.
- We are all impacted, we all share, we are harmed or elevated depending on policy. These are not immediately experienced but they exist nonetheless. We need to make this clear – as a first step towards a budget that is imbued with this spirit.