

OUR ECONOMIC AND FISCAL POLICY

How we will grow the economy, create sustainable jobs and manage the public finances to pay for our policies



We want to build an equal society. Labour has a strategy to manage the public finances carefully, to end Fine Gael's waste of public money and to dedicate resources to where they are most needed to build homes, fix health and deal with the people's other priorities.

Equally, Labour has a strategy to grow the economy and to create sustainable jobs that give workers the dignity of decent pay and conditions.

LABOUR'S KEY FINANCIAL PROPOSALS ARE:

- To index annual increases in social welfare rates, income tax credits and bands to increases in the cost of living, with a minimum annual increase of €5 per week in social welfare payments.
- To implement net tax increases of approximately €400 million per year for additional investment in public services.
- To create a €2 billion capital expenditure reserve over 5 years.
- To establish a Standing Commission on Taxation.

LABOUR'S GOALS FOR THE ECONOMY ARE:

- To cut our greenhouse gas emissions in half in ten years, by 2030.
- To ensure that jobs are sustainable, meaning that those jobs will continue to exist in the face of

climate change and new technology.

- To increase the proportion of people of working age who are active in the labour force, from 69% to 75%. This will specifically focus on increased employment opportunities for women, for people from marginalised communities and for people with a disability.
- To decrease unemployment to 4% or less.
- To increase the quality and quantity of jobs in the least developed regions.
- To end low paid employment (i.e. where pay is less than a living wage, defined as two-thirds of median average income). As part of this, to give people security of hours and to end involuntary part-time employment.
- To give people job security and new rights to flexibility.
- To eliminate child poverty, and to minimise poverty to the greatest extent possible.

LABOUR'S GOALS FOR THE PUBLIC FINANCES ARE:

- To broaden the tax base, so that the funding of public services is stable and sustainable, including making the Social Insurance Fund sustainable for the future.
- To avoid raising incomes taxes on ordinary workers.
- To avoid tax cuts, at a time when investment is needed to end child homelessness and to deal with waiting lists and overcrowding in hospitals.
- To lower the public debt, within EU rules, to ensure the long-term sustainability of the public finances.

THE MAJOR RISKS AFFECTING IRELAND'S ECONOMY IN 2020-2025 INCLUDE:

- A disorderly Brexit at the end of 2020 if the UK does not have trading deal with the EU.
- A minimalist UK-EU trade deal that affects existing trade in goods and/or services between Ireland and Britain.
- A deliberate policy by the UK to undercut neighbouring economies through lower social and environmental standards, currency devaluation or other means.
- A slowdown in global trade due to increased protectionism and trade disputes (e.g. US-China, US-EU, etc).
- Costs associated with removing greenhouse gas emissions from the economy to alleviate climate change, especially lower use of fossil fuels.
- Changes at EU and global level in relation to taxing multinational corporations, not least those in the digital sector.
- Breakdown in social cohesion due to rising economic inequality and acute concentration of poverty and disadvantage.

Labour will achieve these goals through the following strategy, composed of actions identified in the body of our manifesto, Building an Equal Society:

Stopping the waste of public money

- Labour will reduce waste by increasing transparency, reinforcing public agencies that oversee public spending and using evidence of need to drive the allocation of public funding.
- We will carry out a comprehensive annual Spending Review and Waste Audit that will examine all areas of public expenditure.
- Labour's manifesto includes a wide range of measures to reduce waste, to reduce costs and to re-direct resources to areas of greater need or inequality.

Reducing the cost of living

- Labour will reduce the cost of living by reducing costs associated with housing, healthcare, education and childcare.
- We'll change tax breaks to re-direct private investment in property development towards

homes that people can afford.

- We'll reduce the cost, stress and lost time from commuting by providing better public transport.

IMPROVING WAGES AND JOB SECURITY

- We'll strengthen the rights of people at work, including giving them a robust right to negotiate with their employers through representative bodies and trade unions.
- We'll raise wages at the lower end of the labour market, to eliminate in-work poverty and to increase consumer demand.
- We will strengthen protections to stop the exploitation of migrant workers.
- We'll improve income supports for smaller farmers.
- We will negotiate a responsible and sustainable public pay agreement, while resolving inequalities and anomalies in current public pay.



Expanding the proportion of working age people in the labour market

- We will support community employment schemes, local employment services and adult literacy services, especially to engage people who are most distant from the labour market.
- We will strengthen supports to help people with disabilities enter and maintain their employment.
- We will deliver a Childcare Scheme for Working Parents.

Dealing with Brexit and trade

- Labour will set up a Brexit contingency fund to help industries most at risk.
- Labour will seek to ensure no hardening of the border due to Brexit, and to minimise border infrastructure and checks between Ireland and Britain.



Promoting new technology and innovation

- Labour will invest in universities, including the technological universities, encouraging them to support indigenous enterprises.
- We will introduce a right to lifelong learning and provide new incentives and supports to raise the proportion of the workforce doing in-work education and training.
- We will deliver broadband nationally.

Promoting medium-sized enterprise

- Labour will concentrate state support to medium-sized enterprises, to grow indigenous manufacturing and to provide "anchor" employers in towns across the country.
- We will expand the number and type of apprenticeships and traineeships available.
- We will support the introduction of a community bank for business lending. Based on the German Sparkassen model, the bank will provide business banking services aimed at

small and medium enterprises. Initially a trial of this banking model will be rolled out across a number of different counties.

- We will tighten up public procurement and provide more opportunities for medium-size indigenous enterprises to win public contracts.

Promoting sustainable jobs in towns and less developed regions

- Labour will re-establish town councils for all towns with a population of 5,000 or more, and give them strong powers to bring decision-making to local level, including economic development.
- We will provide a clear pathway to city status for large towns like Drogheda, Dundalk and Swords approaching a population of 50,000.
- We will rebuild economic activity in every region by investing in every one of Ireland's 80 largest towns, including investment to develop their town centres. Larger towns act as hubs for smaller towns and villages, and in turn for the surrounding townlands and rural areas. Labour's strategy is to ensure that each town has more medium-sized employers (50-250 jobs each). Incentives and grants will be created to assist towns that lack employers of this scale, including infrastructure grants and temporary rebates on commercial rates.
- We will support co-operatives, social enterprises and start-ups.
- We will invest, as the shareholder, in state-owned enterprises like the ESB, Coillte and Bord na Móna, to expand their activity in renewable energy, recycling, land management, etc.
- We will expand the role of post offices to make them more viable.

Certainty for business about regulation

- We will take measures to lower the cost of insurance.
- We will tighten the law on white collar crime and fraud.
- We will increase the transparency required of businesses.
- We will provide business with certainty in relation to environmental regulation, so that businesses can make investments without the fear that government will fail to implement new rules (like the nationwide ban on smoky coal).
- We will provide certainty about carbon tax and other tax changes over the next five years.

ECONOMIC AND FISCAL POLICY

This section lays out Labour’s analysis of the economy and medium-term projections for tax and spending.

MEDIUM-TERM ECONOMIC PROJECTIONS

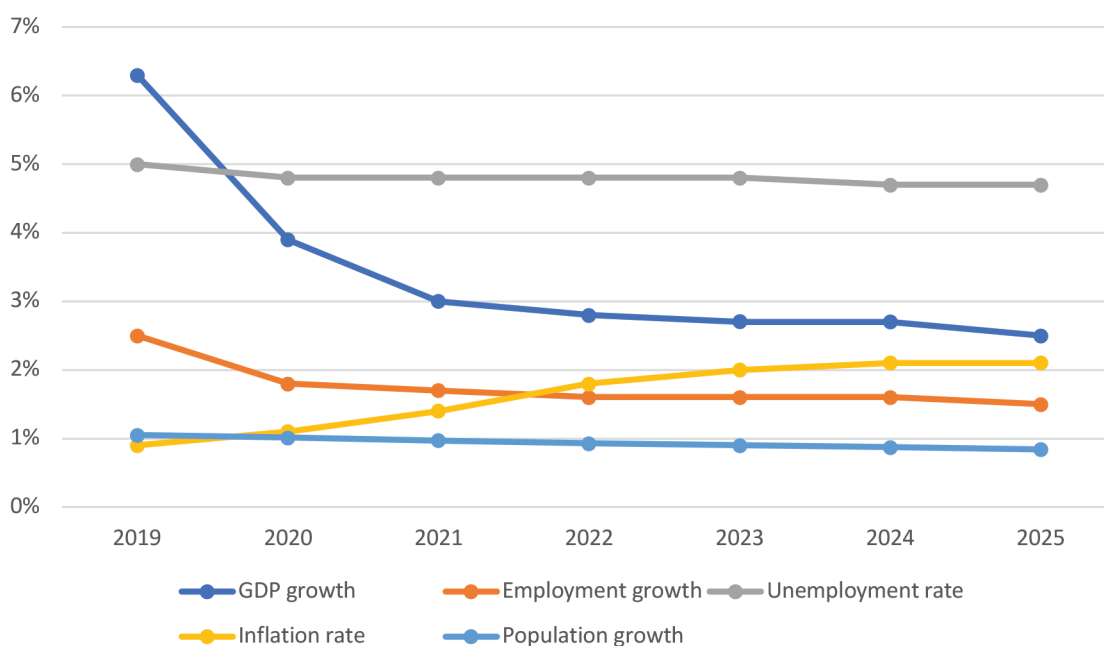
Table 1. Government of Ireland Medium-Term Economic Projections

%change	2019	2020	2021	2022	2023	2024	2025
GDP	6.3	3.9	3.0	2.8	2.7	2.7	2.5
GDP nominal	7.0	5.3	4.5	4.4	4.2	4.2	4.0
Employment	2.5	1.8	1.7	1.6	1.6	1.6	1.5
Employment (000)	57	42	40	38	39	40	38
Unemployment Rate	5.0	4.8	4.8	4.8	4.8	4.7	4.7
Inflation Rate	0.9	1.1	1.4	1.8	2.0	2.1	2.1
Population growth (estimate)	1.1	1.0	1.0	0.9	0.9	0.9	0.8

Source: Government of Ireland (9th January 2020) *Medium-Term Fiscal Strategy*. <https://www.gov.ie/en/publication/98449d-medium-term-fiscal-strategy-slide-deck/>

Population figures from Central Statistics Office, *PEA22: Projected Population* <https://statbank.cso.ie/px/pxeirestat/Statire/SelectVarVal/saveselections.asp>

Figure 1. Medium-Term Economic Trends





ECONOMIC GROWTH

According to the Government's projections, the economy is set to grow in 2020 by 3.9%, less than two-thirds the rate of 6.3% growth in 2019. This is the beginning of a slow-down in the economy. Although the economy will continue to grow, this will be less than 3% each year. The population is expected to grow, but the rate of population growth is expected to decline from 1.1% in 2019 down to 0.8% in 2025.

With a slowdown in the private sector, it is a good time for the public sector to increase targeted investment to boost economic output. Labour's strategy is to invest in the lowest paid workers, in disadvantaged regions and in core public services like healthcare and public housing. All of these parts of the economy badly need investment, and investment in these areas is less likely to overlap with or crowd out private investment. Labour's policies will raise economic output above the current projections, however our spending plans are based on the Government's conservative projections as a prudential measure.

UNEMPLOYMENT

According to the Government's figures, unemployment remains stubbornly static, only falling from 4.8 to 4.7% in the period 2020-2025. 4.7% is not full employment, for several reasons.

Firstly, Eurostat statistics show that around a third of those who are unemployed are long-term unemployed. This indicates a cohort of around 40,000 people who are seeking work for over one year. Secondly, the OECD shows that over 100,000 workers are involuntary part-time. Thirdly, the OECD also shows that a quarter of Irish workers are low paid. Finally, Ireland's total labour market is somewhat smaller than other North European countries due to fewer people overall being in work or seeking work, and fewer women in particular.

In other words, there are potential workers who do

not appear on the Live Register or in unemployment figures, because they have left the formal labour market. 69.3% of working age adults in Ireland are in the labour market compared to 78.2% in the Netherlands, 77.6% in Sweden, 76.5% in Denmark and even 72.6% in Northern Ireland. That means that just over 30% of working age adults in Ireland are neither employed nor unemployed, but unable to work due to disability, care duties, parenting or some other reason. That is why Labour will implement a Maximum Employment Strategy, targeting an employment rate of 75%.

JOB CREATION

According to the Government's figures, around 40,000 jobs are expected to be created every year, but unemployment will remain fairly fixed at 4.7-4.8%. This suggests that employment will be taken up by younger workers entering the labour market (population growth) or migrants. It appears that the skills and location of the people who are long-term unemployed will not fit most of these new jobs. That is why Labour will invest in Community Employment, local employment services and regional development, including our towns strategy, in order to bring opportunities to people who are not in a position to benefit from many of the jobs becoming available in the private sector.

FISCAL POLICY

The outgoing government projected an ability to adjust budget spending by €16.6 billion over the next five years, of which €11 billion is not yet allocated. Despite declining economic growth and the Government's estimated loss of Corporation Tax due to the BEPS process, official figures still identify an annual budget package of between €2.9 and €3.6 billion each year, between 2021 and 2025. The Fine Gael-Independent Alliance decisions in Budget 2020 set out the balance between tax and spending for that year, but the next government can change direction.

Figure 2. Government (FG-IA) Fiscal Projections (€billion)

FG Government, Medium-Term Fiscal Strategy (01/2020)	2021	2022	2023	2024	2025	Total
Department of Finance Baseline Package (01/2020)	3.6	2.9	3.3	3.4	3.4	16.6
Tax Cuts (unallocated)	0.6	0.6	0.6	0.6	0.6	3.0
Extra Current Spending (demographics)	0.5	0.5	0.5	0.5	0.5	2.5
Extra Current Spending (public sector pay)	0.3	0.0	0.0	0.0	0.0	0.3
Extra Current Spending (carryover from previous year)	0.2	0.0	0.0	0.0	0.0	0.2
Extra Current Spending (unallocated)	1.0	1.6	1.9	1.7	1.8	8.0
Capital Expenditure (pre-committed)	1.0	0.2	0.3	0.6	0.5	2.6
TOTAL	3.6	2.9	3.3	3.4	3.4	16.6
Total Allocated	2.0	0.7	0.8	1.1	1.0	5.6
Total Unallocated	1.6	2.2	2.5	2.3	2.4	11.0

Source: Government of Ireland (9th January 2020) *Medium-Term Fiscal Strategy*. <https://www.gov.ie/en/publication/98449d-medium-term-fiscal-strategy-slide-deck/>

Labour is proposing to fund the indexation of income tax credits and bands, along with annual increases in social welfare rates from the available €600 million per year available in the fiscal space under 'Unallocated tax cuts'. This will fund a minimum annual increase of €5 per week for all social welfare payments. We will also raise net annual taxation by €400 million per year and create a Capital Expenditure Reserve of €2 billion.

Figure 3. Labour's Fiscal Projections (€billion)

Labour Party (Baseline)	2021	2022	2023	2024	2025	Total
Department of Finance Baseline Package (01/2020)	3.6	2.9	3.3	3.4	3.4	16.6
Taxation	0.4	0.4	0.4	0.4	0.4	2.0
Labour Revised Baseline Package (01/2020)	4.0	3.3	3.7	3.8	3.8	18.6
Indexation (Income Tax and Social Welfare)	0.6	0.6	0.6	0.6	0.6	3.0
Demographics	0.5	0.5	0.5	0.5	0.5	2.5
Public sector Pay	0.3*	0.0	0.0	0.0	0.0	0.3
Carryover	0.2	0.0	0.0	0.0	0.0	0.2
Capital Expenditure (Pre-committed)	1.0	0.2	0.3	0.6	0.5	2.6
SUB-TOTAL	2.6	1.3	1.4	1.7	1.6	8.6
Additional Current Spending	1.4	1.5	1.8	1.6	1.7	8.0
Additional Capital Spending Reserve	0.0	0.5	0.5	0.5	0.5	2.0
TOTAL	4.0	3.3	3.7	3.8	3.8	18.6

* the existing public sector pay agreement ends in 2020.

TAXATION

Labour will raise a modest amount of tax on large corporations and high-income earners, as well as from taxes on e-cigarettes, fossil fuels and sugar, to strengthen the tax base in the face of the need for public investment in health and housing.

Labour will not raise taxes on ordinary workers and will increase income tax credits and bands in line with wage inflation.

Labour will introduce a minimum effective rate of Corporation Tax of 12.5%.

Labour will establish a Standing Commission on Taxation to conduct ongoing review of the tax system and of all tax breaks. This Commission will have the mandate to ensure the sustainability of Ireland's tax revenue, and the fair distribution of all forms of taxation across the population.

Labour will increase the penalties for tax evasion, and increase resources for the Revenue Commissioners to robustly pursue tax evasion.

Labour will adjust motor vehicle taxes to promote the uptake of low-emission vehicles and introduce stricter environmental criteria for company cars on our roads.

Labour will extend the sugar tax to more processed foods, and will use the funds to supply healthy school meals in primary schools.

Labour will extend the plastic bag levy to other single-use items, including disposable coffee cups, but not including essential items like nappies or sanitary towels.

Labour will extend excise to e-cigarette products.

Labour will reduce the VAT rate on food supplements from 13.5% to 9%, which is the lowest

possible under EU rules now that Fine Gael has removed them from the zero rate band.

Labour will ring-fence all receipts from Carbon Tax to fund warmer homes, public transport, new sustainable jobs and other measures to reduce hardship caused by the transition to a low carbon economy.

Labour will increase Stamp Duty on Non-Residential Property and on shares.

Labour will not raise taxes on ordinary workers' incomes and will widen Income Tax bands to prevent inflation eroding incomes. Labour will not raise USC. We will progressively withdraw Income Tax credits on high earners with incomes over €100,000.

Labour will maintain the cap on bankers' pay and double the bank levy. This will provide some compensation to the public, as banks are profitable but able to offset Celtic Tiger losses against Corporation Tax for the foreseeable future. The bank levy ensures that they pay their fair share to the people who bailed them out.

Labour will change the tax treatment of property development so that investors have the incentive to build homes that people can afford.

COST SAVINGS

Labour will also reduce waste and achieve cost-savings right across government spending. The savings will be redirected to the areas of greatest priority. These have not been included in the above calculations in order to be judicious in estimating what is possible within available resources. But it is likely that savings can and will be made, with those savings redirected to health, housing and other areas of need.

