



STRONGER TOGETHER

CONGRESS

Irish Congress of Trade Unions

15th March, 2017

Mr John Callinan
Assistant Secretary
Department of An Taoiseach
Government Buildings
Merrion Street
Dublin 2

Re European Semester 2017 / National Reform Programme

Dear John

I wish to acknowledge receipt of your letter of 23rd February, 2016 re above. The Congress response is below.

The recommendations made in the Country Report for Ireland¹ highlight a number of areas where reform is badly needed. We agree with the European Commission when it states that fiscal policy should be reoriented towards growth-sustaining capital expenditure. The scale of the Government's infrastructure and capital investment plan is of wholly insufficient scale and scope and Ireland's low public capital investment ratios (Table 1) are damaging long-term economic growth potential.

Table 1: Public Investment (% GDP), 2003-2018

	Average 2003-07	Average 2008-12	2013	2014	2015	2016	2017 (f)
Ireland	3.8	3.3	2.0	2.2	1.7	1.7	1.8
EU	3.1	3.4	3.0	2.9	2.9	2.8	2.8

Source: European Commission: Statistical Annex to the Winter Forecast (2017)

The ratio of public capital investment to GNI ratio² should be increased year-on-year with the aim of reaching 4% by 2021 and then maintaining that ratio over the long-term. World class infrastructure, for example in areas such as the rural broadband network (where Ireland notably underperforms), renewable energy infrastructure (e.g. wind and solar), public transport, and the intercity motorway network (e.g. Limerick to Cork) is crucial for the competitiveness of a small open economy. The consequences of the dramatic cuts to the capital budget are perhaps most evident in housing. As we pointed out last year, Ireland is experiencing a housing crisis with dire human, social and competitiveness implications. Existing housing policy has failed. In our view immediate action through a major public programme of house building is needed to adequately respond to this crisis. 10,000 housing units and €2 billion per annum reflect the scale required.

We also agree with the Commission that more effort is needed in R&D investment, reducing greenhouse gas emissions and reducing poverty. Congress has previously highlighted the low level of public R&D expenditure. This is an extremely short-sighted and unwise policy that will damage the long-run productive capacity of the Irish economy (see Figure 1 and Figure 2).

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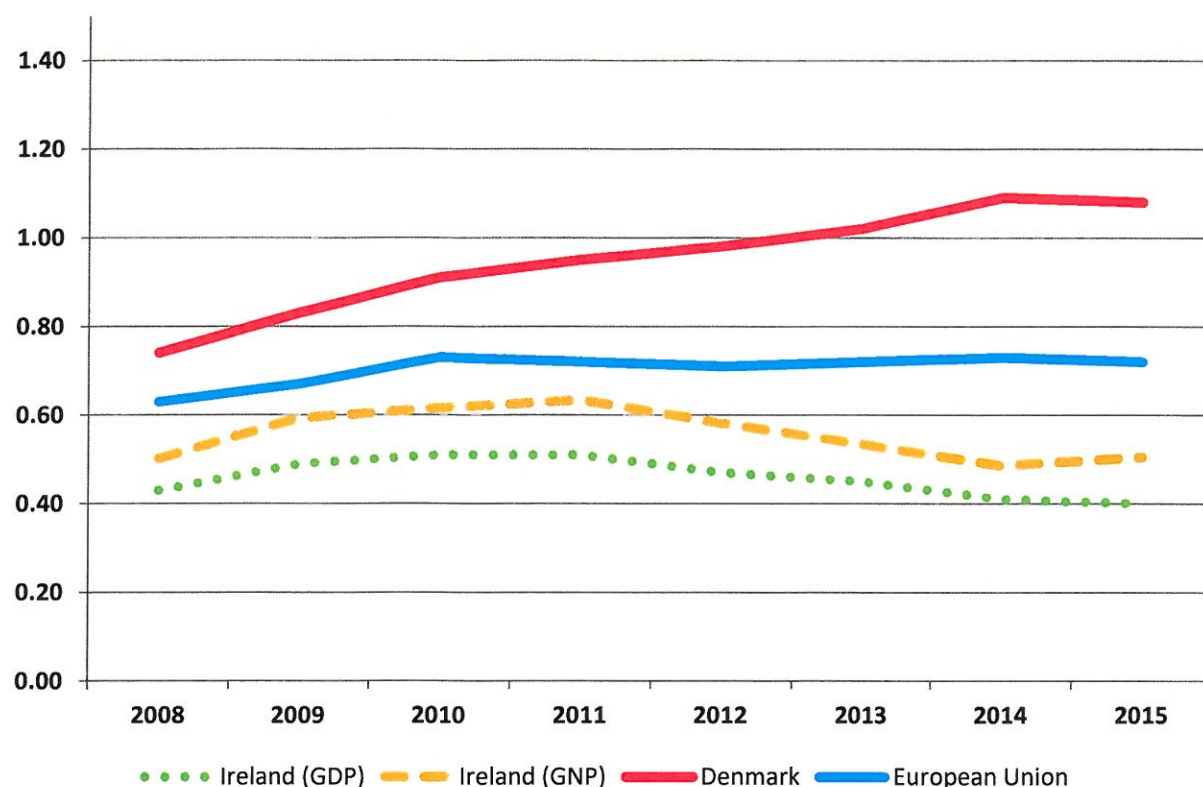
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¹ <https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-ireland-en.pdf>

² The new GNI* indicator being developed by the Central Statistics Office might be a reasonable denominator. Data for this aggregate will be available all the way back to 1995 from June/July of this year.

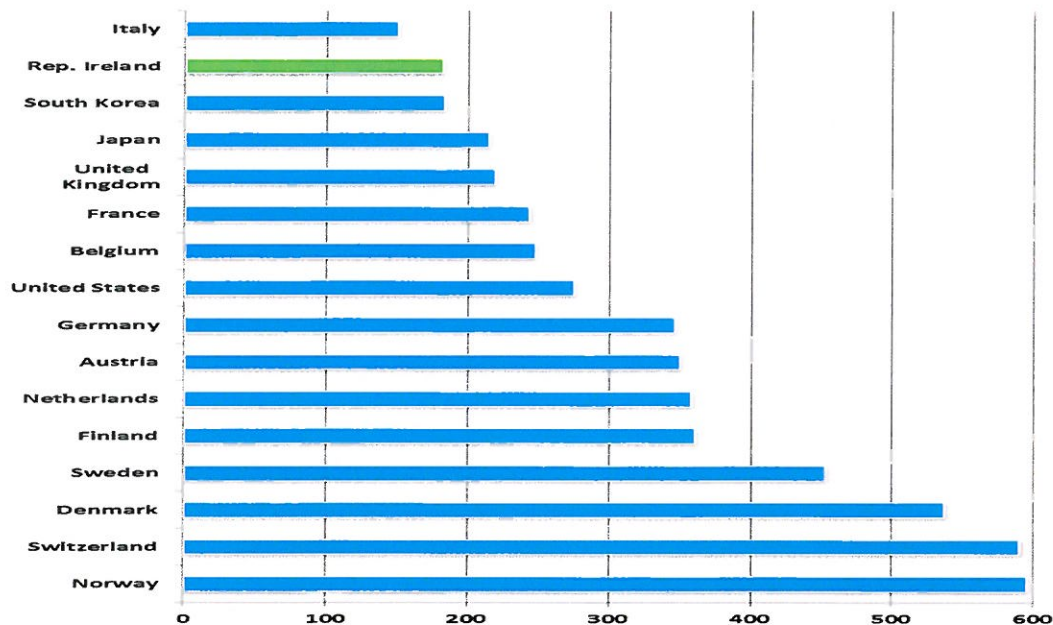
Figure 1: Public R&D Expenditures as % of GDP and GNP



Source: See McDonnell (2017): http://www.nerinstitute.net/download/pdf/innovation_working_paper.pdf

Education and other ways to boost human capital development (e.g. measures to prevent child poverty) represent a third growth enhancing area of public spending that should be prioritised within the fiscal space. Public spending on education is well below Western European norms (Figure 3). A clear Government commitment to increase education spending per pupil would constitute an important policy reform. The best strategic response the Irish Government can take to 'Brexit-proof' the economy is to take measures to improve Ireland's innovative competence and productive capacity. This means focusing on infrastructure, R&D and human capital development.

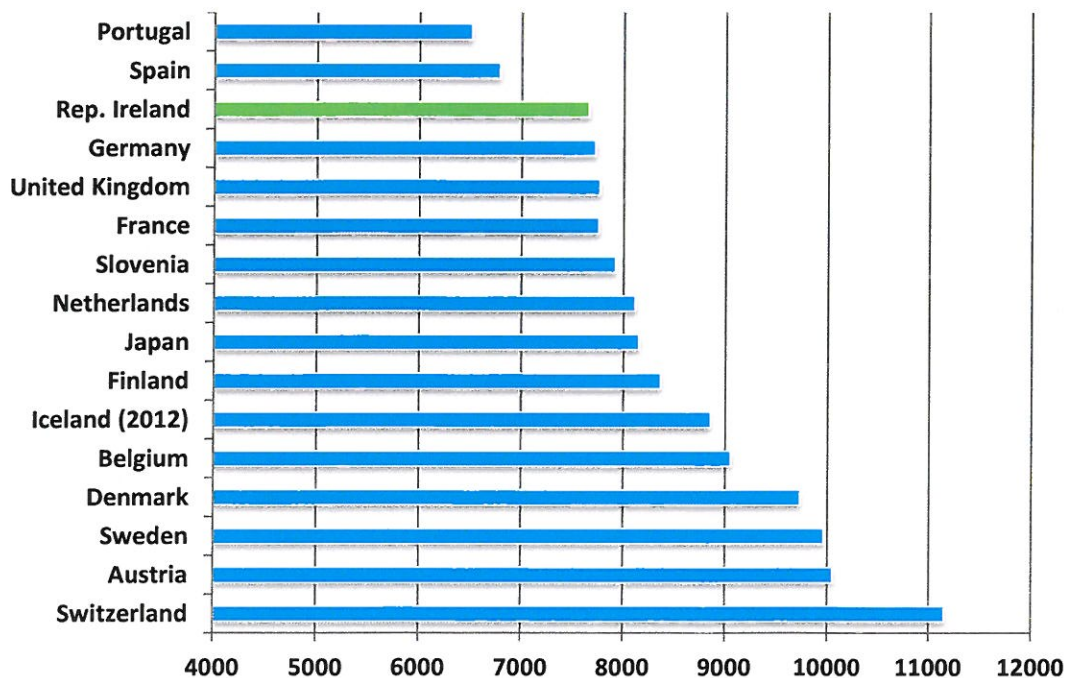
Figure 2: Per capita spend on public sector research and development in 2015, selected high income economies, (€)



Notes: Figures are totals for government and higher education R&D spending. Definition differs for Germany, Netherland and the United States. Data is 2014 (Japan, South Korea and Switzerland) and 2013 (US).

Sources: See McDonnell (2017): http://www.nerininstitute.net/download/pdf/innovation_working_paper.pdf

Figure 3: Public spending on education institutions per pupil (FTE) in 2013, selected countries (PPS)



Notes: FTE is Full Time Equivalent.

Source: See McDonnell (2017): http://www.nerininstitute.net/download/pdf/innovation_working_paper.pdf

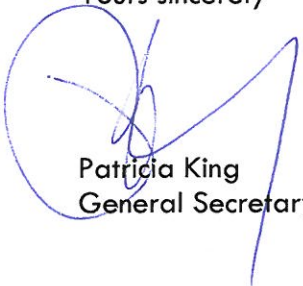
Substantial increases to the infrastructure, education and R&D budgets are sustainable provided Irish fiscal policy adopts a stance consistent with adequate levels of revenue collection from a broad tax base. Unfortunately the current budgetary plan implies considerable pressures on Government services, public investment and social payments. Congress pointed out last year that public spending in Ireland is already at the lower end of the spectrum by EU standards, and that budgetary projections will leave the primary Government expenditure share of economic output at a very low level historically. Congress fundamentally rejects this trajectory for fiscal policy. In our view it will lead to a more unequal and less prosperous society and the current tax cutting agenda should be abandoned.

The Government's revenue base could and should be broadened in a number of ways, for example through the gradual elimination of most tax expenditures (and automatic use of sunset clauses); through the introduction of a tax on net household wealth, through the immediate revaluation of self-assessed property values used to calculate local property tax liabilities, and through increases in employer social security contributions.

The Living Wage has been established at €11.50 per hour for a single worker. No worker should be expected to work for below the Living Wage. The National Minimum Wage should be increased to the level of the National Living Wage. Anything less is a subsidy to low pay employers.

Finally, the very high cost of childcare in Ireland is a major barrier to female labour market entry particularly for lone parents as well as for second earners. This constrains employment growth and excludes some households from the labour market. The Budget 2017 reforms in this area are a welcome first step but more needs to be done. Public spending on childcare should be increased over 10 years to reach the UNICEF benchmark of 1%. In addition, paid parental leave of six months should be introduced.

Yours sincerely



Patricia King
General Secretary