dublinchamber of commerce

Supplementary Budget Submission: April 2009

National Recovery Plan

Dublin Chamber recognises the challenges facing Government in the forthcoming budget. Six months ago, Budget 2009 was framed against a growth rate of -1%. In recent weeks, many commentators have estimated a growth of between -6.5% and -8% as being more probable, with the balance of risk on the downside. Government has indicated that extreme measures are required in order to meet its revised target of a deficit of 9.5% of GDP. Dublin Chamber acknowledges that strong, unpopular measures may be required, but is concerned about the deflationary impact that a strict adherence to the target would bring. In particular, there is a concern that an overly aggressive budget may prolong the cycle of contracting economic activity and consumer spending.

The Budget must strike an appropriate balance between the difficult measures which need to be undertaken and the dangers of exacerbating the situation by further contracting the economy. **The overarching criterion by which the supplementary budget will be assessed will be its effect on confidence – confidence in international markets, business confidence and consumer confidence.**

Dublin Chamber considers it critical that the forthcoming supplementary budget is presented in context. A frank assessment of the fiscal and economic outlook is required, together with a multi-annual approach to restoring the public finances, having regard to the deflationary impact on the economy. Most importantly, **Government needs to set out a five year National Recovery Plan that indicates how lost productivity will be restored, competitiveness regained and future growth in output and employment sustained.**

The Dublin Chamber's proposals for the supplementary budget are outlined under the following headings:

- Restoring Confidence
- Expenditure Reform
- Broadening the Tax Base
- Job Retention

1. Restoring Confidence

Government must seek to restore consumer and business confidence. A National Recovery Plan is central to this. The economy can only return to growth by restoring lost competitiveness and supporting increased exports in goods and services or tourism. Government has a central role in helping firms trade their way out of the present downturn. Critical to the recovery will be the continuation of a low taxation business model and of the 12.5% rate of corporate tax in particular. In addition, Ireland's international competitiveness must be promoted through a reduction in the cost of Government and utilities, particularly energy. Equally, from a consumer perspective, measures to support jobs in employment-intensive sectors of the economy are critical.

RECOMMENDATIONS

- Make a clear announcement of Government's commitment to maintaining the 12.5% corporate tax rate.
- Protect employment by ensuring that there is no increase in Employers' PRSI.
- Improve the cash flow position of firms by ensuring that all Government departments and Exchequer-funded bodies, both national and local, pay their bills within 30 days. This should be underpinned by legislation if necessary.
- Introduce a 'bridging' scheme to support those suffering currency differentials (at a low or zero interest).
- Indicate clearly – with reference to specific timelines – how the recommendations of the National Competitiveness Council to reduce costs and restore Ireland's competitiveness will be implemented; by whom and at what cost.
- Reduce energy costs below the EU average.
- Support businesses attempting to reduce rental costs by introducing legislation that eliminates upward only rent reviews in future contracts. In addition, Government should call on landlords and tenants to agree a Code for Leasing Business Premises.
- Re-allocate some NDP resources to finance a National Green Economy Investment Programme.
- Reduce the lower rate of VAT, which is on labour intensive services, from 13.5% to 10% for the remainder of 2009 to stimulate consumer confidence.
- To support tourism, reduce the rate of excise on alcohol to bring Ireland in line with UK levels.

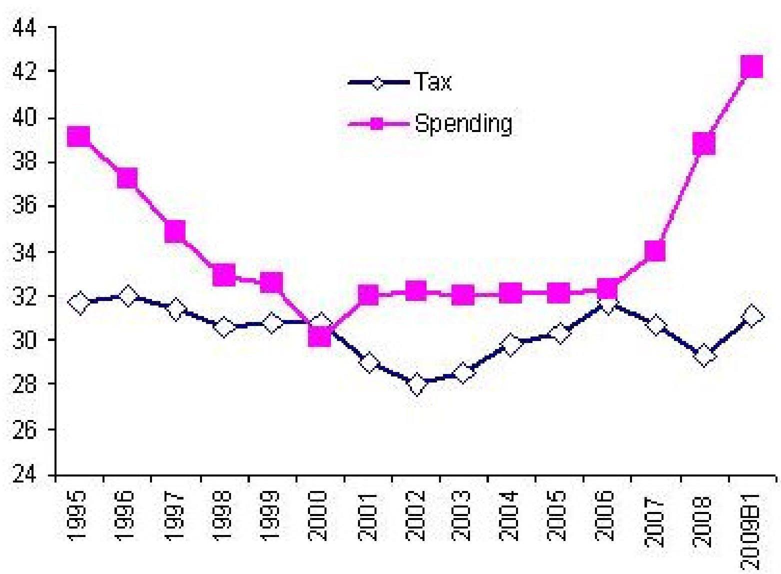
2. Expenditure Reform

The sharp deterioration in the global and domestic economic outlook has radically altered the operating environment for companies, with firms cutting costs "across the board" in order to remain competitive and, in many cases, to remain in business. Equally, **Government must seek to manage its own costs and prices in order to ensure that a positive low tax environment, supportive of enterprise and job creation, is maintained.**

The forthcoming budget must send a clear signal to international financial markets that the Government has secured a wide consensus in restoring stability to the public finances. Specific measures are required, with a clear timetable for their introduction, to tackle excessive government expenditure and the Exchequer deficit within a five year timeframe. **We believe that the bulk of corrective measures (at least 75%) are required on the expenditure side.** A reduction in current spending is required, with some reductions in capital spending. Capital projects should be implemented on the basis of their return on investment and their impact on employment. Dublin Chamber believes that the impact of Metro North and the DART Underground should be assessed together and in the light of their impact on Ireland's carbon emissions and on employment. The delivery of these projects will greatly benefit us in achieving our European environmental commitments and they will help to reduce the excessive cost of congestion in the Dublin City Region, making it a more competitive location for investment.

We believe that the best means of restoring the economy to a more competitive footing is through a reduction in public sector wage rates to reflect the corresponding wage decreases and job losses in the private sector. Average public sector pay in Ireland is higher than many other EU15 economies and in many cases, at all levels, net take home pay for public servants across comparable grades is now the highest in the world. The benchmarking process increased public sector wages at a time of full employment and a strong growth in private sector incomes. Equally, benchmarking should now lead to a reduction in wage rates to reflect the downturn. Total Government expenditure now exceeds 1995 levels, when one quarter of current spending was directed towards servicing the National Debt. Overall, Dublin Chamber believes that total public expenditure must return to 2006 levels of about 34% of GDP, allowing for the impact of automatic stabilisers such as Live Register claimants.

Total tax and spending as % GDP 1995-2009



Source: www.irisheconomy.ie

RECOMMENDATIONS

- Reduce total public spending to 34% of GDP within five years, with the bulk of the reduction in current spending and public sector pay rates in particular.
- Cut all non-pay current expenditure by 5% per annum in 2009 and 2010 in all departments, state bodies, local authorities and the HSE, without exception.
- Renegotiate the salaries of senior members of the public service in order to affect a 10% pay cut – matching the conditions in the private sector. This should include hospital consultants and professionals – above the level of Principal Officer or equivalent – and Oireachtas members. In addition, all bonus payments and increments should be suspended until the Exchequer deficit is within ECB guidelines.
- Reduce the Public Capital Programme by 10% in 2009 and 2010. However, funding should continue to be made available to guarantee that a pipeline of projects have secured planning permission, so that these projects are ready to go as soon as the Exchequer's position improves.
- Priority should be given to projects that give both competitive advantage and have a strong benefit to the economy through multiplier impacts. Therefore, proceed with the Metro North and DART Underground projects.

3. Broadening the Tax Base

The current system of local government financing is failing and is overly reliant on business taxation. A broadening of the tax base is required. In order to raise taxation levels without unduly damaging demand, we recommend that a switch from income/expenditure related taxes to a more broadly defined wealth tax be considered. Such a wealth tax would target those who have achieved most gains in recent years and have accrued significant wealth. The impact of such a tax on the knowledge economy should be considered. Therefore, we propose that wealth might be defined to include all net real assets. A wealth tax should be more broadly defined than residential property. This would allow higher exemption threshold limits to reduce administration costs.

In tandem with broadening the base of taxation, we recommend that the Budget set out the basis on which local authorities can raise funding based on local taxes and charges. The reform of local government must include revenue raising powers so that citizens can make a direct connection between the level of taxes they pay and the level of services they receive. This would assist them in holding their elected representatives accountable.

RECOMMENDATIONS

- The funding of local authorities should be broadened to include domestic rates and charges for services.
- Consideration should be given to the introduction of a wealth tax on net real assets.
- Property tax reliefs, in particular Section 23 relief, should be abolished.
- A residential property tax should be introduced, while shifting away from a transactions tax by reducing stamp duty.

4. Job Retention

Greater flexibility is required in existing labour legislation (including rates set by Joint Labour Committees and through the National Minimum Wage process) and labour market policy generally. There needs to be flexibility in our approach to unemployment given the number of jobseekers will exceed the number of job openings in the shorter-term. Dublin Chamber believes that Government should take an imaginative and creative approach to active labour market policy and promote initiatives that ensure the maximum number of people remain in the work force - even on a part time basis. It is critical that we seek to minimise those entering long-term unemployment and provide immediate support to those who have only recently been made redundant and are largely 'job-ready' due to their good work history and/or education. The Dublin Chamber is considering proposals to maintain persons in employment. We will be making our recommendations in due course. We note with interest, the analysis of the recent FAS 'Irish Labour Market Review 2008' and their proposals for a job placement and wage top-up scheme.