'Principle of revenue neutrality' proves Government's lack of vision

Mary Murphy (/blog/contributors/marymurphy/)

11/09/2009

Mary Murphy: The average percentage of GDP spent on social protection in the EU-15 is 27.5% (Eurostat, 2007 (http://epp.eurostat.ec.europa.eu/)) . The Irish rate of 18.2% compares badly with high spenders France (31.1%) and Sweden (30.7%), with our nearest neighbour the UK at 26.4% but also with countries like Greece (24.2%) and Portugal (25.4%). Ireland, to make any meaningful social or economic progress, should be moving toward a higher percentage of GDP on social protection.

However, the objective of a low tax economy and the principle of revenue neutrality that lie at the heart of the Commission on Taxation can only lead to one place: a low level of social expenditure that limits Irish social development and cohesion. Further, given that revenue has dropped substantially (by over 6 billion euro since 2007) a revenue neutral scenario locks Irish social expenditure into even lower levels than the relatively poor levels of 2007. This post argues that, despite the fact that there are revenue policy choices available to the government that could increase overall revenue for social expenditure, Government has made an explicit policy choice not to avail of these policy options but to instead let those on the lowest incomes bear the brunt of our crisis. This policy choice exposes the vision of this government. Quite simply, there is no social vision.

We grew accustomed to the government mantra that Government policy is to protect the most vulnerable. However, the new mantra is that because social welfare accounts for a third of social expenditure it must contribute one third of savings in public expenditure required in this forthcoming budget (1 billion euro in expenditure cuts). To justify this failure to 'protect the vulnerable',the government is selling two myths to the Irish public. The first myth; that the level of Irish welfare is problematic, the second; that cuts are inevitable.

First, the reality of poverty has been obscured by a deluge of myths: welfare is the most generous in Europe; it does not pay to work; the cost of living has fallen, welfare soared in recent years. Every one of these myths has been endlessly exposed. OECD figures show payments to single claimants in Ireland are the third lowest in the EU15, while a family with two children gets just above the EU15 average. Welfare is not 'high' or 'generous', and if you are living on it you are below the Government's own 'at risk of poverty threshold'. You are not better off on the dole – not only single people, but also those with large families, get higher incomes from working (through Family Income Supplement). This is true whether they are on the minimum wage or the average wage. While the overall cost of living is falling, the things that low income families buy more of (solid fuel, public transport, childcare) are rising. If you are interested in facts there are more on The Poor Can't Pay (http://www.thepoorcantpay.ie) website.

The second myth involves convincing the public that there is no alternative to cutting welfare payments. This is not true. The most plausible and realistic policy alternative to welfare cuts is to raise the 1 billion euro through taxation. However, from the very start the Commission on Taxation was asked to be 'revenue neutral' and McCarthy was told not to look at taxes - or pay. Ironically, the Commission on Taxation draws our attention to the multiple instruments government has available to increase government revenue - instruments with capacity to generate as much revenue as welfare cuts would save. These include a property tax, an increase in the top tax rate for high earners, the abolition of remaining discretionary tax allowances, a policy of standard-rating pension reliefs, increases in corporate taxes and the introduction of carbon taxes. However, in the context of a principle of 'revenue neutrality' none of these become viable policy alternatives to stave off cuts in welfare.

A leaked comment from April shows that the Cabinet believes that the €1 billion it could raise from property tax is 'probably not worth the bother' (Irish Times, April 19th). It is true that such tax reform would not be popular and those on middle and higher incomes would find life more difficult. Clearly, taking 1 billion euro from welfare recipients is an easier political option, and so worth the bother.

Minister Lenihan justifies his revenue neutral principle with the assumption that the 'burden of taxation in this economy is high enough' and assumes Irish people are unwilling to pay more taxes to tackle inequality and poverty. This is simply not true. A 2009 Behaviour and Attitudes poll commissioned by TASC shows 72% of adults are concerned at the level of wealth inequality in Ireland and that 85% of adults (60% strongly) agree to government taking steps to reduce income inequality.

Irish people care more then their ministers about the 'burden of poverty'. Let us be clear: This Government is making a conscious choice. It is declining an opportunity to raise upwards of €1 billion in revenue. If this government cuts social welfare it is because it has chosen to do so, and because it has chosen not to develop alternative revenue raising tools. The Minister should think again.

Crude welfare cuts do not make social, practical or moral sense. There are significant economic benefits from social welfare expenditure. In the short term every penny of social welfare expenditure is spent in the economy and stimulates demand. Cutting such expenditure is deflationary. In the longer term, social welfare expenditure and broader social inclusion policies are a vital part of every successful modern economy. Decent welfare enables workers be more flexible and adaptable in the face of global economic change. A cut in social welfare cuts competitiveness, reduces social cohesion and reduces our collective capacity to fight this recession. Restoring our competitiveness, saving jobs and closing the fiscal deficit can be achieved in ways other than forcing society's poorest families into deeper levels of poverty. This is about choices. Nothing is inevitable.

Dr. Mary Murphy is a member of the Steering Group of The Poor Can't Pay (http://www.thepoorcantpay.ie). She lectures in Irish Politics and Society in the Department of Sociology, NUIM.

Posted in: Economics (/blog/categories/economics/) • Inequality (/blog/categories/inequality/) • Welfare (/blog/categories/welfare/)

Tagged with: income inequality (/blog/tags/incomeinequality/) • social welfare (/blog/tags/socialwelfare/) • cuts (/blog/tags/cuts/)

Mary Murphy (/blog/contributors/marymurphy/)

Share:

Related Posts

- IMF Study of Downward Share of Labour Income is Recognition of the Major Economic Issue of our Time (/blog/2017/05/15/imf-study-of-downward-share-of-labour-income-is-re/)
- Is Ireland Getting More Equal? (/blog/2017/02/12/is-ireland-getting-more-equal/)
- Prof Brian Nolan on Inequality - A complex issue explained. (/blog/2016/12/29/prof-brian-nolan-on-inequality-a-complex-issue-exp/)

Comments