THE LABOUR PARTY

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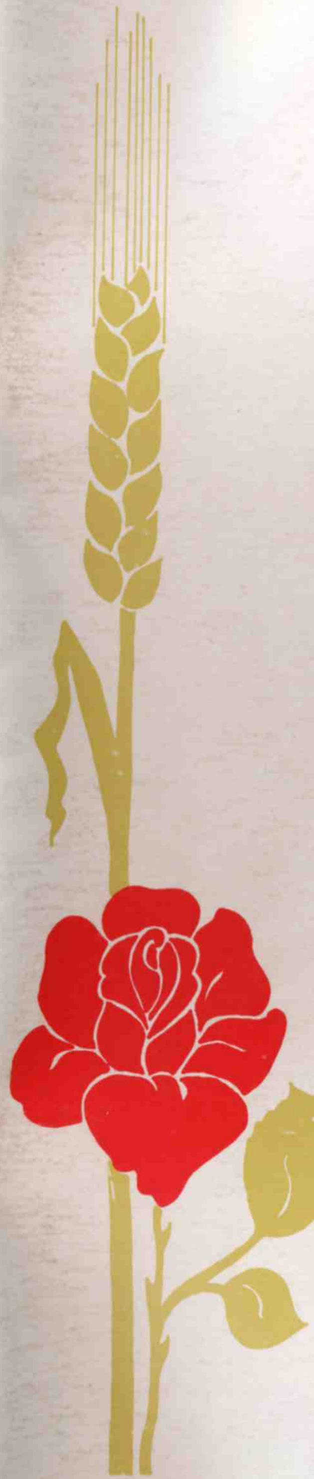

LABOUR'S AGENDA

An Economic Programme for the 1990s

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Foreword

1. The last National Conference of the Party adopted the following resolution, put forward as Motion 31 in the name of AEU(TASS):

> This Conference instructs the incoming AC to set up a high-level Committee from the PLP, the AC, the Trade Union movement, and other relevant groups, to formulate a socialist alternative strategy to the policies pursued by successive Governments which place the burden on labour as opposed to capital.
>
> This Committee should pay particular attention to the following areas:
>
> a) Foreign debt and penetration of our economy by foreign capital;
>
> b) Development and expansion of the State sector;
>
> c) Massive subsidies to the private sector by Government;
>
> d) Education, health, and social services;
>
> e) Tax equity;
>
> f) The dumping of foreign goods on the Irish market.
>
> To this end the Committee should seek submissions from relevant groups and prepare a report to the next Conference.

2. The incoming Administrative Council established the following Committee on January 28th, 1988:

Charlie Douglas	ATGWU	Barry Desmond TD
Tom Garry	FWUI	Ruairi Quinn TD
Bobby Rice	UCATT	Michael D Higgins TD
John O'Brien	ITGWU	Michael Bell TD
Gerry Shanahan	MSF	Sen. Michael Ferris

James Wrynn
Sam Nolan
John Cunningham
Pat Upton
Joan Burton

Charlie Douglas was appointed Chairman of the Committee, and Flor O'Mahony acted as Secretary.

The Committee would like to express its appreciation to the groups and individuals who made submissions, and to all those who helped us in our work.

A Medium-term Economic Strategy

3. This document sets out Labour's medium term economic strategy. It indicates a policy direction which, if pursued nationally, would lead to significantly higher output and employment in the economy. Further, it proposes fundamental reforms to our tax system which would both improve incentives for employment creation and provide greater equity in the incidence of taxation.

The preparation and publication of this document is part of an ongoing process of policy review in the Party.

A new Social Policy will be presented later this year. It will focus primarily on the question of poverty. There is a growing awareness, supported by opinion poll evidence, of the need for a new deal for the poor. The national debt cannot be used as an excuse to avoid tackling this social crisis. The share of the poor in national income is so small that to increase their standard of living, while making the necessary adjustments to reduce our indebtedness, would not cost an excessive amount. The poorest 40% of the population receives about 20% of national income. Thus, each 10% rise in their incomes would raise their share of the national income by only 2%, and would imply only a minimal sacrifice by everyone else. Labour's proposals to target extra resources to the poor will be outlined in its new Social Policy.

As part of its agricultural policy review, Labour will attempt to assess the overall impact of the CAP in the Irish economy. Such an assessment is vital in the context of the on-going reform of agricultural policy in the Community. Before deciding what attitude to adopt to proposals for reform, it is necessary to understand clearly who has benefitted from CAP income to Ireland, and why

that flow of income into the economy has not been utilised effectively to generate increased output and value-added in the agriculture and food sectors.

With hindsight, the CAP provided only a temporary boon to the Irish economy. Labour is now looking more closely at the merits of the European Socialist position, which seeks CAP reform because it is inflationary and because it devours scarce financial resources which could be devoted to new regional and social policies in the Community. It may well be in Ireland's best interest to accept movement towards a market system in European Agriculture, provided the savings made in the EC Budget are focused on the less-developed regions and low-income farmers.

Policy Located in Ideology

4. Policy development in the Labour Party does not take place in an ideological vacuum. A belief in the basic values of liberty, equality and fraternity underlines Labour's vision of society. Policy is the attempt to give expression to these values in the contemporary setting.

In the 1980s, Ireland has witnessed the emergence of a consensus of the Right that sees the economy as separate from the daily experience of those who are treated unequally, who are exploited, who are excluded. What has emerged is a view of a **depeopled** economy.

There has also been a unique attack on the role of the State as a source of innovation in production, as a levelling mechanism, or indeed as a comprehensive provider of basic needs in the areas of housing, health, education, or social welfare – to mention but a few areas.

There has been an emphasis on the curtailment of democracy through the placing of blocks on citizen participation, and the discouragement of political education which might have led to more widespread economic literacy. The economics of the Right has been presented as neutral, the problem of the economy as one of management.

The approach of the Labour Party has been unique in its emphasis on the need for change in the structures of society and the use of economic planning, to achieve socially desirable and publicly accountable aims.

Labour's vision is one of mutual **inter-dependency** at national and international level. Such values are in sharp contrast to the radical individualism of the Right. It is a basic political choice for the future of Irish society that is being made. Voters are invited to choose between a politics of mutual support and a politics of radical individual greed.

This radical individual greed is the antithesis of the values required for full **personal** development of all citizens. It obstructs rather than facilitates true freedom. The three values of **equality, liberty, and fraternity** constitute the policy goals towards which this economic strategy is aimed.

Introduction

Towards an Alternative Economic Strategy

1.1 This policy document is presented at a time of mass unemployment and widespread poverty in Ireland. Emigration is taking place at a rate which is exceptionally high even by the standards of the past.

Our economic system, as in most of the period since Independence, is failing to create the national wealth and employment opportunities demanded by our population. It is not providing either the increase in living standards which would maintain, let alone improve, our position vis a vis our European neighbours.

Economic projections by the ESRI and the OECD forecast a continuing level of unemployment at around 18 to 19% into the 1990s. Unemployment at this level for a decade or more will have lasting effects on what's left of Irish society after emigration. It will cement the trend creating two societies within communities. To Labour, the existence of an unemployment culture and unemployed underclass is wholly unacceptable.

Given the scale of the difficulties, and the inadequate response of the political system, many people have despaired. Others seek local solutions to what are fundamentally national problems.

However, Labour believes that there is an alternative strategy which would overcome the short-term financial problems of the economy and provide the basis for sustained and equitable growth in employment and living standards in the medium term. The elements of the programme are set out below. The ingredients are there: the missing element in harnessing the undoubted potential for revitalising the economy is leadership.

Labour now provides that leadership.

Towards a Democratic Economy

1.2 For Labour, the economy is not just a bloodless set of statistics on employment, growth, or the balance of payments. It is also a set of social relationships.

Seen in this way, jobs are not just a means of acquiring income. They are a dominant factor in the way in which people can come to express themselves and participate in society. Unemployment is not just a matter of having to subsist on less income than those at work. It also implies exclusion from society and loss of self-esteem. It is for these reasons that priority must be given to employment in any democratic economy.

Work is central as a means of expressing social relationships. Therefore, Labour places equal weight on securing democratic structures in the work place itself. Labour, together with trade unions, has always argued that participative relationships in the workplace and adequate protective arrangements for workers are an essential reflection of the nature of work itself.

For these reasons, with the trade unions, Labour has been to the forefront in demanding and enacting protective labour and social legislation; in promoting safety and health standards in the workplace; in pursuing equality of the sexes; and in demanding a new deal for low-paid and part-time workers.

These demands remain central to Labour's agenda. But today new factors are arising. The impact of new technology, often positive in doing away with drudgery and repetitive tasks, in addition to reducing unemployment, often leads to the deskilling of those left in employment. Similarly, new forms of work organisation are giving rise to the fragmentation of production and the rise of part-time franchise and subcontract employment.

In this situation, capital is given a new advantage against a fragmented labour force. Labour's agenda, therefore, will include measures to strengthen worker participation

and to provide comprehensive protection for all working people. irrespective of the nature and form of their employment.

The Right argues that Labour's vision of a humane, just and democratic economy can only be pursued at the expense of growth and competitiveness.

We profoundly disagree. The prospects for growth are enhanced when the workforce is informed, consulted, protected, and therefore committed to the economy and society at large.

The Failure of Past Policies

Boom and Bust

2.1 A Fianna Fail government is now marching the Irish economy down the "rectitude" side of the fiscal hill after marching up it in 1977. The tragedy is that a whole generation has been short-changed in the process. Both those forced to emigrate, and those remaining at home who must live with the cuts in health and education services, have been forced to pay the cost.

2.2 The 1980's have been marked by economic decline. This was mainly a result of the disastrous mismanagement of the Government's finances in the late 1970's and early 1980's and the failure of the Irish productive sector to provide employment-generating growth in the economy. The scale of Ireland's relative decline is best illustrated by the period 1982 – 1987 when there was substantial economic growth in most world economies.

(Table 1 below shows GNP data for Ireland and selected countries for different time periods. Tables 2 & 3 show relative employment and unemployment for Ireland and other countries.)

TABLE 1: GNP – AVERAGE GROWTH RATES (%)

	'70-87	'78-87	'82-87
U.S.A.	2.7	2.3	3.8
U.K.	2.0	1.9	3.3
Germany	2.2	1.7	2.2
France	2.8	1.8	1.6
Italy	2.6	2.5	2.5
Holland	2.3	1.3	2.2
Belgium	2.3	1.4	1.3
Sweden	1.9	2.0	2.5
Denmark	2.2	2.0	2.5
Ireland	**2.3**	0.6	-0.3

TABLE 2
TOTAL EMPLOYMENT GROWTH (%)

	'70-87	'78-87	'82-87
U.S.A.	43.0	17.2	13.1
U.K.	0.7	–0.5	4.7
Germany	–2.7	1.0	0.9
France	2.5	–2.1	–1.1
Italy	10.7	6.9	3.9
Holland	–0.3	–0.2	1.8
Belgium	–0.6	–1.6	0.6
Sweden	11.9	4.8	2.4
Denmark	10.8	7.1	7.2
Ireland	0.9	–4.2	–7.4

TABLE 3
UNEMPLOYMENT RATE (%)

	'70	'78	'83	'87
U.S.A.	5.0	6.1	9.6	6.2
U.K.	2.4	5.0	11.3	10.7
Germany	0.6	3.7	8.2	7.9
France	2.5	5.4	8.4	10.6
Italy	5.0	6.8	9.2	10.8
Holland	1.7	5.5	15.0	12.7
Belgium	1.9	7.1	12.9	11.3
Sweden	1.5	2.2	2.9	2.0
Denmark	1.3	7.3	10.4	8.1
Ireland	**5.8**	**8.2**	**14.0**	**18.7**

Longer Term Trends

2.3 It is wrong to analyse Ireland's economic difficulties solely in terms of major mistakes in economic policy committed ten years ago for political gain. Mismanagement has undoubtedly worsened the position, but the roots of the crisis go back much further. The fundamental problem has been the inadequacy of the economic development models pursued in the post-independence period.

2.4 A recent study of Irish economic history by the ESRI makes clear that Ireland at the turn of the century was, in terms of living standards, in the middle of the European league. Today the country lies close to the bottom, notwithstanding the emigration of nearly every second person born in this country in the intervening years.

During this period, successive conservative Governments have tried a number of approaches to stimulate economic development:

the laissez-faire, hands-off strategy tried in the 1920's;

the period of protection from the 1930's to the 1950's which, while it brought some short-term gains, failed to provide the basis for self-sustaining growth. It collapsed disastrously in a succession of balance of payments and deflationary crises in the 1950's;

the hand-out strategy from the 1960's to the present, in which incentives in the form of tax reliefs and very generous subsidies and capital grants were used, to try to attract foreign enterprise to make up for the deficiencies in native private enterprise. The limitations of this policy became clear when mobile foreign investment dried up during the recessionary years in the 1980's. At the same time other weaknesses, such as the cost in terms of profit repatriation and the lack of linkages with local firms became increasingly apparent.

2.5 Labour believes that to attempt to solve the short-run problems in the Irish public finances without getting to grips with the need for a new model of sustainable and equitable growth in the longer term is futile. The only way to provide for essential public expenditure without recourse to unsustainable borrowing is to raise the underlying growth rate in the economy. The alternative is to continue cutting public expenditure to keep it in line with the taxable capacity of a low growth economy. The consequence of this would be an ever downward spiral in the quality of education and health provision, in the quality of our environment, and in the provision of public services such as law and order, with ultimately further negative consequences for the growth rate itself.

The Limitations on Policy

2.6 The Irish economy is subject to a number of constraints which Labour must recognise if our analysis and solutions for the future are to be soundly based.

These are:

a) The structure of the Government finances, and in particular the size and interest servicing costs of the National Debt;

b) The small and open characteristics of the Irish economy which limits the value of any general reflationary policy, even if such were possible;

c) EC laws, decisions, and practices, and the left/right political struggle in that framework.

2.7 The national debt cannot be wished away, but the Labour Party will not allow its policy options to be constrained by excessive caution.

The reality is that for the next five to ten years the debt will remain at a relatively high level. However, other economic objectives, and in particular the employment priority, must be pursued while managing an undesirable debt situation which is semi-permanent.

Sustained growth will, of course, lessen the debt problem and Labour's policies are geared to that end.

The Evolution of the European Community

3.1 The plans to create a Single European Market by the end of 1992 are a major external factor which Labour's Agenda must address. Four issues arise:

a) The consequences of the removal of internal barriers to trade, capital mobility, provision of services, and movement of people, which are at the heart of the Internal Market programme;

b) The use of the Structural Funds which are intended to promote economic and social cohesion;

c) The consequences of the ongoing reforms in the Common Agricultural Policy;

d) The possible financial and social impact of indirect tax harmonisation.

3.2 A successful strategy to cope with the changes which the Internal Market programme will bring requires an objective appreciation of the threats and opportunities it holds for a country like Ireland. The major consequences are:

a) Ireland may gain on balance from the direct reduction in Internal Market barriers, such as differences in national technical regulations and standards (particularly obstructive in the food industry), protectionist public procurement policies, and MCAs on agricultural trade.

b) If the Internal Market programme is successful in its stated aims of improving Europe's growth and technical competitiveness relative to the United States and the Pacific Basin countries, a higher growth path in Europe would assist economic development in Ireland, as evidenced by our experience in the 1960's and 70s.

The Single Market provides the possibility of capturing increased American and Far East investment.

c) These would be primarily short-term gains. In the longer term, the restructuring of European industry on which the gains from the Internal Market programme depend will mean the centralisation of production and service activities in the European core, at the expense of peripheral regions like Ireland, unless countervailing action is taken.

This trend poses enormous threats to our economy, but Ireland does not have the choice of opting out and avoiding the consequences of the restructuring of international capital which the Single Market will bring.

Labour's efforts, in common with our Socialist allies in the other European countries, will be to aim to regulate this process at Community level to ensure that the objective of economic and social cohesion between Community member states, including Ireland, is not jeopardised.

Labour stands for the strengthening of the Community's industrial and competition policy, and a much enhanced role for the planned and effective use of the Structural Funds.

The Internal Market

3.3 The Internal Market programme, as it applies to trade in goods and services, has a strong deregulatory thrust. While Ireland may gain in the short run from this process, the longer term outlook is more ambiguous.

To maximise the benefits to Ireland, Labour argues that the following steps must be taken.

The Co-operative Growth Strategy
The European Commission has estimated that removing internal trade barriers could increase the Community's GDP by 6%. This gain would be realised, however, and the adjustment costs to greater competition minimised, only if a high level of demand and economic activity was

maintained within the Community. The EC's co-operative growth strategy, as an agreed growth-oriented programme to reduce unemployment, is vital. However, it has not been applied on a community-wide basis.

Labour is convinced that this strategy must be re-affirmed and relaunched as a major priority.

The Promotion of the "Social Europe" concept.
A social dimension to the Internal Market programme is essential, to secure an equitable distribution of the benefits of the Single Market between the regions and social groups in the Community.

Labour supports fully those political and trade union groups in the Community which propose an EC regional industrial policy to complement the enhanced Structural Funds. We support too the programme of the European Trade Union Confederation which seeks Community legislation to secure workers' rights in the areas of labour and welfare law. Legislative means to secure worker participation, information and negotiating rights, and harmonised working conditions, are essential if the Single Market is not to become a deregulated labour market zone.

Free Movement of Capital
Free movement of capital will make it very difficult to have macro-economic policies greatly at variance with the major European countries. In the future, interest rate movements will be a major instrument of adjustment.

The free movement of capital after 1992 will also have implications for the conduct of financial policies. Financial institutions will have the right to compete for customers in any Community country without the requirement of establishment in each country. The plus side of this is that the greater competition will reduce the cost of financial services for Irish producers and consumers. Conversely, it also implies that public control by national authorities of financial institutions will have little relevance.

Any attempt to impose restraints and conditions on the operations of banks or other credit institutions will drive customers away to their foreign-based competitors.

Labour insists that adequate controls must be put in place at Community level – in particular with respect to disclosure and with-holding tax requirements.

In the Irish context, the free movement of capital regime presents an overwhelming argument for direct State involvement in the traded goods sector, and the expansion of State ownership in key new sectors. It is only by this route that an Irish controlled base in the productive sector can be guaranteed in the future.

Industrial and Competition Policy
A process of cross-national mergers and acquisitions has already begun in preparation for 1992 – the Irish Distillers case gives a foretaste of what is to come. Plants located in the more peripheral regions of the Community will be more vulnerable to closure and relocation in the inevitable rationalisations which follow such mergers. Ireland's productive base could be further eroded as a result.

The reality has been that no effective European regional policy has ever operated. There have been national regional policies supported by European aid.

Labour stands for the following measures in this area:

1) *The development of an integrated European regional policy for agriculture, industry, infrastructure, and services;*

2) *A stricter enforcement of Community competition policy limiting State aids to industry in the more developed regions of the Community, and ultimately the regulated limitation of new investment in the core areas.*

We also affirm the integrity of the Protocol attached to Ireland's Accession Treaty with the Community, which permits this country to take special measures to promote industrial development.

The Structural Funds

3.4 The Community's institutions have recognised that special difficulties will face the less-developed regions in the Single Market. As a result, the structural funds available to those regions, including Ireland, will be doubled by 1992. Assuming the funds available to Ireland will double too, revenue from this source will increase from 350 million in 1987 to around 700 million in 1992 (in 1987 money terms).

Even when doubled, structural fund receipts will amount to only 3 – 4% of Irish GNP. Taken in conjunction with the likely decline in CAP receipts as a result of the ongoing reform of the CAP, these transfers are a relatively weak instrument to counter the centralising economic forces. Merely throwing European money at Irish problems is not an answer to our economic development.

The preparation and planning process to date in Ireland has been secretive, undemocratic, and badly organised by the present Government. Public authorities, key interest groups, and local communities have not been properly involved.

Labour's view is that:

a) The Structural Funds must be a genuinely additional financial instrument, and must not be used as a substitute for domestic public expenditure;

b) The Funds should be carefully used to improve our economic base so as to lead to a permanent improvement in output and employment.

Reform of the Common Agricultural Policy

3.5 Agriculture is far more important as a proportion of GDP in Ireland than in most EC countries. As a significant net exporter, this country gained heavily in terms of higher market prices in the early years, and latterly in terms of price supports from the intervention funds. These represented net income gains to the economy. In fact, the projected advantages for agriculture were one of the main

original rationales for full membership of the EC in 1973. Under successive Governments poor use was made of the opportunities offered in terms of:

- long term planning of agricultural output, structural reform in farming, and the development of the food industry;
- the failure to redistribute adequately part of the massive income gains made, especially by large farmers in the early years, to the rest of the economy through the absence of a proper tax system for farming.

Account must now be taken of CAP reform because of its important macro-economic consequences.

In Labour's view, the existence of the CAP was part of the compact entered into on joining the Community. We do not wish to defend a regressive price support policy which has penalised consumers to support wealthy farmers per se. However, the CAP has operated partly as a substitute for Community regional policy to date. Labour argues that compensation should be sought through further increases in the Structural Funds after 1992.

Indirect Tax Harmonisation

3.6 The proposals to harmonise indirect taxation, in whatever form they finally emerge from the Community institutions, will most probably reduce revenue to the Exchequer. The revenue loss which would accrue from the first Commission proposals – an estimated £470 million in the first year and £350 million a year after that – would be unsustainable in Ireland's circumstances.

However it has been agreed that unacceptable changes in the structure of taxation systems cannot be imposed on any member State. In addition, complete harmonisation is not envisaged. A variation of 5% between the highest and the lowest in the EC has been mentioned. There is no reason why a slightly higher variation might not ultimately be agreed for countries far from the centre of the EC. Nevertheless any type of indirect tax harmonisation will operate as a very important constraint on future Irish Governments.

Labour's view is that low-income groups must be fully compensated, either through welfare or income tax adjustments, for any purchasing power lost through indirect tax harmonisation on essential household items.

Overview

3.7 In the short term Ireland must accept the realities of the evolving EC. The forces which structurally determine economic performance in the Community mean that Ireland could become increasingly dependent on obtaining large transfers of economic resources from Europe. Labour policy therefore must focus on a strengthening of the alliance with our Socialist partners in Europe to ensure that our historical subservience to British political and economic hegemony is not supplanted by an altogether more subtle and complex process.

In this respect, we have an opportunity to initiate a serious debate on the implications of European membership. This is not to imply an anti-European stance per se, but rather to see our membership and its implications in a much more balanced and critical context than heretofore.

Such an approach will need to take account of fundamental conflicts which might arise between implementation of the Single European Act on the one hand, and the pursuit of national policy that might be interpreted under the Act as discriminatory, on the other.

Labour's Economic Approach

Labour's Economic Objectives

4.1 Labour's Agenda for the 1990's will have the following five major objectives:

a) To increase employment by strategies which raise investment and the overall growth rate, by increasing the employment content of growth, and by specific and deliberate measures aimed at re-integrating the long term unemployed into the workforce.

b) To facilitate the structural changes in the economy necessary to meet the challenge of increased global competition consequent on the realisation of the European Single Market. These include measures to:

- i) improve manpower and skills training;
- ii) increase further the support for technological and scientific innovation;
- iii) increase competition and accountability in both the private and public sectors;
- iv) ensure the protection of the environment from spoliation for short-term gain.

c) To prepare the institutional basis for a decisive shift towards a more democratic and participatory economy by:

- i) strengthening the role of public enterprise;
- ii) encouraging new and innovative forms of social ownership;
- iii) legislative changes in the area of company law;
- iv) reforming the structure of public administration;
- v) by economic and social planning.

d) To tackle the emerging poverty crisis by increasing transfers to the poor substantially while continuing to make progress in redressing the state of the public finances.

e) To fulfill our obligation to alleviate the crushing burden of human misery in the Third World through increasing our contribution to Development Aid, supporting Third World demands for debt relief, and by undertaking trade policy reforms.

Labour's Agenda

4.2 In pursuit of these objectives, Labour proposes:

1) A commitment to **democratic economic planning** based on the social partnership covering incomes, employment creation, tax reform, public services and the elimination of poverty.

2) An active role for State intervention to overcome specific barriers to economic expansion based on a **revised charter for public enterprise**.

3) A radical **refocusing of State grant aid policy**, including equity participation in the production sectors of industry, agriculture, and service, consistent with stated development policy.

4) An overhaul of the **structure of taxation incentives** to promote investment and employment growth, consistent with 3) above.

5) Taxation reform designed to broaden the tax base and ensure **equity in the tax system**.

6) The development of the **social market economy** through changes in both national and EC legislation, designed to protect workers, the weak, and the environment from the predatory extremes of the profit motive.

7) A **consumer-based policy** of greater competition and public sector accountability to promote cost competitiveness.

8) Increased commitment to **specific employment policies** designed to increase the employment content of growth and to tackle the problems of re-integrating the longterm unemployed.

9) An absolute commitment to solidarity with the **people of the Third World**, including an increase in the Overseas Development Aid budget, combined with support for Third World demands on trade and debt.

Democratic Economic Planning

5.1 The results of past policies, the constraints on policy, and the effects of greater economic integration in Europe, have been dealt with in earlier sections. It is clear that strengthened institutional structures will need to be put in place to enable a broadly based popular involvement in negotiating, influencing, and setting objectives, priorities and means.

Capital is already assured a consultative role. Labour's proposal is to extend this to trade union and community interests in a structured way.

5.2 The most successful small European economies have been mostly those which have established a high degree of consensus on economic policy – Austria, Netherlands, the Scandinavian countries. Typically, a strong Socialist Party has ensured that consensus based on equity is enshrined as a permanent basic principle of economic policy formulation.

Two major benefits flow from this. **First**, there is continuity of economic policy between different Governments. **Second**, short-term objectives and policies are more easily agreed upon. At firm level there is a bias towards cooperation rather than confrontation based upon a common understanding of the economic environment.

5.3 Labour believes that moves to tackle the jobs crisis, tax reform, the public finances, and the elimination of poverty are only feasible in the context of a clear plan for economic and social development. In recent years economic plans have been little more than a series of aspirations, a listing of desired objectives.

5.4 There are difficulties in trying to plan the development of a small open economy, where unexpected external developments (an oil price shock, a UK devaluation) can easily shift the parameters on which the plan was drawn up. However, such events should not be used to dismiss the possibility of planning – rather, planning should permit greater flexibility in responding to these events.

5.5 This is the key to Labour's approach to planning. The plan must not be a rigid, inflexible framework of quantitative targets which can be ignored once it is clear that circumstances have changed.

With Labour the plan itself is no more important than the process of consultation with the social partners, of agreeing the analysis, of identifying constraints and opportunities. Under Labour planning will be consultative, flexible, and decentralised. In the end, planning is about policy choices – and only a Socialist Government can ensure the full expression of Socialist priorities.

5.6 Under Labour, national economic planning would be given a statutory basis, with responsibility transferred from the Department of Finance to a special unit in the Department of the Taoiseach. Medium-term plans would be drawn up outlining the major priorities, constraints, and policies to be adopted.

Operational decisions on matters such as taxation, incomes, public expenditure and capital expenditure would, as now, be taken in the context of the Annual Budget. However, this process would take place in the wider context of the national economic assessment, and would not solely be concerned with the state of the public finances. Second, the process would be a much more open one. The secrecy surrounding the process would be abandoned for a process of consultation with social partners and other representative groups.

5.7 A realistic approach to national economic planning must involve some planning of incomes. Labour would enter into discussions with the Social Partners to secure their agreement to a pattern of wage developments, which would take into account wage movements in other countries, productivity growth, and the need for investment at home. Any requirement for wage moderation that would be translated into jobs must be assured through trade union involvement in setting national priorities in the annual economic assessment and at sectoral levels.

Refocusing of State Grant Aid

Critique of past policies

6.1 In 1980/81, total Corporate tax relief was £235 million. By 1987/88, the figure for the year stood at £1393 million. The provision of tax incentives of this magnitude, and grant aid from a plethora of State support agencies in the industrial, agricultural, and tourism sectors has been the major instrument of economic development during the last twenty years.

The results have been a failure. Native Irish industry has contributed nothing to employment growth for over twenty years, and now employs 30-40,000 people less than it did in the mid-sixties. While foreign-owned firms took up some of this slack, and in fact generated an increase in manufacturing employment in the 1970s, their contribution too has been reversed in recent years.

Overall employment in industry fell from 227,000 in 1980 to 185,000 in 1986.

6.2 Labour will continue to use State grant aid and State agencies as important levers to induce employment creation in the private sector, but under very different terms and conditions. In the past, state support agencies tended to be reactive rather than interventionist. The IDA and other State funding and advisory agencies were not committed to take the lead in industrial re-structuring – nor indeed were they sufficiently empowered to do so.

Small and medium sized native businesses failed rather than re-organise and re-develop. Rescue attempts by agencies such as Foir Teo were often too late to be effective. Mergers and amalgamations necessary for survival were not forced through. Industrial policy towards small and medium sized enterprise was passive. It was essentially confined to handing out free capital or grants, when and as often as requested by the owners concerned.

6.3 The Telesis Report on Irish industrial development strategy recommended major changes in this passive, reactive, and nonselective approach. Some of their recommendations have been partly taken on board – for instance, the slow shift away from over-concentration on fixed asset grants towards marketing and R&D support.

However, active interventionist policies to build strong native Irish companies, public and private, have been lacking. The overall strategic concept must be turned around from balance to selectivity. State investment resources must be placed selectively, to facilitate structural change and optimise its return, which has nothing to do with treating all applicants equally. The NDC and IDA must take risks to pick areas of growth, and to back winners.

6.4 Labour believes that foreign industrial development should continue to be an important component of industrial policy. The European Single Market may lead to opportunities to attract investment from relatively unfamiliar sources, such as the Far East, in the next few years.

The IDA has, over the years, built up a substantial expertise in the marketing and promotional skills necessary to attract overseas firms. During the 1980s it has also expanded its activities with Irish large and small businesses. Labour believes that the skills necessary to attract overseas firms are fundamentally different from those required to restructure and develop the indigenous manufacturing sector, where a more interventionist role, including direct State investment and equity participation, are more appropriate.

Labour proposes therefore that the present role and functions of the IDA should be reorganised. The IDA should be given a specific mandate to concentrate primarily on the promotion of Ireland as an investment location for manufacturing industry and internationally traded services. It would retain the necessary grant-giving powers to that ends.

6.5 *For native industry and traded services, the relevant sections of the IDA should be merged with the National Development Corporation (dealt with in detail in Section 8).*

6.6 Telesis envisaged that existing large Irish companies which had reached their potential in their own core businesses in Irish manufacturing locations would use their management skills and capital base to diversify into new manufacturing activities in Ireland. Such companies have in the main in the 1980s expanded in their core businesses abroad.

Examples would be the Smurfit Group, Cement Roadstone Holdings, Waterford Glass, and the major commercial Banks. In some cases, the domestic diversifications of such companies have not been very successful. *Labour envisages that the NDC would use the new powers spelled out in the next section to approach these companies with ideas and investment projects that they would jointly develop.*

A New Role for Public Enterprise

Present Role of Public Enterprise

7.1 The industrial policy of the last thirty years has had a strong private sector bias. The State enterprises engaged in the traded sector which were and are fairly small in number, after initial success, have had a mixed record. Many were established originally with both a commercial and a social role which could be combined effectively in an era of protection.

There was, and indeed still is, a degree of ambiguity about the role of Government (or responsible Minister), civil service, appointed boards, and management as regards the inter-relationship between policy formation and execution and operational matters. Such enterprises were often incorrectly funded in terms of debt/equity ratios, and in the 1970s were given inadequate attention at policy level. Problems were deferred, and planning controls were poor.

7.2 At the same time while competition was increasing, inefficiencies and complacency often arose in the enterprises themselves, based on a belief that the State would bale them out eventually on the grounds that they could not be allowed to fail for political reasons. Events and policy in recent years have changed this perspective, but this change has been wrongly accompanied by an implicit or explicit anti-State enterprise bias fomented by the Right.

7.3 The financial position of the commercial semi-State bodies, including utilities such as the ESB, CIE, An Post and Telecom, has greatly improved in recent years. Most of the semi-state sector are now making reasonable trading profits, although net profits are still lower than desirable because of large interest payments arising from the weight of past losses and too great a reliance on debt financing.

Labour believes that public enterprise has a major role to play in job creation. Labour proposes a new charter for public enterprise trading companies which would avoid a recurrence of the mistakes of the past. In addition, with regard to the public utilities, our objective is to ensure that they operate for the service and benefit of the ultimate consumer.

Expanded Role for the National Development Corporation

7.4 The NDC at present is perceived as a minor venture capital organisation concentrating in the main on small projects. Labour proposes to re-organise the NDC and to extend its brief as a central focus of industrial policy implementation.

In Labour's plan an enlarged National Development Corporation would be given major roles in two strategic areas. **First**, it would become the key instrument for co-ordinating and implementing sectoral development policies. To this end the sections of the IDA dealing primarily with the domestic industrial sectors should be merged with the National Development Corporation. The full range of grant aids, together with State equity investments, would be employed by the NDC to pursue the development policies appropriate to each sector.

Second, and complementing its co-ordinating role, the NDC would be encouraged to become a key player itself through making strategic investments in new industries.

7.5 Labour's proposal for the amalgamation of a large part of the IDA and the NDC is clearly linked to the central objective of creating more value added to be retained in Ireland through the development of indigenous industry and traded services. To this end, state equity investment will be an important operating characteristic of the new entity.

The following will be key features of the re-organised National Development Corporation.

It Will be Sectorally Organised
Sectoral organisation will allow the focusing of planning and development objectives, and the building up of business and commercial skills. The precise definition of sectors will be a matter for detailed study. Examples

could be food, fishing, forestry, engineering, chemicals, clothing, electronics, traded services etc.

Each Sectoral Entity will be Empowered to Act as an Investment and Holding Company
The NDC will be orientated to a development process involving majority or minority participation, wholly-owned subsidiaries, or other forms of co-operation. Direct equity involvement, on a flexible basis, will be a feature, though not necessarily a universal one in the development of the enterprises in each sector. The availability of loan finance will be allowed unlike in the present NDC structure where restrictions exist in this area.

Concentration on Building Large Irish Companies in the Traded Sector
The new entity will be an instrument for realising the thrust of the Telesis recommendations as well as general development functions. This can be achieved through stimulating mergers through marketing and R & D financial support, by means of grants, equity participation and loans. The NDC will work closely with both the private sector and the existing state sector.

Grants
Grant giving powers will be allocated as in the case of the IDA when dealing with foreign industry. As stated earlier, in relation to the foreign sector, fixed asset grants should be retained only to the extent dictated by competitiverrealities. For the indigenous sector, direct NDC equity participation will be the key element.

Personnel
The NDC will be close to the market sector and salary and reward structures must reflect this clearly. Top business and professional personnel will be required.

Regional Development
The NDC will have a strong regional orientation in harmony with the thrust of recent policy among state agencies engaged in industrial development. Entities such as SFADCO will be expected to operate in harmony with NDC sectoral and regional priorities.

Foreign Investment
The NDC will be empowered to invest abroad for strategic business reasons in joint ventures or otherwise.

A New Charter for Public Enterprise

7.6 In the industrial restructuring which will follow the institution of the Single European Market, Labour believes it is vitally important that the State sector be fully equipped to survive and to act as a focal point for growth in the domestic economy. A necessary part of this process is a new deal for public enterprise, removing the handicaps under which it operates at present, while ensuring its ultimate responsibility to the State, as the representative of the people.

In this Charter Labour proposes:

1) Enterprise performance would be judged primarily on the basis of its success in meeting pre-agreed financial targets. Social obligations imposed on the enterprise would be separately identified and costed. Methods for resolving tensions between the shareholder (the State), the Board and the management should be mutually understood and followed. Once such arrangements are in place, political intervention should only occur within their ambit. Parliamentary scrutiny should be limited to general policy and not to points of operating detail.

2) The corollary is that Board and management should be held responsible for the performance of each enterprise within the guidelines set down. Management would be employed on short-term contracts, renewable only if agreed performance targets were met. Restrictions on reward structures related to unified public service principles would be abolished, so that State companies could compete for the best people in the open market.

3) Legislative and policy restrictions on the trading scope of public enterprises would be abolished, and public enterprises would be entitled to access to all State incentives and services on the same basis as the private sector. The corollary is that when commercial goals are not achieved in due time, rationalisation or closure would follow.

4) Non-commercial State bodies would also be encouraged to earn additional funds, and would not find their grant cut as a result of success in this.

5) The State, as the major shareholder, must stand ready to provide equity capital to facilitate the adequate

financing of State enterprise, provided projects pass the usual investment appraisal procedures.

Privatisation

7.7 Labour is opposed to the privatisation of State companies in the traded sector. The thrust of Labour's approach to industrial policy is to create and retain value added inside Ireland, and to achieve this be a judicious mix of private sector growth, state participation, and taxation. Labour's policy is to enable State companies to grow – not to sell them off to native or foreign individuals, institutional investors or speculators.

7.8 The restructured NDC will work closely with the private sector utilising a variety of forms of co-operation between enterprises and projects. Joint ventures with the private sector will be encouraged, and indeed will be likely as the NDC implements its role as sectoral development co-ordinator. The present legal obligations on the NDC to sell off its investments in certain circumstances after a defined time period will be removed, though sell-offs will not be prohibited.

Borrowing for Industrial Growth

7.9 The analysis, judgements, and choices made in the preceding paragraphs set the scene for Labour's proposals for a medium term industrial policy. Labour sees a major role for State ownership in various forms in traded sector activities in the future. This, to be successful, will require significant organisational and attitudinal changes on the part of a number of participants, interests, and institutions.

7.10 It may well be that the fundamental political choices can only be made by a Labour Government. In the meantime, it is necessary to argue the case with coherence and persistence.

It is a key feature of this policy, and of the matching policy for private sector development, that financial risks by the State be undertaken within a framework of clear objectives,

with high quality management adequately rewarded, and that penalties of rationalisation or closure for failure be accepted as the norm.

7.11 In this context, it is essential that the Exchequer Borrowing Requirement and the Public Sector Borrowing Requirement be allowed to rise to facilitate investment. Such investment would be undertaken by State companies, either by themselves, or through joint ventures, and by the reformed NDC, in productive activities in the traded commercial sector, **provided the estimated returns were in excess of the cost of funds.** This is a general principle, to be applied with due regard to the degree of risk and time dimension – large scale projects can be expected to make losses in the earlier years.

Reforming Taxation Incentives

Taxation as a Development Policy

8.1 Taxation, including Social Security, now accounts for well over 40% of GNP. It is obvious that the way in which this taxation is levied has implications not only for equity and a fair sharing of the tax burden, but also for the incentive to work, save and invest in the Irish economy.

8.2 Labour believes that the structure of the Irish taxation system discriminates against employment creation, productive investment, and risk taking.

Labour's approach focuses on the problems of:

a) the proliferation of tax havens and tax shelters;

b) the tax privileges given to speculative and unproductive investments;

c) the existence of the Poverty Trap, which implies high marginal burdens for low-income working people;

d) the enormous diversion of talent and effort into the socially unproductive areas of tax planning and avoidance.

The present taxation code discriminates against employment and favours capital in the structure of taxation incentives.

8.3 Labour differs from the right-wing Parties who see taxation reform designed to create the so-called "climate for enterprise", as the sole or major initiative required to encourage economic development. Labour's view is that it is just one of a range of initiatives required to revitalise economic growth.

8.4 Labour identifies key issues as follows:

- the taxation system should be reformed to encourage savings and investment in the productive economy;

- the privileges of capital as against labour in the taxation code must be changed;
- the role of taxation "incentives" should be more clearly focussed;
- reducing high marginal tax rates for those most adversely affected – those on low incomes caught in the Poverty Trap.

Taxation of Savings and Investment

8.5 For much of the past decade, higher after tax returns with less risk have been possible on investments outside of domestic industry and traded services. These higher returns are due mainly to tax biases which favour investment in property and insurance linked unit trusts. As a result the tax system has provided a bias against investing in the areas of greatest value to growth in output and employment.

8.6 Incentives in the tax system may not have a big effect on the overall level of savings, but they do distort the **way** people save. The financial columns of the daily newspapers are full of advice on the most effective way to get the Revenue Commissioners to augment the value of personal savings. The huge growth in funds at the disposal of institutional investors, and in borrowing for house purchase, shows the power of fiscal privilege.

Labour's tax policies are specified in detail later in this document.

Employee Investment Funds

Mobilisation of Capital

9.1 The mobilisation of capital for industrial investment is an important element of policy. There is far too much concentration on short-term stock exchange considerations, though public issues can be an important source of new capital. The overall objective, as is implicit in this document, should be to re-organise the resources of the State and its relationship to private capital in a complementary and dynamic way.

9.2 In this context, pension funds can play a significant role. As the economy is better managed, and as industry on a broad level becomes more competitive, pension funds should find more outlets for investment in Irish industry and traded services. The relative risk/reward expectation between gilts and other risk-free instruments and investment in industry should change. However, conventionally-funded pension schemes are by their nature likely to be reasonably conservative in their investment portfolio policy taken as a whole. It is necessary to create additional, and to an extent competing, instruments to make available private savings to the Irish industrial economy. Schemes of voluntary collective saving and capital formation aimed specifically at industry have not been used in Ireland at all to date.

Employee Investment Funds

9.3 Labour proposes that a number of Employee Investment Funds be established. The funds would be empowered to invest only in firms or co-operatives in designated sectors of native manufacturing industry and traded services. The funds would work in the following way:

- Voluntary savings could be made by employees **only**, in the public or private sectors. These savings would be independent of any formal pension scheme arrangements.

- Tax relief would be given in the form of a deduction from taxable income at 125% of amounts saved and contributed to a fund each year up to 50% income or £10,000 whichever is the lesser.
- The trade union movement could play the key promotional role. Registered trade unions or combinations of them would have the first option, with reasonable time to prepare schemes, to obtain a licence from the appropriate Minister to promote the funds.
- The savings generated would be used for the purchase of shares for the expansion of existing public or private companies e.g. new issues or in enterprises starting up.
- The flows of savings would be collected by bodies such as trade unions, employers, An Post or banks, licensed by the Minister for Finance, and the monies allocated to the individual Fund chosen by the saver. A small administration subsidy could be paid to the collecting agency.
- The funds would be administered by a Board of Trustees elected by the contributors according to regulations laid down in the constitution of the Fund with ⅓ of the places reserved for the promoting trade union or unions. Fund managers would be appointed by the trustees.
- The units in any individual fund could be purchased or sold. Tax relief would not be available to second or subsequent purchases, as tax relief would have already been allowed on a unit so purchased.
- To qualify for retention of the full tax relief, the employee would have to maintain investment in a specific Fund for five years unless on a sale after a two year period, the original investment was re-invested in another licensed fund within six months.
- Initially about 6 funds, authorised to invest in specific sectors or combinations of sectors only would be set up.
- Distributions from the funds would be taxed as income in the hands of recipients in the normal way. The power of the trustees to distribute dividends to subscribers would be limited by regulations.

- It would be up to the trustees and the companies where the investments were made to negotiate about board representation for the trustees and similar matters.

The establishment of Funds would require a legal framework of some detail. The basic principles are clear. The funds would be a supplementary source of capital inside the framework of policy as executed by the NDC. The NDC would have no powers to direct any designated Fund to invest in any firm or sector, but would bring investment options to the attention of the trustees and fund managers on a continuing basis.

Labour Market Policies

Protective Labour Market Legislation

10.1 Labour recognises there is a pressing need to update protective legislation covering workers in dismissal and redundancy situations. We support the thrust of ICTU submissions to the Minister for Labour on the operation of the Unfair Dismissals Act 1977; the Equality Acts 1973 – 77; Redundancy Payments Acts 1967-1979; Minimum Notice & Terms of Employment Act 1973; and Protection of Employment Act 1977.

10.2 Protective legislation must also be extended to part-time workers. This legislation would guarantee appropriate rights for part-time workers, particularly with regard to holiday entitlements, redundancy, maternity and sick leave, and protection against unfair dismissal. Social Insurance cover on a pro-rata basis should be extended to all part-time workers, and it should be made illegal to exclude part-time workers from approved occupational pension schemes.

Women

10.3 Labour is committed to the full integration of women into the economy, the ending of discrimination based on gender, and of the segregation of women in low-paid industries and jobs. We support fully the efforts of the European Commission to transfer the onus of proof to the employer in equality cases, and believe that legislation to this effect should, if necessary, be enacted unilaterally. Labour will initiate a Private Members Bill to achieve this purpose, in consultation with the Trade Union movement. A critical factor in improving the status of women at work is the wider availability of child-care facilities for working parents.

The problem of Low Pay and the "Poverty Trap"

10.4 Labour supports the principle of a statutory minimum wage. There is no general minimum wage in Ireland, although there is in specific occupational classifications. Conventional free market economic analysis considers minimum wages to be anathema to free markets and a cause of unemployment. But it is surely unacceptable that people can be forced to work in Ireland for net wages as low as £25 or £30 a week. A wage increase in hairdressing, for example, for the lowest paid, is likely to result in a drop in profits for the salon owner and possibly some small increase in prices. It certainly is not going to significantly alter Ireland's international trading competitiveness.

It is beyond the scope of this document to assess the total economic impact of a minimum wage. However, the extent of the low pay problem and the deprivation that goes with it calls for the issue to be treated as a major priority.

Labour will press for a comprehensive analysis of the likely economic impact of a minimum wage, testing different possible minimum wage levels. In the interim, a Low Pay Unit should be established and independently funded, on the same basis as in Britain, to research and investigate low pay issues. Knowledge itself in this area is an important political weapon.

10.5 The basis of the problem with the tax and social welfare systems is that the general fiscal system makes no allowance for families and children (except for the small present rate of Child Benefit) as regards working people, whereas the social welfare system must provide the means to feed and house families. The basic change to these systems that one should make to eliminate the "poverty trap" is to change the fiscal system as it affects working people, and make it family orientated. This is precisely what Labour proposes later in this document – especially our radical proposal relating to Child Benefit.

10.6 In summary, the solution to the "poverty trap" problem is higher wages and a family-orientated fiscal system. The proposals of the political right as regards the "poverty

trap" (tinkering with FIS and adding more complicated schemes to the already tangled mess of the tax and social welfare systems) encapsulate their commitment to a system which is anti-people and ever more distorted by permanent unemployment.

Additional Employment Policies

Working Time Strategies

11.1 Labour will explore with the trade unions the potential for redistributing paid employment through more flexible working time strategies.

11.2 There are a variety of strategies to reduce working time such as flexible early retirement schemes, shorter working hours, career breaks and sabbaticals, and greater part-time working, which, implemented on a voluntary basis, might have the potential to provide new opportunities for the unemployed. Provided that a link between reductions in working time and new employment can be demonstrated, Labour advocates a role for the State through subsidies and tax incentives to facilitate these agreements.

We believe the best way to link reductions in working time with additional jobs is through "employment solidarity contracts" at the firm level, introduced through collective bargaining. Such contracts would stipulate agreed targets for new employment opportunities to be created by reducing working time in any of the ways mentioned earlier. The State should remove obstacles in the way of these strategies, for example:

- where employers would expect to pay significantly more PRSI contributions with respect to part-time workers as opposed to full-time employees;
- by introducing legislation to safeguard the industrial and social security rights of employees on short-term leave, part-time work, etc;
- by making available financial inducements to encourage participation in working time strategies.

Worker Co-operatives

11.3 The development of worker Co-Operatives must form part of the response to the present unemployment crisis. As the ICTU study of the subject shows, co-operatives suffer

from two drawbacks which hinder their development. They find it difficult to obtain finance on the same terms as private enterprises because they are deemed to lack credit worthiness. And for individuals with an entrepreneurial idea, there is little encouragement at present to think in terms of developing this idea within a co-operative rather than a private enterprise framework.

11.4 Labour will introduce legislation along the lines of the British Industrial Common Ownership Act 1976, to facilitate the emergence of worker co-operatives. A Co-Operative Development Agency, using the resources and staff involved in this area in existing voluntary and statutory agencies, will be established to act both as a source of finance and as a development organisation to promote the concept of worker co-operatives.

The Long-term Unemployed

11.5 About half of those unemployed in Ireland have been without work for more than twelve months. Experience suggests that people in this category will find it difficult to get jobs even as the employment situation improves. Special measures, therefore, will be required to assist the long-term unemployed back into the active labour force.

11.6 In this connection, it will be necessary to substantially increase the level of expenditure on training and Public Works/Work Experience Programmes available to this group. It may be necessary to confine employment subsidies, such as the Employment Incentive Scheme, to this category of worker.

11.7 Labour will also explore the possibility of improving access to full-time education programmes for the unemployed without loss of benefits. In addition, we will substantially increase the numbers of places available on the Social Employment and related Schemes and the duration of placement under these Schemes. FAS will be asked to become directly involved in areas of high unemployment where existing community structures are weak. The rates of payment to workers under such schemes will be improved to make them worthwhile for the long-term unemployed.

11.8 Many of the long-term unemployed live in identifiable high unemployment areas. Labour will bring forward special incentives to promote job compacts and special sub-contract arrangements between the long-term unemployed and public and private sector businesses in these areas.

Trade Unions and Participation

12.1 Labour's approach to economic development involves the conviction that the best results will be achieved by extending democratic principles into the economic sphere. The economy, after all, should serve the interests of the people as a whole and everyone should feel part of the process of economic decision-making.

12.2 In this document, the democratic principle is reflected in Labour's commitment to a system of planning at the national and sectoral levels which is based on tri-partite discussions and agreement. It is reflected further in the enhanced role given to the State in industrial development on behalf of the nation.

12.3 The Trade Union movement will have a crucial role to play in the development and implementation of policy under both of these headings. In addition, it can play a decisive role in the mobilisation of capital under the proposal for Employee Investment Funds.

12.4 But the democratic principle must be applied also in workplaces themselves. This is so, not only because people have a moral right to share in decision-making which affects a fundamental aspect of their lives, but also because the international evidence suggests that firms which have participative structures secure the best business results. Indeed, the research now available suggest that it is not only desirable, but essential, to involve workers in decision making in new technology enterprises.

12.5 Labour, therefore, will enter discussions with the Trade Unions to prepare an appropriate initiative to extend the legal basis for worker participation beyond its present narrow limits. In addition, we will work closely with the European Trade Union Confederation and the Socialist Parties in the EC to secure the implementation of the Fifth Directive and other participative measures in Community law.

Taxation

General

13.1 The tax system has been characterised in the Report of the Commission on Taxation as "unfair, muddled, and complicated". Within our system a heavy and unfair burden of taxation falls on those in the PAYE sector because of the special favourable status of taxes on capital, on company profits, on farming profits, and the widespread opportunities for evasion and avoidance built into the system.

Labour believes it is unacceptable that the wealthy in our society can avoid paying their just share of income and capital taxes.

13.2 Tax reform is fundamentally a **political** issue. So far the parties of the right have failed to introduce any real redistribution of the tax burden, in spite of widespread demands for change. In fact over the period since the major tax protests of the late 1970s the percentage of the tax burden carried by the PAYE sector has increased. The 1988 tax amnesty produced a windfall of previously uncollected taxes of £500 million, despite official denials for years that anything approaching this sum was due. Now it is widely believed that this sum is really only the tip of the ice-berg in relation to amounts of uncollected tax still due.

13.3 The PAYE structure is characterised by high marginal rates. The system is designed to benefit those who take advantage of the wide range of allowances, particularly the higher paid, whether it be to finance medical care in expensive private clinics, to finance housing costs, or to subsidise private education. Finally, the administration of the system has been so inefficient as to aid and abet those who set out to evade or avoid payment. Because of these deficiencies, confidence in the equity of the system and its ability to make dodgers pay up has been almost totally eroded.

A fundamental objective of Labour's reforms will be to create a system which can command confidence both by being fair and by being seen to be fair.

13.4 **Labour rejects the view that significant reform and PAYE relief can only come from severe cuts in public spending.** As a developing economy with high dependency levels – children, the elderly, unemployed – Labour believes that Ireland requires a tax code that can sustain the level of State spending needed for productive investment and job creation, as well as to provide for the essential needs of our people in social welfare, health, education, and housing.

Guiding Principles of Socialist Tax Policy

13.5 Accordingly, Labour sets out the following guiding principles which should form the cornerstone of any Socialist tax proposals:

* **A Progressive Tax Code**

This means that those on higher incomes and those on greater wealth will be expected to contributed progressively more as their income and wealth rises.

* **A Widening of the Tax Base**

This is to include income from all sources whether from employment, self-employment, farming, dividends, rents, company profits.

* **Horizontal Equity**

Taxpayers with similar incomes and wealth holdings, whatever the source, should expect to pay the same amount of tax.

* **An end to Special Exemptions and Special Allowances which have caused the drastic erosion of the tax base**

Labour will honour existing contractual agreements entered into by the IDA. In the future, only exemptions which contribute to productive economic activity will be retained.

* **A Redistribution of the Tax Burden**

Labour will increase radically the take from corporate profits, wealth and capital to bring these into line with EC norms.

* **Reform of the Administration of the Tax System**

Labour will promote anti-avoidance legislation to prevent some of the more notorious tax avoidance schemes such as the use of trusts, and the creation of artificial losses to avoid capital gains tax. Labour will allocate extra resources to the Revenue Commissioners to ensure that tax payable is collected on time.

Taxation: The Unequal Burden

13.7 It is often asserted that the "tax burden" in Ireland is too high. **The real problem in Labour's view is, not that the total taxation levied and collected is too high, but rather its inequitable distribution.**

Total tax revenue as a proportion of Gross Domestic Product is the usual measure of the "tax burden". In Ireland, this proportion was 39.5% in 1986 – placing Ireland 7th of 12 EC countries (see Table 1), and 10th of 23 OECD countries.

Table 1 – The Tax Burden

Denmark	48.02%
Belgium	46.73%
Netherlands	45.54%
France	45.49%
Luxembourg	41.43%
Italy	41.17%
Ireland	39.90%
U.K.	38.51%
West Germany	37.73%
Greece	35.23%
Portugal	31.97%
Spain	28.39%

13.8 There was much discussion before the last General Election of Denmark's recovery from economic problem similar to Ireland's. As Table 1 shows, tax revenue was 48% of GDP in Denmark in 1986, placing it second in the EC (and OECD) on this measure. A high level of overall taxation is not necessarily a barrier to economic recovery.

13.9 Most Irish tax revenue (88.9%) is raised from taxes on income and taxes of goods and services. Table 2 shows that most of the income tax is paid on personal incomes with only 3.2% paid by companies in 1985.

Table 2
Composition of Total Tax Revenue in Ireland (%) in 1965 and 1985

Tax Category	1965	1985
Taxes on Personal Incomes	16.5	31.3
Social Security Contributions	6.5	14.8
Taxes on Corporate Income	9.1	3.2
Indirect Taxes	52.0	44.4
Taxes on Property	15.1	3.9

The PAYE sector paid **90.3%** of total taxes on personal income in 1986. The self-employed paid **8.2%** of the total, and farmers **1.5%**. Average tax payments by farmers and the self-employed are much lower than average PAYE payments.

The Allowance System

13.10 The personal income tax system in Ireland is made even more inequitable by the system of tax allowances. All tax allowances and reliefs are of much greater value to those on high incomes than to those on low incomes. The Personal Allowance for a Single Person (of £2,050) is worth £1148 to a person paying tax at 56% – but only £656 to a person paying at 32%.

13.11 Some "discretionary" allowances such as those for mortgage interest, health insurance, and life insurance, benefit those who can afford large mortgages, expensive health care and substantial life insurance. A special VHI plan, for instance, covers treatment in the Blackrock Clinic and Mater Private Hospital. In 1988 the VHI premium for a married couple under this scheme cost £720 – but a couple paying income tax at the highest rate got £420 tax relief, reducing the cost of cover to £300.

Spreading the Tax Burden

13.12 Unlike Parties of the Right, Labour does not believe in a simplistic notion of tax reduction as a type of economic cure-all. Reducing the overall level of taxation would involve further cutbacks in Government services which would further increase inequality in Ireland. The first priority of Labour's taxation policy is to **redistribute the tax burden** so that the income tax system becomes truly progressive and to raise a greater proportion of total tax revenue from taxes on capital and profits.

Who will Benefit from Labour's Proposals

13.13 Tax reform is a collection of measures, each of which affects some individuals favourably and some adversely. There will always be "winners and losers" in fundamental tax reform. Our proposals are structured to give the greatest benefit to workers and taxpayers on average and below-average incomes. Those who will not benefit from our proposals are those who are over-favourably treated by the present system.

13.14 Irish society as a whole will benefit from a system which will collect revenue in a fair and equitable way to finance indigenous economic development, while permitting the development of decent education, social welfare, good housing, and a health system providing equal access to all our people.

The widening of the Tax Base – Taxing Capital and Profits

13.15 The burden of PAYE Income Tax in Ireland is too high because so little revenue is raised from taxes on property, capital and profits. Taxes on property and profits in Ireland have fallen from 24% of total tax revenue in 1965 to 7% in 1987. Ireland raises considerably less revenue from taxes on property and capital than many developed countries including the UK, USA, Belgium, Canada and Switzerland.

13.16 Rates on private dwellings were abolished in 1977/78 and in the early 1980s the system for assessing rates on agricultural land was struck down. The farm tax (land tax) was abolished by Fianna Fail in 1987 shortly after its introduction.

13.17 The yield from Corporation Tax is limited by the concessionary 10% rate on manufacturing and certain services, and by a generous system of allowances and reliefs such as the so-called Section 84 loans. The reducing yield from these taxes over time is shown below in Table 3.

Table 3 (a)
Share of Total Tax Revenue (%)

	1965	1979	1981	1987
Corporate Tax	9.0	5.8	5.0	4.0
Taxes on Property	15.1	6.1	4.7	3.0

Table 3 (b)
Share of Gross Domestic Product (%)

	1965	1979	1981	1987
Corporate Tax	2.4	1.9	1.9	1.3
Taxes on Property	3.9	2.0	1.8	1.0

Taxes on property include rates on domestic property (when applicable) and other rates.

13.18 Labour proposes a substantial widening of the tax base. This involves

- **a wealth tax;**
- **the restructuring of capital acquisitions tax;**
- **action on discretionary trusts;**
- **amendments to capital gains tax;**
- **significant improvement of the Residential Property Tax;**
- **the re-introduction of farm tax (land tax).**

Wealth Tax

13.19 The possession of capital assets confers economic benefits whether or not the assets are used productively to yield an income. These benefits include security, the capacity to raise loans and to take advantage of economic opportunities. Those who own capital can also spend more than their income and have less need to save. Income tax may tax the income from capital assets, and a capital gains tax may raise revenue from realised capital gains, but if wealth yields no income and is not sold, no tax is paid on it.

A wealth tax, which is a tax of capital assets, would reduce the scope for evasion of income tax as additions to assets from untaxed income would be included in the tax net. Such a tax would therefore reduce the scope for tax avoidance and tax evasion.

A wealth tax would also go some way towards reducing the inequity in the distribution of wealth in Ireland which is greater than in many developed countries. The administration of such a tax would involve the collection of information on the distribution of personal wealth on which very little information is available at present.

Tax would be charged at 2 per cent on net assets exceeding £150,000 in value. This threshold would include a taxpayer's principal private residence. Agricultural land would be exempt from capital assets tax as Labour proposes to reintroduce the Land Tax which was abolished by the Fianna Fail Government.

Capital Transfer Tax

13.20 Inheritance is a major source of wealth inequality, and the present system of taxing inheritances does little to reduce this inequality. The exemption rates for Irish Capital Transfer Tax are the highest in the OECD. At present a child may inherit £150,000 without paying any inheritance tax. The rate of tax applied to gifts is only 75% of the rate of inheritance tax.

13.21 Labour proposes that the transfer of capital by gift or inheritance would be treated as resembling income, and such accretions of wealth would be subject to a restructured capital transfer tax at a rate of 35%. This would be a donee-based tax akin to a tax on income. There is no reason why such unearned increases in spending power should be untaxed, while the average wage earner pays PAYE and PRSI on the rewards for his or her work.

13.22 There would be total exemption for transfers between spouses, and between spouses and dependent children. Children on leaving the family unit or on reaching maturity would become liable for payment of the tax on transfers, subject to a specific one-off exemption limit of £50,000

per child. (At present, the class threshold for children is £150,000 – they are exempt below that level.) A somewhat higher exemption limit may be applied in the case of the transfer of a family farm or small family business to mature children, so long as the enterprise remains within the family. Proceeds of approved insurance policies would be exempt from inheritance tax where the insured took out policies expressly to pay inheritance tax owing on death, but premia on such policies would not qualify for income tax relief.

Unlike at present where the rate of tax applicable to a gift is 75% of the rate applied to inheritances, the rate of tax on gifts and inheritances would be similar under Labour's scheme.

A period of 7 years would be allowed for payment of transfer tax, subject to interest charges at normal bank rates. There would be no reliefs for agricultural land or for assets described as productive, and no consanguinity reliefs, apart from the arrangements for spouses and children mentioned above.

Residential Property Tax

13.23 The Residential Property Tax will be amended significantly. There will be a tax on the gross value of houses over £50,000 in value, at a rate of 3% of the excess, where household income exceeds £20,000 per annum. Anti-avoidance measures will be developed. Residential Property Tax can be used as a credit against wealth tax where a wealth tax liability arises, and when wealth tax is confirmed as paid by the person liable. The yield from these changes will be £14m. per annum.

Discretionary Trusts

13.24 Discretionary trusts are a tax avoidance mechanism widely used by the very wealthy in our society. While in certain cases they are a mechanism to cater for certain family situations they should not be utilised to defer indefinitely liability for capital transfer tax. It is therefore proposed that a tax charge of 5% be levied on the assets of discretionary trusts annually, exempting trusts exclusively for public or charitable purposes, or for the benefit of an individual for the reason that such individual because of age, or physical, mental, or legal incapacity is incapable of managing his or her own affairs. The 5% charge can be credited against any ultimate capital transfer tax liability arising, but without any refund provision.

Capital Gains Tax

13.25 Capital gains are unearned income and yet are taxed more favourably than earned income. Capital gains are indexed to the rate of inflation while income tax bands are not similarly indexed. While the rate of Capital Gains Tax is significantly lower than that of income tax, there is an incentive to take profit in the form of capital gains rather than income, and thus avoid Income or Corporation Profits Tax. Labour will remove such anomalies by treating all income in the same way for tax purposes whether it be earned as a salary or be in the form of a capital gain. Reliefs from Capital Gains tax, such as roll-over relief, will be abolished. Labour will introduce special measures to ensure that windfall gains and gains due to land and property speculation will be taxed at a special rate.

Development Gains Tax

13.26 Speculation in land and property by so-called developers is probably one of the least productive but most handsomely rewarded activities in Ireland.

13.27 Where an increase in the price of development land or properties is due to community action or decision, or the anticipation of such action or decision; then the Labour Party believes the whole of that increase should accrue to the community.

13.28 Gains arising from development land or property in excess of existing use value will be chargeable to a special Development Gains Tax. The administration and collection of this tax will be devolved to the Local Authorities and will

be in addition to other payments to be made to Local Authorities for the costs of providing infrastructure, etc.

Farm Tax (Land Tax)

13.29 At present the farming community pay a very small share of total tax revenue and have been very successful in pressurising successive governments into abolishing or changing taxes imposed on them. Rates on agricultural land, until their abolition in 1984 were the only significant contribution of farmers to total tax revenue.

13.30 All farmers were to have been brought into the tax net in 1983 but of 117,000 theoretically in the tax net only about 18,000 paid any tax in 1987 and more than 80,000 were not even required to fill in a tax form. Farmers paid only 1.5 per cent of total income tax in 1986 and the average income tax payments of the wealthiest farmers was less than the average P.A.Y.E. income tax payment. In addition, most of the benefits of the E.C's Common Agricultural Policy have accrued to wealthier farmers, and to a small number of wealthy entrepeneurs in the agri-business sector, whose contribution to tax revenue has been negligible.

13.31 A land tax was introduced in 1986 but was abolished in 1987. The tax which was payable at £10 per adjusted acre was initially payable only by farmers with over 150 adjusted acres and could be offset against income tax.

The Labour Party is committed to the re-introduction of a land tax. In Ireland land is highly valued but is often of low productivity. The Interdepartmental Committee on Land Structure Reform recommended a Land Tax as a means of releasing unproductive land to energetic farmers who would use it more productively. The Agricultural Institute estimate that almost **one third of agricultural land in Ireland is under utlised**. There is also evidence of increasing concentration of land ownership. Although only five per cent of Irish farms are over 150 acres, these farms comprise over twenty-five per cent of all agricultural land.

13.32 Farming income continues to be subject to the income tax system. Labour commits itself to the re-introduction of the farm tax (land tax) and the Farm Classification Office will be restored to continue with formal valuation work.

In the interim Labour proposes the self-valuation system for farm tax for farmers over 20 adjusted acres. Farm tax may be used as a credit against income tax. The rate of farm tax would be as instituted in 1985/86 at £10 per adjusted acre with adjustments each year in relation to farm income movements.

Corporate Taxation

13.33 There are over 40,000 companies in Ireland – ranging from small family businesses to large industrial and financial institutions. The Minister for Finance has admitted that the proportion of companies who pay any tax at all is very small.

In 1985 out of 46,281 companies assessed for income tax, only about 8,500 had paid or were expected to pay tax. As we have shown earlier, Corporation Tax as a percentage of total tax revenue has fallen from 9% in 1965 to only 4% in 1987. Corporation Tax as a share of Gross Domestic Product was merely 1.3%.

13.34 Ireland as a tax haven is a concept which has been widely promoted by the I.D.A. The latest manifestation of this has been the development of the Financial Services Sector on the Customs House Dock site. Where tax reliefs are a genuine incentive to employment creation, they are a legitimate part of the overall tax structure; but where such reliefs distort economic activity by boosting tax-sheltered activity at the expense of other – perhaps more productive activities – there is no argument for keeping them.

Tax incentives for companies must be in harmony with Labour's overall policy of capturing more value added for retention in the domestic economy.

Labour proposes:

13.35 * To raise the yield from Corporation Tax from £278 million by almost 80% over a short period of years to the equivalent of some £500 million at 1988 values. This would increase the Corporation Tax yield to 7.5% of total tax revenues and to 2.4% of gross domestic product (close to 1965 proportions).

* Labour will honour existing commitments entered into by the I.D.A. in respect of productive job-creating investment. Subject to the minimum tax proposal set out below, the 10% manufacturing rate will be retained to the year 2,000.

* A minimum annual tax of 20% of the rate applicable to an activity will be levied on the taxable income of all Corporations. This would mean a minimum 2% tax on the Manufacturing Sector and minimum tax of 8.6% on the profits of the rest of the Corporate Sector.

* Capital allowances will be limited to 20% per annum.

* The standard Corporation Tax rate will be between 40% and 45%.

* Section 84 reliefs will be abolished.

* Capital allowances in respect of plant and machinery for the food industry will only be given by reference to the net cost to the promoter, after taking into account any grants received.

* In order to support selective measures of industrial policy, profits from lending to specified sectors by deposit taking institutions will be levied at a reduced rate of Corporation Tax. The sectors will be designated in accordance with the priorities of industrial policy.

* Advance Corporation Tax in respect of dividends paid will be payable two months after the date of payment of the dividend. When companies pay interim dividends, the Labour Party believes that the Company should pay a proportionate part of its Corporation tax bill.

* In order to encourage the development of co-operatives, tax provisions relating to Manufacturing Companies will be extended to bona fide industrial co-operatives.

Personal Taxes

13.36 Labour proposes a radical reform of the income tax system. A significant part of the overall reform will arise with major additional provisions for children. The pace of reform will be related to:-

* The rate of economic growth achieved in the years after 1988.

* The level of success achieved in broadening the tax base through the measures outlined earlier in this section.

* The necessity to restore certain items of public expenditure and the scope for further public expenditure savings in non-essential areas and further efficiency in the public service.

* The political will and legal and administrative efficiency required to ensure that those who owe taxes actually pay them.

Labour proposes major reforms in the interests of equity and simplicity.

13.37 The primary objective of Labour's tax reform will be to raise more revenue from capital, farm and corporate taxes and thus offer a measure of relief to the P.A.Y.E. sector. Relief will be targeted in the first instance to low and middle income taxpayers.

High Marginal Tax Rates on Low Incomes

13.38 Low income earners can reach a marginal tax rate (including P.R.S.I.) on 55.5% at an income level which is little more than two-thirds of the average industrial wage and progresses to a marginal tax rate of over 63% for workers on an average industrial wage. In 1987/88 almost half of all taxpayers (376,000) were paying marginal rates of 48% or 58% while as many as 179,000 taxpayers were on the 58% rate.

13.39 *Labour proposes a new rate and band structure with income tax rates of 25%, 35%, 45% and a new top rate of 50% for high incomes. As the P.R.S.I. ceiling is abolished, the effective top tax rate will be just under 58%. Labour proposes a tax credit system equivalent to personal allowances and the special P.A.Y.E. allowance. The principle of indexation will be applied to the income tax system.*

Tax Credits

13.40 A tax credit involves a reduction in taxes of a given amount, while an allowance grants a reduction in taxable income. The allowance mechanism results in a tax reduction that increases with income, if tax is charged at progressive rates. For example, an increase in the married allowance of £100 results in a tax reduction of £56 to taxpayers at the top of the scale and of £32 to taxpayers whose marginal rate is at the new standard rate. A tax credit, however, is of equal value to all taxpayers.

13.41 Labour proposes two tax credits:-

* A personal tax credit of £1500 (married), £750 (single).

* A PAYE tax credit of £400 – which is equivalent to converting the current PAYE allowance of £800 at 50%.

New Rate and Band Structure

13.42 The details of this are as follows:

Tax Rates and Bands

	Taxable Income/Single (per annum)	Taxable Income/Married (per annum)
25%	Up to £3,000	Up to £6,000
35%	£3,000 – £9,000	£6,000 – £18,000
45%	£9,000 – £20,000	£18,000 – £40,000
50%	Over £20,000	Over £40,000

It should be noted that effective exemption limits are raised significantly for those on P.A.Y.E.

13.43 Discretionary allowances benefit the better off. Allowances such as mortgage interest relief and V.H.I. relief erode the equity and progressiveness of the P.A.Y.E. system by offering greater tax benefits to those on higher incomes. Discretionary allowances are in effect tax expenditure by the government in that they represent income tax foregone.

13.44 As marginal tax rates rise there is a greater incentive to well-off taxpayers to use these allowances as tax shelters. The cost of such allowances to the exchequer is substantial as set out in the table below:-

Cost of Discretionary Allowances to the Exchequer (£ Million)

Allowance	85/86	86/87	87/88	88/89
Mortgage Interest Relief	146.2	150.6	151.6	155.0
V.H.I. Tax Relief	30.9	35.6	41.4	45.0
Life Assurance Relief	29.0	32.2	37.5	42.2
Covenants	3.9	7.0	9.6	11.0

Mortgage Interest Relief

13.45 Mortgage interest relief is essentially an interest subsidy which currently costs the exchequer £155 million per annum. Labour believes that subsidies for housing should be directed towards first time buyers and those with proven housing needs. It is not socially desirable that government tax policy should actively assist "trading up", the purchase of larger and more expensive houses, which in a rising housing market acts as a further upward push on house prices.

13.46 *Labour therefore proposes the ultimate abolition of mortgage interest relief, and its substitution by a special permanent scheme of cash subsidies for first time buyers. For the interim period, Labour proposes to standardise mortgage interest relief at the 35% tax rate specified in Labour's system.*

13.47 In the case of endowment mortgages, tax losses to the exchequer, and profits to the financial institutions, are even higher than for traditional mortgages qualifying only for mortgage interest relief. Labour believes that tax reliefs for endowment mortgages should be ended.

V.H.I. Relief

13.48 V.H.I. Relief, which in 1987/88 cost the exchequer £41m., is one of the reasons for the rapid development of a two-tier medical service, with all of the disparities between public and private medical services. There can be no justification for the susbsidisation through tax expenditures of exclusive private facilities such as the Blackrock and Mater clinics.

Labour therefore proposes the abolition of tax relief for V.H.I. schemes D and E for the Blackrock and Mater private clinics and the reduction of tax reliefs for schemes A, B and C to the 35% rate in Labour's system. The Exchequer savings of £10m. per annum will be transferred to the public hospital system.

Labour's objective is the development of a comprehensive national health service. In the context of the introduction of such a service, tax reliefs for private medicine would be unnecessary, and the remaining V.H.I. reliefs referred to above would then be phased out.

Covenants for Education

13.49 Covenants for education cost the taxpayer £11 million in 1988. Such covenants are availed of by the better off to subsidise private secondary education and third level education. Labour believes that such monies could be more equitably targeted to students from working class and lower income backgrounds through the introduction of an updated grants system. *Labour therefore proposes the phasing out of tax reliefs for such covenants.*

Other Reliefs

13.50 *Reliefs will be retained for employee pension funds and the Employee Investment Funds. All other reliefs and secondary allowances will be abolished.*

13.51 Such changes in respect of secondary allowances will contribute to Labour's overall objectives for the tax system of creating greater equity, simplify the tax system, and allow assistance to be concentrated towards areas of greatest need. Labour's social policy will deal with any necessary adjustments in the welfare and health codes that arise from the abolition of these allowances.

Special payments will be made under the Social Welfare code in respect of the following allowances:

Blind Person:	£300 p.a. (single)
	£700 p.a. (married – both blind)
Incapacitated Person:	£1,250 p.a.
Incapacitated Child	£300 p.a.
Rent Allowance	£375 p.a. (single – maximum)
	£750 p.a. (married – maximum)

Child Benefit

13.52 The tax structure takes no account of taxpayers who have dependent children. Families with dependent children, especially single income families who are not in a position to take advantage of secondary allowances may as we noted above find themselves being subject to high marginal tax rates at relatively low levels of income.

In a major reform of the system in favour of families with dependent children Labour proposes a child benefit payment of £40 per month per child payable directly to the mother unless assigned to her spouse or another party. This level of child benefit will not be added to existing social welfare child dependency rates which will be consolidated into a single child benefit payment equivalent to between £60 – £70 per month at 1988 values, and payable also to mothers in all cases. Details will be dealt with in Labour's social policy review. Child benefit will not be taxed either in the case of welfare or other recipients.

Pension Funds

13.53 There is a dearth of information on the size, structure and operation of the "pensions industry" in Ireland. Some estimates put the size of funds at present in the region of

£5 billion with an annual income of £300 – £400 million. It is evident with the yield on gilts at over 8%, inflation at some 3%, and with a rising equity market, that pension funds must be earning substantial returns.

13.54 However, for a time in the 1970s with negative real rates of interest, the position for many funds could have been quite different. It seems unlikely that such conditions will return in the short term. In the meantime, pension funds and indirectly their beneficiaries enjoy very significant tax advantages; contributions are exempt, income and capital gains inside approved "funds" are tax free, and the pensioner is allowed to take 1.5 times annual salary tax free as a lump sum. The only component taxable is the income flow ultimately received by the pensioner.

13.55 At present, it may well be that the actual position of pension schemes is so strong that many firms may be in a position to take "contribution" holidays.

13.56 Labour believes that a full-scale enquiry into the operation of the pensions industry in Ireland is essential. Far more information is required for informed public debate, and this analysis will show whether the tax status of funds should be significantly changed. In Denmark, for example, a continuing levy system is in operation.

13.57 *In the meantime, it is proposed that the lump sum element in excess of £20,000 be subject to income tax at a rate of 35%. Taxing elements of such sums at a higher rate would represent too severe a transition. The retiring employee will be able to obtain tax relief by investing in the Employee Investment Funds within a specified period.*

Administration and Collection of Taxes

13.58 The reform of the tax system as set out in Labour's proposals is essential. However, unless this reform is accompanied by a radical overhaul of the system for administering and collecting taxes, the scandal of uncollected taxes and the black economy is set to continue. Improved tax collection depends on political will coupled with sufficient well managed human and technical resources in the Revenue Commissioners. Labour will give a high priority to these issues and measures adopted will include:-

* A separate Minister accountable for the collection of tax revenue.

* Introduction of special anti-avoidance legislation to outlaw artificial tax avoidance schemes. Because Ireland has no comprehensive tax avoidance legislation, a wide variety of tax avoidance measures are available to taxpayers and their advisors. Recent judicial decisions on tax avoidance as in the McGrath case have upheld tax avoidance schemes because the Dail has not enacted legislation to outlaw either specific schemes or tax avoidance schemes in general.

13.59 Labour proposes the introduction of comprehensive anti-avoidance legislation. Similar legislation is effective in many countries. Legal advice suggests that the anti-avoidance legislation of Australia or Canada could serve as an appropriate model for Ireland and be in conformity with our constitution.

* Reform of company and commercial law to put an end to the so called "Phoenix" phenomena where enterprises with substantial tax liabilities go into liquidation and are then resurrected.

* Development of integrated computer database on taxpayers, particularly the self-employed and companies. In-depth random examination of self-employed and corporate financial records.

* Increase in staffing resources of the Revenue Commissioners. The expansion of special revenue investigation units with access to bank accounts, financial records and other information. Integrated investigation of VAT, PAYE and income tax compliance.

* Increased collection of taxes at source for non-P.A.Y.E. taxpayers. The success of the Deposit Interest Retention Tax (DIRT) shows that for non-P.A.Y.E. taxpayers collecting tax at source or as close to source as possible is the most effective way of ensuring compliance.

* Use of mandatory pre-numbered receipts for all purchases and supply of services, including medical and other professional services. The supply of many professional services to consumers is on a cash basis. Many of these

payments are not receipted or properly recorded thus creating an opportunity for tax evasion. The use of pre-numbered receipts linked to adequate accounting records and the education of the public to look for official receipts for all transactions would limit the scope for tax evasion in respect of unrecorded income.

Promoting the Development of the Third World

14.1 Labour's commitment to socialism and to its values of liberty, equality, and fraternity, is international in scope. With its sister Parties in the Socialist International, Labour will continue to pursue policies to promote Third World development. In this connection, policies to assist the development of poorer countries are more than a moral imperative. The economic future of the developed countries of the North, in a period of high productivity growth, is to a significant extent dependent on securing markets in the South. Even on the crude basis of enlightened self-interest, therefore, Third World development must be placed high on the international political agenda.

14.2 The 1980s have been a catastrophe for many parts of the Third World, particularly in Africa and Latin America. In many less developed countries living standards have fallen dramatically. The painful progress made in providing primary health care and moving towards universal primary education has been halted. Infant mortality rates are rising and, cruellest of all, the net flow of resources to these countries has been reversed – so that the very poorest countries are now transferring significant amounts of capital needed for their own development to banks and shareholders in the West.

14.3 The causes of the Third World crisis are manifold:

1) commodity prices have been at their lowest level in real terms for decades;

2) mounting indebtedness has been exacerbated by high levels of real interest rates;

3) growing protectionism in the West hinders the ability of Third World countries to earn the foreign exchange they desperately need.

In many countries domestic mismanagement has contributed to their economic difficulties; agricultural production has been neglected; grandiose development projects have been started for prestige purposes; and administrative skills have often not been able to cope with ambitious development programmes.

14.4 Throughout the 1970s the less developed countries called for a New International Economic Order which would facilitate their development, but little was achieved. The Third World itself has become more differentiated – many Asian countries are embarked on rapid, export-oriented growth within the framework of unequal social structures. Most African and many Latin American countries stagnate under the crushing burden of their debt. For the latter countries the key issue in the late 1980s is to relieve their debt burden in a way which permits them to resume investment and economic growth.

The Labour Party insists that the Irish Government should support schemes of debt relief in international fora such as the IMF. We also call for modifications in the conditions of IMF structural adjustment programmes to safeguard the interests of the very poor when such programmes are being implemented.

14.4 An open world trading environment remains vitally important for most Third World countries who are highly dependent on world markets.

The Labour Party will push for the gradual liberalisation of EC trade policy where it affects Third World trade.

14.6 Ireland's record in providing development aid is a shameful one. The targets for Overseas Development Assistance have been consistently reneged upon. The real cuts in Ireland's aid budget made by the present Government, at a time when the voluntary contribution made by Irish people has never been higher, is inexcusable.

Labour would restore these aid cuts immediately, and pledges itself to increasing the aid budget by 0.05% of GNP per year until the UN target of 0.7% of GNP is reached.

Appendix

Personal Income Tax, Child Benefit and P.R.S.I.

The basis of Labour's scheme is set out in this Appendix. These proposals should be seen as a whole.

Tax Credits

Single person: £750; Married couple: £1,500; Widow(er): £875
One parent family allowance (additional):
Widow(er): £525; Other person £700
P.A.Y.E.: £400 each P.A.Y.E. taxpayer.

(This represents a total tax credit of £1,900 for a married couple, one spouse earning; £2,300 for a married couple, both spouses earning).

Child Benefit

£40 month per child.

This compares with the present rate of £15.05 per month for the first to the fourth child and £21.75 per month for the fifth or other children. It represents a tax bill gain of £300 per dependent child per year. Existing Social Welfare child dependant rates will be consolidated into a single Child Benefit payment equivalent to between £60 – £70 per month at 1988 values.

Tax Rates and Bands

	Single/Income (per annum)	Married/Income (per annum)
25%	Up to £3,000	Up to £6,000
35%	£9,000	£6,000 – £18,000
45%	£9,000 – £20,000	£18,000 – £40,000
50%	Over £20,000	Over £40,000

Social Insurance and Levies

No ceiling on P.R.S.I. or health contribution for employees or selfemployed. Employment and training levy to be retained at 1%. At present (1989/90) the P.R.S.I. earnings ceiling is £16,700 and the health contribution ceiling is £16,000. No change

is proposed at present for these employees on low rates of P.R.S.I. (except the change of the ceiling). This issue will be considered as part of social policy when benefit/entitlement/cost aspects can be explored.

In the case of self-employed people, the present plan of the Government is to introduce a 5% rate for 1990/91, giving a total of 7.25% including the Health, Employment and Training levies. Labour's scheme adds 0.50% to this, so that 7.75% applies to employees and self-employed.

Family Income Supplement

The family income supplement will be reviewed in the light of the major changes in child benefit.

Exemption Limits

Under Labour's scheme the implicit general exemption limits are as follows:-

	P.A.Y.E. (per annum)	Self-employed (per annum)
Single	£4,143	£3,000
Married	£7,143	£6,000

There are also age exemption limits at present as follows:-

Single or widowed	(65 or over)	..	IR£3,250
Single or widowed	(75 or over)	..	IR£3,800
Married couples	(65 or over)	..	IR£6,500
Married couples	(75 or over)	..	IR£7,600

There are no special age exemption limits in Labour's scheme.

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