Smart Taxes Network

Budget for 2011 Submission
*Supplement to ‘Site Value Tax ’ Budget Submission*

17th November 2010

November 2010

Emer O’Siochru & Dara McHugh
Smart Taxes Network
39 Windsor Road
Dublin 6
Ireland

Website: [www.smarttaxes.org](http://www.smarttaxes.org)
Telephone: 01 4972564
Mobile: 0868267555
# INDEX

## 1  GENERAL POLICY FRAMEWORK

### 2  KEY PROPOSALS

1. **Financial and Monetary Reform**
2. **Tax Shift or Environmental Taxation Reform (ETS)**
3. **Public Sector Spending and Services Reform**
4. **Employment and Investment in Resilience**

## 3  MEETING OUR OBJECTIVES

1. **Building Economic, Social and Environmental Resilience**
   1.1 Failure of Monetary Policy
   1.2 The Job Guarantee
   1.3 Building Resilience
   1.4 Regulated Assets and Infrastructure Investment
   1.5 Resilient Settlements
   1.6 Competitiveness
2. **Reduce Debt and the Cost of Debt**
   2.1 End the Bank Bailouts.
   2.2 Modern Monetary Theory
   2.3 Public Debt Proposal 1:
   2.4 Flaws in the Banking System
   2.5 Asset Price Inflation
   2.6 Public Debt Proposal 2:
   2.7 Investing in Irish Government Bonds
   2.8 Debt into Equity
   2.9 Complimentary Money and Saving
3. **Smarter Taxes and Future-Proofed Investment**
   3.1 Site Value Tax
   3.2 Land Value Tax
   3.3 Tax/Cap and Share
   3.4 Rural and Urban Impacts
   3.5 Water Charges
   3.6 Other Environmental Charges and Taxes
   3.7 Environmentally Damaging Subsidies
   3.8 Future Proof Investment
4. **Remove Privilege and Equalise Benefits**
   4.1 Privilege in the Public Sector
   4.2 Privilege in the Private Sector
   4.3 Tax Allowances
   4.4 Privilege Tax
   4.5 Hidden Subsidies
   4.6 Reform Public Services
   4.7 Equal Health, Education and Housing Benefits
   4.8 Equal Resources Dividends and Pension Benefits
1. General Policy Framework

The recently published Review of the Programme for Government stated that ‘the Government’s overarching objective in the short-term is to return the economy to a sustainable position.’ Smart Taxes advises that the short-term must be subject to the long-term objective of full sustainability, which prioritises environmental and social sustainability with the economy as a mechanism to deliver it, rather than an objective in itself.

The economy was demonstrably not sustainable in the recent past and it is futile to seek to recreate it. Resilience is a better objective for the economy as it will have to change its internal rule set from maximizing to minimizing material throughput while remaining effective in the face of a high probability of disruptive external shocks. These shocks include peak oil, possibly peak other essential resources but also further financial turmoil as the Ponzi scheme claims on limited real wealth unwinds; all in the context of unavoidable legacy climate change.

Smart Taxes Budget 2011 Submission outlines the basis of the transformation of public finances to meet key government objectives while operating within the constraints of long-term environmental, social and economic sustainability.

The main objectives are to:

- Build economic, Social and Environmental Resilience
- Reduce Debt and the Cost of Debt
- Smarter Taxes and Future-Proofed Investment
- Remove Privileges and Recognise Rights

The fiscal tools and budgetary principles are:

- Financial and Monetary Reform
- Tax Shift: Environmental Taxation Reform (ETS)
- Public Sector Services and Benefits Reform
- Employment and Investment for Resilience
2 Key Proposals

2.1 Financial and Monetary Reform

• Stop the banking bailouts. Remove the bank guarantee for bondholders in while retaining it for depositors when the current guarantee runs out.

• Instruct NAMA to sell off non-Irish loan properties and selected high value Irish properties subject to strict criteria. Create LLPs (Limited Liability Partnerships) to develop and hold key resilient estates.

• Public Debt Proposal 1: Campaign for ECB to disburse debt-free Euro to EMU governments on a per capita basis. €1 trillion should be disbursed immediately with a further 5% of EMU GDP distributed per annum.

• Public Debt Proposal 2: Insert a provision stating that in the event of default - the bearer on demand can use those defaulted securities to pay government taxes.

• Reform bankruptcy laws from 12 years to 3 years ban on directorships and garnishment of income and legacies.

• Reform landlord and Tenant legislation to allow for retrospective reduction of rents to market level.

2.2 Tax Shift or Environmental Taxation Reform (ETS)

• Implement an annual Site Value Tax (SVT) covering developed and zoned land

• Start preparations for Land Value Tax (LVT) covering the remaining non-zoned agricultural, forests, and peatland for budget 2013.

• Raise the Carbon Tax (or Cap and Auction Permits) to equivalent of €50 per tonne Co2 per annum to cover all fossil fuel users and share receipts with adult residents.

• Roll out domestic water metres for annual domestic water charges. Introduce charges on water effluent / pollution and water abstraction.

• Introduce comprehensive charging for the use of all the natural commons, increasing charges as use declines to maintain revenue and positive behavioural changes as identified by the EEA

• Prepare new Fiscal and Market mechanisms to address the immediate threats to Fisheries and Marine Biodiversity Commons
• Reform environmentally damaging subsidies

• Expose the true costs of services and utilities and reduce cross subsidies

2.3 Public Sector Spending and Services Reform

• Reduce by 40% the salaries of all elected national and local representatives starting with the President to match levels in other European States.

• Terminate pension payments to elected representatives retired public /civil /semi state servants that have not reached 65 years and/or are still serving or employed whether under PAYE or by contract.

• Introduce a new very high rate, i.e. 75% of income tax for privileged workers earning over €75k pa until pay and benefits are reduced to EU levels and where the highest paid gets no more than 8 times the lowest paid.

• Remove public sector pension privileges.

• Tax Lump-sum public pension payments at the top rate

• Adjust all other the special Tax Expenditures / Relief as identified by TASC.

• Remove citizenship from Irish tax exiles.

• Reform funding of public services to be citizen-centred with choice of public, private and not-for-profit service provider

2.4 Employment and Investment in Resilience

• Initiate a reserve workforce through a Job Guarantee Programme to build social and environmental resilience and thereby stimulate the economy.

• The basic non-contributory pension should be raised to provide the greater part of pension for public sector, private and not-for-profit sector alike.

• Tax relief at the lowest income tax rate for a State Contributory Pension should be made available on an ‘opt-out basis’

• Pension tax relief at the highest rate should remain for funds that are 100% invested in local resilience building

• No tax relief should be available for pension savings or investment in non-Irish bonds and shares.

• Maximise Environmental, Social and Economic Value of State Assets to benefit citizens in perpetuity.
3 Meeting Our Objectives

3.1 Building Economic, Social and Environmental Resilience

The government has highlighted the restoration of competitiveness as a main objective of its budgetary policy. This usually means cutting costs (business taxes, salaries, public services, energy and resource costs) to sell more goods and services abroad in exchange for much needed money for our economy. This same strategy has been adopted throughout the developed world and is a zero-sum game. The ‘fallacy of composition’ warns us that not every country can be a net exporter. Furthermore, exporting real goods in exchange for a virtual wealth represented by a promissory note may not be a good risk reduction long-term strategy however attractive in the short term. The goal should be to import what we lack and export what we have in surplus in the context of building sustainability and economic resilience rather than scoring points in a virtual trade game. Modern Monetary Theory has transformed our understanding of post gold-standard monetary systems. If there is a current account deficit and both the government and private domestic sectors implement plans to reduce spending and pay down debt, there will be shortfall in aggregate demand, which will generate cuts in output and income. These income shifts drive the budget towards or into deficit and stifle the private sector plans to save. So eventually, the actual balances add to zero. In that case, neither the government, nor the domestic private sector, will be achieving their plans. Cutting government spending now means growth will slow. The automatic stabilizers will kick into gear. Tax revenues will fall further. Deficits will go higher. Consequently, the attempt to force people to “live within their means”, as our Minister for Finance admonishes us, will create precisely the opposite effect.

3.1.1 Failure of Monetary Policy

The ECB strategy of managing the money supply through the banking system with controls based solely on CPI inflation has not prevented the debt bubble and collapse and will not pull the euro-zone from its current trajectory. While the ECB has not bought bonds directly from EMU governments, it provides a floor for both government and bank bonds prices in the secondary market. This is a form of quantitative easing similar to that which the UK and US have employed to support their financial sectors and to inject liquidity into the market. It allows the banks to rebuild their reserves and profits. It has the secondary effect of providing cheap money to the financial sector to invest in higher yielding bonds in the faster growing economies, which has led to accusations of currency wars and competitive devaluation pressures. These efforts have had minor impact in stimulating the European economy because there is no demand for borrowing as both business and households strive to repay loans. The growing unemployment crisis has had no impact on ECB strategy options, as this important social goal is not seen as within its remit. Other nations that took the course of injecting funds into the financial system as opposed into the general domestic population have seen increased unemployment too. It appears that the lessons of the Great Depression have been forgotten.

Economist Dr Steve Keen of Australia has developed dynamic mathematical models using on system theory that convincingly outlines a theoretical framework explaining this phenomenon. The model predicted the crash and mirrors real world outcomes
more accurately than conventional equilibrium models. He quotes US President Obama’s misunderstanding expressed in this statement;

“The truth is that a dollar of capital in a bank can actually result in eight or ten dollars of loans to families and businesses, a multiplier effect that can ultimately lead to a faster pace of economic growth.”

The Australian policy response to the Global Financial Crisis on the other hand, was pithily summed up in the advice given by its Treasury: “go early, go hard, go households”. Though many other factors differentiate these two countries—notably Australia’s position as a commodity producing supplier to China—the outcomes on unemployment imply that the Australian measures were more successful than the American “money multiplier” approach (See Figure 1).1

![Unemployment Rates](image)

**Figure 1** Comparison of US and Australian policy outcomes

Smart Taxes Proposal 1 for ECB reform removes the imperative for net exports and thus the drive for exports at the cost of building resilience at home. Proposal 2 is less effective than Proposal 1 but if the limited funds raised are directed to those who are sure to spend within the Irish economy (the currently unemployed) producing environmental and social public goods, the private sector will benefit from their spending and the government will recover their increased borrowing as taxes. The way to do this is with a ‘Job Guarantee”, a buffer stock of fully employed labour paid by the government as ‘employer of last resort’. Major investment in resilience building capital projects should augment the spending of the newly employed. New ways of making this investment are proposed using public and private funding sources, circumventing the short sighted demands of the global bond market.

---

3.1.2 The Job Guarantee

The labour market flexibility of the conventional theorists appears to be at odds with reality where relative unemployment rates at local area levels persist very strongly over long periods. Empirical findings call into question the efficacy of policies designed to increase employee flexibility and to improve the relative performance of the regions. Societies with a high degree of social cohesion have been willing to broaden their concept of ‘costs’ and ‘benefits’ of resource usage to ensure everyone has access to paid employment opportunities. Countries like Japan, Austria, Norway, and Switzerland were able to maintain this capacity because each exhibited “a high degree of shared social values, of what may be termed social cohesion, a characteristic of almost all societies in which unemployment has remained low for long periods of time” The Job Guarantee proposal recognizes that a stock of jobs providing opportunities for the all skills must be maintained by public funding if there is to be a true path to full employment. This type of cohesion is a pre-condition for strong communities. The Job Guarantee is an Employer of Last Resort (ELR) measure that would act as a buffer of employed, replacing a (NAIRU) buffer of unemployed to control inflation. JG workers should be paid the minimum wage plus ancillary social benefits so that they are not worse off than social welfare recipients.

The Job Guarantee programme should be aimed particularly at the young who are likely to emigrate – their loss has high impact on future economic security. It is important that the work offered is demanding with high quality direction so that useful expertise is gained. At least some of the work should be varied and sufficiently technical to provide certifiable training and professional experience. Competition with existing jobs in the private and the public sectors is avoided if the work carried out has no current market value and does not come under existing government programmes. The maintenance and improvement of eco-system services and biodiversity and local emergency measures ticks all these boxes. The environmental NGO sector and professional associations have an important role in providing these meaningful jobs. An indicative list includes:

Maintaining and enhancing eco-system services

- Invasive species eradication
- Green Road creation – making rural roads pedestrian and biodiversity friendly
- Green infrastructure planning, development and maintenance
- Flood management works
- Peatland restoration for carbon sequestration and storage
- Habitat banking site development
- Transformation of depleted peatland for habitat and recreation
- Native wild and domesticated seed collection and saving
- Woodland planting and restoration
- Research such as baseline studies for AEOS monitoring
- Water monitoring and remediation measures
- Valuations of urban sites and rural land
- Sanctuaries for marine and land species under threat
- Resilience plans for rural villages and urban neighbourhoods

---

2 Paul Ormerod, Labour Market Flexibility in the US and the UK: Evidence at the Local Area Level, Volterra Consulting November 2006
3 Centre For Employment and Price Stability Digest, 2001:2:1
Retrofitting community buildings as emergency centres
• Food growing and preserving in urban and rural areas

Environmental NGOs and Professional Associations will require funding to manage the Job Guarantee workers and an equipment and materials budget. Local authorities and certification bodies will require some extra funding to fully engage and support the scheme. This funding is not ‘core’ or ‘project’ but ‘contingent’ as the job Guarantee workforce is a buffer stock that will reduce naturally when economic conditions improve. Some of the work might prove of sufficient manifest value to be moved into the private or public sector on a permanent basis - but this is not an aim or condition for the scheme. There may also be work meeting the JG training and contingent criteria in the community sector - comparable part-time schemes exist in rural areas. Local urban and rural voluntary groups should be invited to submit further proposals. It will take some time to ramp up the Job Guarantee programme to accept the current numbers of unemployed. When a job is genuinely available for anyone who wants it and is capable of work, existing unemployment benefits may be reformed - but not before.

3.1.3 Building Resilience
Smart Taxes Proposal 1 for ECB reform removes the imperative for net exports and thus the drive for exports at the cost of resilience at home. Proposal 2 is less effective than Proposal 1 but if the funds raised are directed to those who are sure to spend within the Irish economy (the currently unemployed) producing environmental and social public goods, the private sector will be stimulated and the government will recover their increased borrowing as taxes. The deployment of this Job Guarantee workforce should be coupled with a major ‘Resilience Building ’ capital investment plan focussing on energy and food security, public transport and sustainable waste recovery and treatment facilities funded by NAMA (see 3.1.4), government borrowing, and public and private pension funds. Tax relief at the lowest income tax rate for a State Contributory Pension should be made available on an ‘opt-out basis’ for savings in Irish Government Bonds if the Irish Government accepts them for tax payment (Proposal 2) developed NAMA LLPs projects and guaranteed infrastructure projects. Pension tax relief at the highest rate should remain for funds that are 100% invested in local resilience building i.e. in energy, food, transport, sustainable settlement and eco-system services. This top rate relief should be capped at €50,000 per annum and should not be available to the privileged taxpayers (See Section3.4). These in resilience building measures taken together should represent least 4% of GDP annually invested (129 billion *4%=5.16 bn in 2010) as per Stern Recommendation to address climate change.

3.1.4 Regulated Assets and infrastructure Investment
Smart Taxes supports many of the recommendations of the UK based Policy Exchange re delivering infrastructure4. Government should address the tax status of regulated asset base (RAB) based investments and make interest on RAB-based bonds tax -ree for retail and pension fund investors. The utilities and infrastructure areas represent a good case for a priority lowering of tax on investments. Their wider public benefit is not reflected in prices, and the internalisation of these externalities from networks and low-carbon technologies merits a positive discrimination in their favour. As a

---

4 Helm, Wardlaw, Caldecott, 'Delivering a 21st Century Infrastructure for Britain', Policy Exchange 2009
result, interest on RAB-based bonds should be tax-free. Pension and life-funds should be encouraged to play a greater role in channelling savings into infrastructure projects. Pension and life funds are the principal vehicles for savings. They have long-term liabilities, and utilities have long-term time-inconsistency exposures and long-lived physical assets. The RAB provides a means through which savings can be channelled by financial institutions into infrastructure investments.

Government should significantly reduce the cost of capital for financing infrastructure projects by credibly protecting investors through reforming and expanding the number of sectors covered by a RAB. The RAB is protected by the duty that is placed upon regulators to finance the functions of the business, including the RAB. Understood in this way, the equity risk in the RAB for the company is zero - it has been transferred to the customers who are compelled to pay for the RAB (or, in the case of government guarantees and subsidies, to the taxpayers). This has a radical implication. If the RAB is guaranteed, it can be financed by debt, and that debt in turn is effectively guaranteed through the duty to finance. Were investors to lose faith in the creditworthiness of government bonds, the RAB might actually become lower risk because investors have physical assets to fall back on. In a period of inflation, this could be especially valuable security. The RAB concept should cover the decarbonisation programme, high-speed rail and replace the PPP programme for projects that pass the sustainability test.

The Government should suspend development of costly infrastructure projects such as Metro North and pursue more easily attainable green infrastructure goals projects. This should include:

- The extension of Shared Bike Schemes to 21 urban areas: Ireland’s five cities and 16 towns with the largest populations.
- The implementation of a shared electric car programme, redirecting the €20 million earmarked for electric car subsidies to purchase 600 electric vehicles and establish car-sharing systems in the 21 major urban areas.
- Development of advanced Quality Bus Corridors nationwide.⁵

### 3.1.5 Resilient Settlements

Some Irish NAMA development land, on the outskirts of rural villages and towns for instance, have no realistic prospect of development and should be offered to local people at modest rents for use as allotments and community farms. But other NAMA sites are in prime urban locations benefiting from years of public and private investment in infrastructure and must not be left to waste. These sites should be redesigned to reflect the radically changed economic and environmental reality. Their density, heights and uses should be comprehensively reconsidered. The aim should be to build best practice, use-mixed, socially-balanced, net-energy-exporting, zero-carbon, zero-waste neighbourhoods. It is unlikely any of the original property developers have expertise in the maximisation of long term economic, social and environmental value so there is no case for their involvement. Construction design professionals should be prepared to take their fees, less out-of-pocket cost and modest salaries, in percentage shares of equity units from the LLP rental stream. The management company should also be prepared to except most of its annual fees in equity units. Services in the new developments should include embedded electricity,

---

⁵ These suggestions are taken from Plan Better’s Pre-Budget submission. See planbetter.ie.
hot water and waste processing systems and thus their service providers should be equity unit holders to align their interest with the other members. In this way, centres of resilience in the heart of Dublin and large provincial cites and towns will be created that can act along with transformed rural villages, to counter systemic collapse threats.

3.1.6 Competitiveness

The European Commission defines competitiveness as “a sustained rise in the standards of living in a nation and as low a level of involuntary unemployment as possible.” The OECD defines it “a measure of a country’s advantage or disadvantage in selling its products in international markets.” Under these definitions, it follows that regaining competitiveness means for Irish-based firms to expand their market share while maintaining or improving the living standards of the population. Smart Taxes would add to these laudable goals the goals of improving sustainability and economic resilience. The ESRI and the National Competitiveness Council advise that labour costs must be ‘adjusted’ as part of achieving competitiveness. However, reducing the input costs of labour does not necessarily increase competitiveness. Several studies have shown correlations between an increase in wage levels with improvements in competitiveness as expressed in market share. Countries that have experienced the fastest growth-rates in terms of exports and aggregate output in the post-war period have had much higher growth in unit labour costs than other countries. This difference in competitiveness is explained by the relative technological capabilities of the competing countries.

Reductions in the tax component of labour costs would be a better support to employers in the budget for 2011 than reducing wage costs. Even though the average Irish earner and family pays very low income tax compared to other countries arising from the tax allowances regime rather than the rate of tax, the ‘tax wedge’ on labour has been increased in each of the last three Budgets. Reducing tax allowances for low to median earning families risks competing with levels of unemployment benefits in Ireland that are also relatively high. According to business associations, high rents and debt service are more of a problem than the cost of labour. They should be dealt with as a priority. Smart Taxes propose the Landlord and Tenant legislation be amended to allow retrospective reduction of rents in existing leases. It should be noted that the Constitution clearly states all property rights are subject to the public good. It is clearly not in the public good to destroy what remains of the retail sector in Ireland and to handicap recovery of the rest of the commercial sector.

A better way to raise receipts in a challenging business environment is to introduce new bases for taxation. Smart Taxes proposes a ‘tax shift’ from work and enterprise to natural and social commons resource use. In particular, we propose a Site Value Tax on all residential properties and on all zoned land, Tax/Cap and Share, which is an increased carbon, tax with a redistributive element and Water Charges also with a redistributive element (See also Section 3.3). These three new major tax sources alone would significantly widen the tax base raising the total tax contribution of the average earner without damaging competitiveness. Debt is discussed in the next section.

---

6 Korowicz, David, Tipping Points
8 OECD, Centre for Tax Policy and Administration, ISBN 92-64-02202-3 2006
3.2 Reduce Debt and the Cost of Debt

The Department of Finance estimated in the Budget 2010 that the level of Irish private and public debt is unsupportable and cannot be paid. To quote Michael Hudson, “No one wants to accept the fact that debts that can’t be paid, won’t be”. In Ireland’s case, the sharp rise in government debt due to the property collapse that decimated transaction based tax receipts, was compounded by the Irish government’s guarantee of private bank debt. Funds put aside for pension provision were then used to help recapitalise the banks and indirectly stimulate the economy. Further capital injections are proposed through promissory notes that will affect our annual borrowing requirements. This policy will not reassure the bond market nor will it revive growth in the Irish economy, quite the reverse.

3.2.1 End the bank bailouts.

Announce the end of the bank guarantee cover for bondholders in all banks while retaining it for depositors when the current guarantee runs out. Nationalise AIB and EBS and require letters of resignation from all senior management and boards. The Pension Reserve Fund will lose €1.8 billion when it purchases AIB shares overhanging the market as underwriter. Cancel the underwriting, nationalise the bank and appoint an assessor to value the shares. Their value is likely to be circa €364 million. It is not worth €1.4 billion to retain a tiny private ownership share in AIB.

Banks serve an essential function when they act as local financial intermediaries, receiving local savings as deposits that they lend to finance local businesses and homebuyers. They best fulfil this beneficial function when they are human-scale, rooted in the communities they serve, and publicly accountable. The more diverse the ownership structure of individual banks, - for-profit, non-profit, cooperative and government - the more responsive the system is likely to be to the broad spectrum of individual and community needs. The government can advance the creation of a diverse and decentralized banking system by taking over failed banks, breaking them up, and restructuring their individual branches as locally owned community banks, mutual building societies, an credit unions. This process can also be advanced by legislating limits on bank size, anti-trust action, and/or implementing regulations and tax penalties that render banking conglomerates unprofitable.

Split AIB into a good bank and a bad bank, leaving the €4.5 billion in subordinated debt in the bad bank and negotiate with the holders of these securities to reduce the amount of public funds required to cover the losses. Alternatively, wind it up - the cost are less than for Anglo and INBS. Wind up Anglo Irish Bank and Irish Nationwide Building Society. Negotiate with the bondholders to share the losses 5 - 50% according to seniority.

3.2.2 Modern Monetary Theory

Modern Monetary Theory (MMT) is based on work by Hyman P. Minsky and provides a framework within which a more sustainable monetary policy can be developed. While

---

9 Hudson, Michael, The Looming European Debt Wars, Counterpunch, April 9 - 11, 2010
12 Warren Mosler, Seven Deadly Innocent Frauds of Economic Policy, Valance Co Inc 2010, ISBN: 978-0-692-00959-
there is over 20 years of MMT literature published in books, refereed journals, and in working papers available all over cyberspace (though most can be found at CFEPS\textsuperscript{13}, CoFEE\textsuperscript{14} and the Levy Institute\textsuperscript{15}, it has only recently entered economic commentator consciousness\textsuperscript{16}. Investors have been quicker to adopt MMT as it reflects operational realities with which they are very familiar\textsuperscript{17}. One important outcome of MMT holds that sovereign governments need never default on their bonds. The monopoly issuer of currency cannot run out of money it creates to meet its obligations, although it can certainly wreak havoc on an economy if excess money is not controlled by judicious taxation and banking regulation.

There is a valid need to constrain deficit spending by governments, but it makes no sense for a sovereign government to fund deficits by borrowing at interest money that private banks create with an accounting entry that that government can just as well make itself. MMT tells us that when the government runs a surplus, the non-government sector has to be in deficit, and vice-versa. There are distributional possibilities between the foreign and domestic components of the non-government sector, but overall that sector’s outcome is the reverse image of the government balance. This is a fundamental bookkeeping reality.

3.2.3 Public Debt Proposal 1:
The Irish government is not sovereign in currency matters nor is any member state within the single currency. It falls then to the ECB to provide the needed exogenous or fiat currency to rescue the Euro-zone from a debt deflation spiral or/and a complete break-up. The fear of hyperinflation through the distrust of governments to control their monetary powers to spend is why the public, most politicians and many economists will not admit to the operational reality of the current system. However, two factors may allow for change. Conventional policy options look inadequate to prevent member the almost certain break up of EMU and secondly, the existence of a supra-national central bank ECB dominated by Germany, is an insurance of a kind against the populist pressure that might undermine the Euro.

The government should therefore argue that the ECB credit €1 trillion to Euro-zone member states accounts according to their populations. As the GDP of the Euro-zone is €8.4 trillion and the population 317 million, 1 billion represents about 12% of Euro-zone GDP and about €3,150 per capita. This would mean an immediate €14.175 billion contribution to the Irish government account. Germany would get €258.3 billion which it could use to support its indebted Lander and their banks. Other EMU states would benefit pro rata. Further disbursement should be made on an annual basis based on an agreed percentage of GDP\textsuperscript{18}. The ECB should then ensure that Member States control asset price inflation, especially property, with vigour. The ECB can sanction by withholding the annual allocation from uncooperative governments - more powerful than any other sanction under discussion. The ECB’s mandate should be expanded to ensure that resources are used effectively and sustainably - the function of a good

\begin{enumerate}
\item http://moslereconomics.com/2009/12/10/7-deadly-innocent-frauds/
\item CFEPS The Center for Full Employment and Price Stability University of Missouri - Kansas City http://www.cfeps.org/
\item CoFEE, the Centre for Full employment and Equity, University of Newcastle, Australia, http://e1.newcastle.edu.au/coffee/
\item Levy Institute Bard College, New York, http://www.levyinstitute.org/about/
\item Edward Harrison, Credit Writedowns.com,
\item Rob Parenteau, Richebacher Letter
\item Marshall Auerback and Warren Mosler, Deficit Terrorism Could Kill the Euro, 01/21/2010, New Deal 2.0,
\end{enumerate}
money system. An obligation to support a sufficient fiscal adjustment to eliminate the output gap rather than supporting deficit reduction should guide policy. Bank reserves requirement should be increased so that banks are constrained in lending/creating money when economic conditions improve to limit the endogenous money supply\(^{19}\). It is important however, that the ECB allow inflation caused by higher energy prices so that prices quickly adjust to post oil peak.

The Irish government could use all of its allocation to reduce its deficit and reassure the bond market on its ability to honour the bonds that it does issue. Alternatively, it could use 50% of its allocation to retire government debt while 50% should be distributed as vouchers to reduce personal debt and/or to invest in renewable energy, energy conservation and education.

3.2.4 **Flaws in the Banking System**

The current credit-based money system has inherent flaw that arise as emergent effects of the basic algorithm of debt-based money creation. In other words, the incentive to increase debt by lending against existing assets sets up a positive feedback in asset prices and debt lent against it - a Ponzi scheme. This leads to the destruction in workers’ share of income and that of capitalists in the real economy matched by a stratospheric rise in profits by the financial sector.\(^{20}\)

![Income Distribution](image)

**Figure 2**: Moderation followed by crash in workers and capitalists incomes with rise in bankers

---

\(^{19}\) Philip Lawn, *Facilitating the transition to a steady-state economy: Some macroeconomic fundamentals*, Ecological Economics 69 (2010) 931–936

\(^{20}\) Steve Keen, Presentation to the Minsky Conference Sept 2009
Bankers did not need to be smart to make their handsome profits; they simply had to ride the wave generated by the system. This has implications for bankers’ pay and bonuses. It also has implications for fiscal and regulatory policy.

3.2.5 Asset Price Inflation
Land Value Tax would remove incentives to lend against rising land prices and is the main reform required to prevent another boom and bust and to promote productive investment. It should nevertheless be backed up by regulations limiting banks lending against property. For example, loans should never exceed 14 times the net rental income of property. The rewards of increasing debt for banks are so tempting that pressure will build to find other assets to lend against if land is eliminated, such as company shares or even works of art. Controls to limit bubbles in share prices might include a ‘Jubilee Rule’ for shares.\(^{21}\) This requires that shares bought in the marketplace that were not issued by the relevant business have a life of only 50 years before they become worthless. In other words, only shares purchased from the business directly are shares in perpetuity; if they are re-sold they become a wasting asset. However, such company reforms cannot be successful on a unilateral basis. It requires a broad global agreement amongst nation states that is unlikely at this time. Phillip Lawn argues that banks should be constrained to a 50% reserve ratio, others such as the American Monetary Institute, James Robertson and James Huber\(^ {22}\) that banks be constrained to 100% reserve lending. Other measures to dampen financial speculation might include a speculation tax on financial trades and a graduated system of short-term capital gains taxation starting with a tax rate of 100 percent on profits from assets held for less than a few days. This debate is beyond the scope of this submission.

3.2.6 Public Debt Proposal 2:
Until the ECB is persuaded to reform as per Proposal 1, the Irish Government should insert a provision stating that in the event of default, the bearer on demand can use those defaulted securities to pay government taxes.\(^ {23}\) This makes it immediately obvious to investors that those new securities are ‘money good’ and will ultimately redeem for face value for as long as the government levies and enforces taxes. Bondholders do not have to live or do business in Ireland to avail of this added security as they can sell the bonds to Irish people and businesses at a discount to face value. This measure ought to reduce the spread in interest coupon demanded by buyers over the German rate.

3.2.7 Investing in Irish Government Bonds
In tandem, regulations that prevent pension funds from investing in Irish government bonds should be removed. Currently Irish citizens hold circa 15% of Irish government bonds. These two measures will give incentives to Irish people and funds to buy the bonds over non-nationals. The increased Irish citizen share of Irish government bonds would then help stabilise the market just as in Japan. Public debt is not eliminated but increased under this measure (unlike in Proposal 1) but at a lower interest rate and without an IMF/ECB ‘rescue’. Ireland’s adoption of this measure is unlikely to

---

\(^{21}\) Steve Keen, Presentation to the American Monetary Institute, Oct 2010

\(^{22}\) James Robertson and Joseph Huber, *Creating New Money: A Monetary Reform for the Information Age*, 2000, New Economics Foundation

threaten the Euro by itself. However, if abused by others states, this new funding freedom, could be highly inflationary and further weaken the euro. The reason the ECB is prohibited from buying national government debt is to allow ‘market discipline’ to limit member nation fiscal expansion by the threat of default. When that threat is removed, bad behavior is rewarded, as the country that deficit spends the most wins, in an accelerating and inflationary race to the bottom. There appears to be no rule or law under the Maastricht or Lisbon Treaties that prevents the Irish government from pursuing this strategy. If the ECB wished to maintain the strong euro policy, it should look more positively at Proposal 1, which is the most effective solution to the eurozone crisis.

3.2.8 Debt into Equity

NAMA’s remit should not be to maximise the value of its Irish loans/properties by selling into the Irish market, even over the long term. To do so would create distortions in the Irish property market and Irish planning and fiscal policies to the disadvantage of third party, non-delinquent property owners. Non-Irish, i.e. UK and US properties however, may be sold safely and as soon as possible as global market conditions are more likely to worsen than improve. Instead NAMA should transfer property holdings into REIT type entities called Limited Liability Partnerships (LLPs), thereby swapping debt for equity. LLPs are more flexible than REITS as they allow for more member types. In an equity partner type LLP or EP, the freehold is transferred to an appropriate custodian body such as the relevant local authority or housing association or new Community Land Trust.\(^{24}\)\(^{25}\) The freehold should never be sold again to ensure that the value of the property is based solely on the rental stream in perpetuity. In the case of existing fully developed properties, an affordable rent (under the prevailing market rent) is set for all individual units of the EP, indexed to inflation. These rental streams are then pooled and divided into percentage shares of the total - equity units. Investors are allocated units in the EP proportionate to the value of their investment. For instance, NAMA would hold the largest percentage of the total and the local authority would hold at least 15% of the value of residential land element representing its Part V\(^{26}\) claim, that can be used to further subsidise rents.

The rental income generated by the development will then be very safe from internal and external cost shocks and if linked to a suitable inflation index, very attractive to pension investors.\(^{27}\) The result will allow NAMA to liquidate its interest if it so desires, at a high multiple of the rental income, although this is not the prime purpose of the exercise. The LLP model has further benefits in dissolving differences between renters and owners and between private and social housing. Renter members can earn equity units in the LLP by sweat equity or by paying higher rent than the affordable level. If their circumstances change, they can choose to sell equity units and revert to the affordable rental.\(^{28}\)

NAMA vehicle should also be used to assist ordinary homeowners (not buy-to-let or holiday homeowners) in distress with negative equity and serious arrears, estimated at

---

25 Cook Chris, Capital Partnerships.
26 The Planning and Development Act 2000
27 Peoples Pensions; New thinking for the 21st century, NEF Feb 2003
28 Pike, James
60,000 households. As for the banks, a realistic view should be taken of the mortgages and the burden of write-down of the outstanding capital apportioned between parties. Smart Taxes supports the call in the Irish Times led by Prof Brian Lucey for Mortgage debt Forgiveness of about 30%\textsuperscript{29}. The losses crystallised by the banks can be offset by additional NAMA bonds. The EP solution (as described above) where the homeowners are part of an unfinished estate may also be necessary.

3.2.9 Complementary Money and Saving

A local currency more attuned to local conditions would greatly assist struggling regional economies outside the Dublin area. Without the implementation of Proposal 1, and with the burden of debt still overhanging public and private accounts transfers to struggling regions will have low priority. Smart Taxes urges the Government to consider creating a local fiat money at the lower regional level in Ireland acceptable for payment of local taxes/charges. Such a system would require a banking arm as in the conventional national system, to handle and settle accounts. This could be ‘regional bank’ or a community owned ‘trust bank’. The question then arises; what powers to issue local currency should this entity be given? Debt-based lending against assets is not sustainable as outlined earlier. The Liquidity Network\textsuperscript{30} initiative has suggested turnover-based money creation by a trust bank. The algorithms of how this would work cannot be determined until the system has been running for some time which requires a leap of faith by the people in the trustees that is an impossible ‘ask’. Following the crisis, trust, transparency and the absence of ‘an elite’ of managers with privileged and arcane knowledge of how the system operates are fundamental for public acceptance of any new money system. One solution with the requisite democratic and transparent characteristics is for the regional or local authority to regularly issue ‘rusting’ currency scrip on an equal per capita basis to residents within its remit. Rusting currency must be spent before a certain time or it becomes worthless. The issuing authority would accept the currency in payment of local charges and taxes, which gives it value. Recipients would be highly motivated to spend it in local shops and businesses where it would enter the new trust banking system. This trust bank could then provide liquidity to local businesses on the basis of to 100% reserve lending, i.e. loans must equal deposits.

Recent competitive devaluations by all US, UK and ECB through quantitative easing has created a flight to gold and other commodities. The local currency options described above are not suitable vehicles for saving; their function is to stimulate local trading. Further innovation in financing large essential assets and in local saving vehicles will be needed even with local trading currencies. Social and economic resilience requires that the vital services provided by renewable energy generation are widely distributed and ownership democratised. That means widespread ownership of energy assets such as biogas digesters producing methane from organic wastes that can generate electricity, be burnt for heat or be compressed for transport. Pyrolysis of biomass and other cellulosic wastes is another such appropriate asset as is wind energy when linked to back-up and storage systems. Ideally, community scale renewable electricity should feed into a local smart grid and electricity and other energy services managed by a local Energy Services Company or ESCo. Legislation for Limited Liability Partnerships LLPs (see also 3.2.18) facilitates the creation of Energy Partnerships of all the relevant agents from developer to consumer without resorting to bank debt. The

\textsuperscript{29} Prof Brian Lucey, Mortgage debt forgiveness is essential for recovery, Irish Times, 11\textsuperscript{th} November 2010.

\textsuperscript{30} The Liquidity Network http://theliquidynetwork.org/
The high cost of plant and grid investment can be financed through bonds backed by KW hours bought by external investors and by local consumers. The Energy LLP might then issue money backed by KW hours which people could use for their ordinary business knowing they could always be redeemed for an essential good needed for everyday life.

Widely operating local trading currencies are a valuable fallback should the current global financial de-leveraging spiral into a complete freeze - a prospect that almost became reality in 2008. The government should fund research into local trading currency options and direct regional/local authorities to pilot them as a priority as an important high yielding resilience building measure.

3.3 Smarter Taxes and Future-Proofed Investment

Environmental Tax Reform (ETR) involves policy measures that shift revenue-raising instruments from labour and capital to resource use and pollution. These measures mainly include taxes; charges; or auctioned permits in an emissions trading scheme. Policies in place or in the pipeline but not included in the revenue figures are: Fiscal package (Budget 2009): 466 million Euro; Carbon Tax (Budget 2010): 330 million Euro; Carbon windfall levy (July 2010): 75 million Euro. The revenues of these policies amount to an estimated 870 million Euro and would increase the environmental tax ratio to approximately 10% from 8% today. In addition, the increase in the landfill levy and the auctioning of emission allowances under the EU ETS from 2013 will generate additional revenues. Smart Taxes strongly advocates further comprehensive charging for the use of all the natural commons, increasing charges as use declines to maintain revenue and positive behavioural changes.31

3.3.1 Site Value Tax

Site Value Tax (SVT) levies an annual charge on the value of all developed and undeveloped zoned land including the site under every building in residential use. It does not include un-zoned land i.e. agricultural land, forestry and peatland. It does not include developed commercial property subject to local rates in Budget 2010 but should replace commercial rates in due course. It includes land zoned for commercial uses not currently subject to rates. It should be levied retrospectively on landowners of un-zoned sites granted planning permission as if they were zoned under the relevant 5-year development plan.

SVT is not proposed as an extra tax but a tax shift from existing transaction taxes of Stamp Duty and Development Levies and levies. The abolition of up-front transaction taxes would encourage new building development, including NAMA developments, where there is real demand. Research by Dr Constantin Gurdgiev 32 shows that it could smooth revenue to central and local government dampening the economic cycles.

---

31 Briefing Note on Further Environmental Tax Reform Based on Established Practice in Europe, Nov 2010, EEA with input from Comhar, Smart Taxes and Feasta
Figure 3: SVT blends for Stamp Duty and CGT/CAT

SVT creates additional construction jobs through its encouragement of viable building development on underused sites which are well served by good infrastructure. It removes a major deterrent to mobility - households moving to be near jobs, upsizing or downsizing, etc. It could reduce the burden of rates on the struggling commercial sector by spreading it over all developed and zoned sites, empty properties and the large domestic sector which currently pay nothing towards local government services and amenities.

It returns back to the State the value that public investment has added to private sites, thus facilitating further public investment and maintenance. Site Value Tax represents the optimal policy instrument for raising revenue for public investment when compared to all other alternatives. In qualitative rankings above, the final distance between the optimal policy (LVT/SVT) and the runner-up policies (Property Tax and Joint Development/Air Rights) is significantly greater than the distance between the least favoured two alternatives (Development Impact Fees and Special Assessments).

---

Figure 4: Summary of Results and Overall Rankings

All properties benefiting from the infrastructure including existing residential properties would pay according to the benefit created. Local authorities would gain stable predictable revenue and good planning and well-sited infrastructure would be rewarded. SVT would discourage zoning of land development unless there was an immediate and viable use and would therefore remove lobbying pressures from land owners. SVT could be used to fund social/affordable housing more efficiently than the current Part V Contributions, which have proved very unsatisfactory. Property speculation and the directly related reckless bank lending policies that caused the boom and bust would be curtailed by a correctly calibrated SVT. It will divert the Irish predilection for land speculation into productive job-creating business and enterprises.

Measures can be included to relieve SVT on those who bought in the boom years and on senior citizens\textsuperscript{34}. SVT will fall lightly on rural dwellers whose access to services and therefore site value is low. This will offset the higher level of carbon taxes they will pay as heavier users of fossil energy under a conventional or Cap and Share carbon tax system. SVT is particularly effective in raising revenue as it is impossible to avoid and creates incentives for productive activity as it has to be paid on the rental value of the site whether idle or not. Despite replacing distorting taxes and levies the wide application of SVT will bring in substantial net revenue of \texteuro 1.8 billion from residential properties alone to government and local government.

3.3.2 Land Value Tax

A further Land Value Tax (LVT) should be introduced, based on a percentage land’s value for agricultural productivity and renewable energy based on market information - less its ‘public good’ value as a carbon sink, biodiversity and recreational resource. It should replace income tax on farming and forestry income, which raises very little and is an accounting burden. It should also replace commercial rates on energy generation installations such as wind farms. LVT would reward productive, sustainable farming

\textsuperscript{34} Smart Taxes Network, Implementation of Site Value Tax in Ireland, July 2010, www.smartaxes.org
and is compatible with Harvest 2020 objectives. LVT would discourage peat extraction and peatland destruction by internalising the carbon lost into its capital value, while rewarding owners who restore bogs to net carbon stores. Farmers and foresters would be rewarded when they maintain hedgerows, forests and biodiversity rich scrubland. Important ‘Natura 2000’ designated sites would carry a positive LVT (annual grant instead of tax because its ‘public good’ value exceeds commercial value). It would encourage higher level of sales and leases of land, reducing farm prices to allow new entrants and consolidation.

**Figure 5: Ireland combines high farmland prices with low gross profit margin**

Fig 5 shows the mismatch between Irish farmland prices and its productivity - it is a clear outlier diverging form the European average\(^{35}\). The very low turnover of farmland may be a factor with only just over 14,000 hectares sold in 2008 - just 0.3% of the total agricultural area. Twenty per cent of farmers in Ireland are aged over 65, indicating reluctance to sell at retirement. Even a low LVT based on the rental value of land would encourage higher level of sales and leases of land, reducing farm prices to allow new entrants and consolidation but also protecting from over-exploitation for short-term profit maximising. Site Value Tax would remove much of the development value of farmland both for estate development and for one-off houses sites with proper design and implementation. The over-generous compensation under CPO of farms for road development should also be revisited. The benefit to the individual farmer is at the cost of the future of farming in Ireland.

---

\(^{35}\) Savills, Farmland report 2009
3.3.3 Tax/Cap and Share

Meeting Ireland’s carbon emission reduction and renewable energy targets\(^ {36} \) will entail a decisive shift to a low-carbon economy. Low oil and gas prices of a depressed global economy provide no incentive to make this transition. The EUETS is short term, volatile and has produced too low a carbon price to be effective. It has little long-term credibility as a principal driver of de-carbonisation. To this evident need to bolster the carbon price—make it credible over the medium to longer term and give it stability—is added the pressing immediate need for governments to raise money to meet the budget deficits. Carbon taxes are increasingly politically feasible for fear of the politics of the alternatives - raising income taxes, VAT and corporation tax. Under Tax/Cap and Share,\(^ {37} \) a high carbon price is internalised into the fossil energy cost to the producer and consumer, which funds the transition to renewable energy and conservation. By capping emissions at the upstream end of the supply system the price of emissions allowances is built into the price of fossil fuels, which then flows through the economy. The Cap would be set by an independent committee and all adults would receive certificates entitling them to an equal share of the emissions permitted under that year’s Cap. Certificates would then be sold, via banks or post offices, to those companies who import fossil fuels or extract them from the ground. Individual consumers obtain an income from the certificates that they sell and are therefore compensated for higher costs - the higher the carbon cost the greater the compensation. A similar scheme called ‘Cap and Dividend’ in the US entails an auctioning of the permits and a redistribution to citizens\(^ {38} \).

A Cap on fossil fuel emissions does not add value to permits if, as has happened last year, fossil fuel use dropped because of the recession. In that case, a Carbon Tax, as currently in place, is appropriate, but it must be set at a higher level so that the Share mechanism will adequately compensate citizens, as under Cap and Share. Following an upturn, the Cap should be re-applied and the carbon price determined by the market process (see also 3.4.8). This would ideally be net of the EUETS, not additional to it. It would act as a floor price for the EUETS as well as taxing carbon more consistently across the whole economy.

By setting a high carbon price now, the Government would be anticipating the future market price as the cost of imported fossil fuels will rise in a few year’s time, along with the cost of the emission permits required to burn them. In other words, rather than waiting for the market to signal that it is time to invest in energy saving and renewable energy technologies, the Government would be giving the signal several years ahead of time. The Carbon Tax shifts the burden of the costs of climate change from production of emissions to their consumption. This could include consumption of emissions embedded in some imported goods, through border carbon tariffs, to tackle ‘carbon leakage’ without sliding into protectionism.\(^ {39} \)

EPA figures reveal that greenhouse gas emissions in Ireland fell by 5.4 million tonnes in 2009 to 62.32 million tonnes, mainly due to the recession. Of this, **about 43 million**

---

\(^{36}\) NREAP, SEAI

\(^{37}\) Feasta, Foundation for the Economics of Sustainability, www.feasta.org

\(^{38}\) US Sen.s Maria Cantwell (D-Wash.) and Susan Collins (R-Maine), Clear Act, http://cantwell.senate.gov/issues/CLEARAct.cfm

\(^{39}\) Dr Simon Less Ed, Robert McIlveen and Professor Dieter Helm, Greener, Cheaper, the Policy Exchange
tonnes of carbon dioxide are released annually from the burning of fossil fuels. A €50 per tonne carbon tax would therefore bring in an extra €2.1 billion, minus the amount by which fuel consumption declined. €50 per tonne is about what is required to make renewables competitive with fossils fuels. It is also estimated by some insiders that oil peak could increase fossil fuel prices to the equivalent of €250 per tonne of Co2. By increasing the carbon price by €50 per annum for 5 years through a direct tax or by a 3% Cap to reach a value of €250, the Irish economy can be prepared for the coming energy shock. In four years it could reach €200 per tonne of Co2.

Imposing a carbon tax which increased at €50 per tonne each year would add just over 14 cents a litre to the price of petrol each year if VAT is included, or 71 cents over the five years. Coal prices would rise by €245 per tonne each year, since each tonne releases 4.9 tonnes of CO2. Electricity prices would rise by a maximum of 3 cents per kWh each year since each unit of electricity involves the release of an estimated 600 grammes of CO2. The final tax-take (34.55 million tonnes of CO2 at €250) would be €8.64 billion. Or if we look at just 4 years of this adjustment, the fossil fuel. emissions would be 38 tonnes and the tax take €7.6 billion. This is equivalent to 23.75% of the income tax revenue available to the Exchequer in 2009. This take is not either politically or economically feasible without distributing the greater part of receipts back citizens.

<table>
<thead>
<tr>
<th>Year</th>
<th>Co2 from fossil fuels</th>
<th>Price per tonne CO2</th>
<th>Total tax</th>
<th>75% returned to citizens</th>
<th>25% investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>43</td>
<td>50</td>
<td>2.08 billion</td>
<td>1.5 billion</td>
<td>.5 billion</td>
</tr>
<tr>
<td>Year 2</td>
<td>41.7</td>
<td>100</td>
<td>4.04 billion</td>
<td>3 billion</td>
<td>1 billion</td>
</tr>
<tr>
<td>Year 3</td>
<td>40.5</td>
<td>150</td>
<td>5.8 billion</td>
<td>4.4 billion</td>
<td>1.4 billion</td>
</tr>
<tr>
<td>Year 4</td>
<td>39.2</td>
<td>200</td>
<td>7.6 billion</td>
<td>5.7 billion</td>
<td>1.9 billion</td>
</tr>
</tbody>
</table>

The ‘Share’ of the Cap and Share mechanism is an equal per capita allocation of 75% of the receipts to all Irish adult residents. In Year 1 it would be worth €468 per adult or €936 for a two-adult per annum. By Year 4 it would be worth a very substantial €3,400 for two adults. This share will fund energy consumers to make the costly shift to a low carbon economy and is broadly progressive in its effects. It is a ‘carrot and stick’ approach analogous to the EU Emissions Trading System (ETS) and the Clean Development Mechanism (CDM) under Kyoto for big fossil energy users to trade CO2 credits but without the manipulation, fraud and windfall profits of the ETS and CDM. 25% of the receipts, roughly representing the children’s share could be reserved to fund low carbon energy and transport infrastructure as part of its capital budget. Based on CO2 price of €50 per tonne, €0.5 billion will be available under this fund in Year 1.

The VAT element on higher priced fuels increased price for carbon emission permits will also provide a minor revenue source to offset reductions in employer costs worth approximately €354 million Year 1 based on a €50 per tonne of CO2. Reductions or

---

40 A Study in Personal Carbon Allocation: Cap and Share, Comhar Dec 2008
non-imposition of increased employment taxes could balance the increased costs to business. Industry-specific mitigation measures should be avoided.

The ‘smart’ economy will benefit by encouraging businesses and households to switch to low-carbon energy sources, non-fossil fertilizers, cycling and public transport, and reduced energy consumption generally. Renewable energy generation will be the chief beneficiary of the high fossil energy price, which will make their output competitive with further subsidies. Existing grant aid and tariffs supporting renewable energy should be restructured or eliminated.

Cap/Tax and Share will also help moderate wage demands by providing another income source for low carbon households through the ‘share’ disbursement. The Cap and Share scheme is highly equitable, partly because the product that had the largest price increase (motor fuels) makes up a larger share of spending in higher-earning households, but mainly because the relative value of the allowance was much higher for low-income households.

### 3.3.4 Rural and Urban Impacts

The population in rural and remote communities is likely to have an above-average level of car use, as the distance traveled to meet their basic requirements will be greater than it would be for their urban counterparts. They may also find it more difficult than their urban counterparts to reduce their demand for car use, even as the price of transport fuel increases (as fewer alternatives exist, e.g. public transportation links). Accordingly, this group will likely bear a disproportionate cost under the scheme, as compared to their urban counterparts, as the compensation they receive will only cover their car use up to the average level. This extra cost has to be seen in the context of Site Value Tax that will be low compared to their urban neighbours. Implementing Site Value Tax and Cap and Share together will ensure that the burden will be similar and spread fair.

### 3.3.5 Water Charges

Introduce water abstraction charges by local authorities, as in Denmark, France, Netherlands and many new EU member states. Introduce further charges on water effluent/pollution, as in the Netherlands, France and many new EU member states. River Basin/Watershed Trusts or a single Trust with responsibility devolved to River Basin teams should charge local authorities for water extraction from and effluent discharge. The Water Trust/s should monitor quality, quantity, biodiversity, flood dynamics to determine sustainable levels of extraction for each water resource and sustainable effluent acceptance levels. This policy would free up about 1 to 1.2 billion Euros, i.e. approximately 2% of total tax revenue (OECD, 2010).

### 3.3.6 Other Environmental Charges and Taxes

Revise the annual car tax and vehicle registration tax for vehicles other than passenger cars. Increase the air travel tax to UK levels. Introduce pollution taxes levied on SO2 and NOX emissions, as in Denmark, Estonia, Czech Republic and Sweden. Introduce a mineral fertiliser tax, as in Sweden and abolish the VAT exemptions on fertilisers. Introduce an aggregates tax, as in UK, Latvia and Sweden. Require specifying registered professionals in construction to certify that the aggregates are from legitimate sources. Prepare for a national sulphur tax on all sea-going vessels, as under discussion in EU Commission. Expedite development of, trial new fiscal, and
market mechanisms such as tradable quota and catch points system and branding for inshore fisheries working with neighbouring fishing nations.

3.3.7 Environmentally Damaging Subsidies
Reduce the tax partial exemption on diesel for the agricultural sector. Remove peat-burning support from the Public Service Obligation. End hypothecation of vehicle registration receipts for local authority funding. While not subsidising private transport directly, it nevertheless provides an indirect incentive to local authorities to use their powers to maintain and increase private transport.

3.3.8 Future Proof Investment
A large fraction of existing pension fund investment is likely to be revealed as worthless to their beneficiaries as financial de-leveraging continues\(^{41,42}\). Risk ratings by Moody’s and Standard and Poor have been proved unreliable by the crisis and should be regarded critically. Financial turmoil will also exacerbate currency exchange rates that could wipe out capital growth and reduce returns in the future Irish currency. This risk is not properly accounted for under current assessments. The rating agencies should be removed from the regulatory architecture where possible. The track record of the rating agencies in providing early warning radar is at best mixed. Rather than investment grade rating requirements for regulated industries, a series of explicit credit and liquidity ratios should be embedded in regulatory licences, which, if tripped, would lock up cash-flow\(^{43}\).

Tax relief at the lowest income tax rate for a State Contributory Pension should be made available on an ‘opt-out basis’ for savings in Irish Government Bonds if the Irish Government accepts them for tax payment (Proposal 2) and developed sustainable NAMA projects and other essential infrastructure projects for public sector, private and not-for-profit sector alike. Pension tax relief at the highest rate should remain for funds that are 100% invested in local resilience building i.e. in energy, nutrient recovery, shared transport, sustainable settlement and eco-system services. This top rate relief should be capped at €50,000 per annum. No tax relief should be available for pension savings or investment in non-Irish bonds and shares.

On no account should freehold or long lease interests in natural public assets be sold to pay down the government debt. Instead, the Environmental, Social and Economic use value of State Assets should be maximised to benefit citizens in perpetuity. Their status as an inalienable ‘common (res commun) resource and not a public resource (res publica) should be enshrined in law by placing them ‘in trust’. Land owned by Coillte for instance, should be transferred to custodian trust with a remit to enhance and maintain carbon stores, biodiversity and public recreational access. A Limited Liability Partnership LLP (see 3.2.18) with the Coillte Trust as custodian member and new separate Coillte Ltd. as managing member with an agreed percentage of total shares could then be set up. Investors such as pension funds and the public, as individuals should be invited to contribute funds in return for a percentage share. Coillte Ltd. would carry out its commercial remit subject to the limits and regulations set by the Coillte Trust with access to private funding for investment in sustainable

\(^{41}\) Keen, Steve
\(^{42}\) Automatic Earth, Stoneleigh Feasta Lecture, July 2010
\(^{43}\) Helm, Wardlaw, Caldecott, Delivering a 21\textsuperscript{st} Century Infrastructure for Britain, Policy, Exchange, 2009
yields. This process should be repeated for Bord na Mona, Foreshore, River Basin districts resources etc.

Investment in water extraction, water and sewage treatment infrastructure should be stalled until a review of the reduced demand is established, post-charging. Evidence from European countries show that pricing for water services have an immediate impact of flows reducing them by 30%. This represents a very considerable saving on the capital side to offset against the cost of meters and collection systems.

### 3.4 Remove Privilege and Equalise Benefits

Privileged workers are those who are shielded from open competition because of their essential expertise, bargaining position and age cohort. Privilege is expressed in considerably higher salaries, fees and bonuses compared to those in the exposed sectors. They include highly paid public representatives, senior (usually older) public and civil servants and semi-state sector management such as the ESB etc. They also include the highly paid legal and medical professions and the entire financial sector (covered under the guarantee and not) and top union officials.

The greater security and value of public sector pensions and private sector pensions erodes inter-sectoral mobility, contributes to public sector rigidities and obfuscates payment level comparisons. There is no case in equity for the high value of a public sector workers’ pensions compared to general state pension provision. There should be only one set of public/state pensions schemes that should be open to all citizens on an equal basis (see 3.4.7). The cost of the embedded privileges in the public and private sectors are carried directly and indirectly by the exposed trading sector and erode social cohesion in the wider population.

#### 3.4.1 Privilege in the Public Sector

The most significant discrepancies in benefits are often not between the public and private sectors but between the privileged old and the less well-connected young. Intergenerational inequity is evident in the disproportionately high salaries and pensions of high-grade civil servants, salaries and fees of semi-states. We have seen that public sector negotiators protect senior staff salaries and benefits but are quicker to adjust them for new entrants who are inevitably younger. The preservation of existing high pensions despite cuts in working wages comparators is an egregious example of this inequity. The lower-grades, new staff subsidise the above through lower pay and benefits, insecurity in the case of part-time and temporary staff and lack of career opportunities. These are the lucky ones - many highly educated young people have been forced to emigrate or are planning to emigrate. The Croke Park agreement should be revisited with more attention to cutting top levels of pay. The regulator should also revisit the salaries and benefits of the semi-state sector; the average pay of €100k enjoyed by the ESB topped up by 3% recently, is an unacceptable example of public rent-seeking.

The elected representatives in the Dáil, Seanad and Local Government are not only privileged but are also, in varying degrees, responsible for the current economic crisis and should not have to be exhorted at this late stage of the crisis to take an immediate 40% cut all remuneration, starting with the President of Ireland.
3.4.2 Privilege in the Private Sector

The financial sector is vastly overpaid as the undeserved beneficiary of systemic emergent profit effects (see 3.2.4) not to mention the government bailout. Salaries and bonuses in the banks need to match levels in the non-privileged professional sectors operating in the real economy. Payments for legal, accountancy and medical consultancy services are sometimes multiples of those charged in other EU States. The Government is the dominant client and therefore the market maker for their services and can set rates. All current contracts with the medical and legal profession with a high public sector workload should reduced to be comparable with our competitors.

3.4.3 Tax Allowances

Many of the current tax allowances reflect privileges that vested interests have won over the years. The TASC Report\footnote{TASC proposals for Budget 2011, Executive Summary, Page 2} illustrates and quantifies these usefully, estimating a total of €1.46 billion. Smart Taxes supports all TASC recommendations with one major exception. While tax relief on pensions at the highest rate is difficult to justify under current criteria, Smart Taxes believes it is justified for investment in resilience-building infrastructure, capped at €50,000 p.a. Tax relief for savings in Irish bonds and shares should be at the lowest rate. We do not see any public benefit in providing any tax relief for overseas investment and recommend all such relief should be phased out over five years. These measures are difficult to quantify but they will not reduce the of €750 million savings identified by TASC under this heading, more likely a net increase in savings. (figures below are in millions)

- Abolish capital gains tax and stamp duty relief for disposal of a site to a child (38)
- Abolish payment of tax by means of donation of heritage items (5)
- Abolish payment of tax by means of donation of heritage property to the Irish heritage trust (4)
- Abolish income tax relief for expenditure on heritage buildings and gardens (6)
- Abolish tax exemption for patent royalties (84)
- Limit the business relief for CAT by reducing the level of discount on market value before tax is calculated from 90% to 75% and by introducing a €3 million ceiling on the qualifying amount (30)
- Limit the agricultural relief for CAT by reducing the level of discount on market value before tax is calculated from 90% to 75% and by introducing a €3 million ceiling on the qualifying amount (100)
- Abolish PRSI exemption for share options (18)
- Abolish the income tax exemption for share options (3)
- Introduce a ceiling of €75,000 on the artist’s exemption (20)

3.4.4 Privilege Tax

Meanwhile to provide the appropriate negotiating environment, a ‘privilege tax’ of 75% on salaries over €75,000 should be imposed on privileged workers. While this measure will not contribute competitiveness directly, it will add to social cooperativeness, an objective that has been given insufficient attention.
The final public/civil and semi-state pay deal should be guided by the principle that the highest paid in these sectors earn no more than 8 times the lowest paid\(^{45}\). This is the pay differential of the Royal Navy and as we are supposedly ‘in the same boat’ in this crisis it would seem appropriate. The ‘privilege tax’ rate should apply until this outcome is achieved.

Citizenship should be removed from Irish tax exiles as per Labour Party suggestions so that they do not enjoy the benefit of the social commons without contribution to it. The benefits of citizenship come with responsibilities that include contributing to the services and protection the Nation State provides. Charitable contributions do not substitute for full payment of taxes.

3.4.5 Hidden Subsidies

Some privileges are so engrained and accepted that their beneficiaries are not aware of them. The cross subsidies of remote rural lifestyle choice by city, town, village dwellers is a case in point. Most services to remote houses are charged on a flat rate although their costs are much higher because of extra infrastructure, transport and personnel time. Utilities should be required to determine and charge the true cost of providing services for every location. The true cost should be noted on consumer bills and discounts highlighted so as to expose real resource and labour costs. Other consumers whose location and density of settlement cost less to service and are often poorer than rural dwellers fund these discounts. Flat rates for utilities and services should be phased out, i.e., seek full cost recovery for remote dwellers and reduce for urban dwellers over six year period with exemptions for essential workers.

Taxes on incomes are a hidden subsidy for older cohorts. A tax shift from wages and profits to resource consumption and property spreads the burden. As Irish people live longer and healthier lives, they will still be consuming and should therefore continue to contribute.

3.4.6 Reform Public Services

The ‘free-at-point-of-delivery’ principle of essential public services has proved costly, with high pay and rigidities arising from the strong bargaining power of public sector employees. As in the UK, Public spending has become associated with waste, inefficiency, and the privileges of the nomenklatura on a truly Soviet scale. It needs to re-invent itself completely to re-connect with socially desirable aims\(^{46}\). This is not an argument for privatisation but an argument to change the nature and delivery of publicly subsidised services to recipients. Smart Taxes fully supports a professional public sector providing education, housing and health services, as it brings unique and important strengths not available in the other sectors. The public sector must maintain in-house expertise to monitor, regulate and enforce proper standards that cannot be provided by external consultants. This expertise can only be maintained by experience in direct delivery. Universal public pension provision as outlined in 3.4.8 would foster inter-sectoral movement currently hampered by the disproportionate value of public sector pay, benefits and pensions.


\(^{46}\) Paul Ormerod 5 December 2009 www.paulormerod.com
It appears that the public sector is incapable of the necessary deep reform without external direction. The Croke Park Agreement has delivered no savings or efficiencies to date and there is no sign of progress. A complete re-framing of what constitutes public services is needed. This might be contained in ‘Charter’ that guarantees an equal right to sustainable public services explicitly expressed in an individual ‘citizen account’ with the provision figures printed under the relevant headings. Public expenditure on services should thus follow the citizen who should have choice of delivery agent and sector for services. Special ‘citizen account’ top-ups to target particular groups or for particular objectives can be accommodated. (We use the term ‘citizen’ widely to include every legal resident in Ireland).

3.4.7 Equal Pension, Health, Education and Housing Benefits

The headings for the citizen’s account should include pensions, health, education and housing benefits that every citizen has as a right. The benefits should be equalised and transparent. For instance, the basic non-contributory pension is a bedrock of security in troubled times. Its universal status should be preserved and its significance enhanced in public and private sector pension portfolios. The best and most secure

---


48 Peoples Pensions; New thinking for the 21st Century, NEF Feb 2003
pension investment is that which keeps our young people working at home so that their taxes can pay for the current middle aged cohort when they retire. ‘Pay as You Go’ is despite widespread misunderstanding to the contrary, the least cost, least risk pension system. The alarming emigration of our educated and energetic young people is Ireland’s most serious and unacknowledged threat. Young Irish will find themselves in considerable demand by the faster aging European nations in the medium to long term. To back up the non contributory state pension, an ‘opt-out’ universal state contributory pension with tax relief at the standard rate should be offered to all workers, replacing existing special and discriminatory public sector pensions. Workers in all sectors may also benefit from tax relief (capped at 50k per annum) at the highest rate if they put their money in approved schemes that invest in higher risk resilience development in Ireland.

Ireland’s government spends 10% of national income on healthcare, more than a quarter above the typical EU-15 country even though Ireland has a significantly younger population than its EU-15 peers. If Ireland’s government spent – as its median age might suggest – just 7% of national income on health, rather than the 10% currently spent, the government could expect to save anywhere up to €3.5bn on its healthcare bill, taking into account some of the savings that have been made in the last two years. The proposals for a patient-centred health system by the Labour Party and Fine Gael appear to conform to the charter of a citizen-centred approach.

Instead of paying teachers directly, the State should consider providing a budget per child and let schools decide how the allocation between salaries, pupil teacher ratios, equipment and buildings etc is spent, with parents making the final decision of pre-school, junior, secondary schools. Top-ups can be targeted at families with higher educational needs or priorities. The level of top-up or ‘premium’ was estimated in an UK study of between £500 and £3000 per pupil depending on the level of deprivation. The capitation grant for Free School Year Programme (ECCE) might provide a model; it follows the child and can be used to pay for services by community, public or private providers.

Ireland spends a multiple of the EU average in housing and community amenities (principally housing developments) and in environment protection (principally management of waste and waste water). The figure for housing - 3% of national income - is over four times the typical member state’s figure of 0.7%. Halving total expenditure in these areas would still leave Ireland spending more than most but would save about €2bn, assuming since 2008 about €500m has already been saved. The housing support system should be re-designed to make these savings and give real power and choice to Irish residents. A total overhaul is need to rationalise and clarify the plethora of discriminating supports that include ‘Mortgage Interest Relief’ and CGT in the private sector, the ‘Differential Rent’ system for public housing, the ‘Rental Supplement Scheme’ for renting in the private sector and the ‘Capital Loan and Subsidy Scheme’ and miscellaneous grants and loans the not-for-profit sector has to juggle. A single transparent ‘housing benefit’ or ‘citizen housing account’ with top-ups for the vulnerable would expose the inefficiencies, privilege and waste that

50 Ronan Lyons quoting Eurostats 2008
contributes to high costs. As before, we argue to retain a varied set of delivery agents in all three sectors. Expand the remit of local authorities and Housing Associations so that they can provide housing and build settlements for all income groups and tenure types. This would enable these sectors to build fully balanced communities rather than stigmatised housing of last resort. The ‘citizens housing account’ would empower the recipient to choose to pay rent in any sector or buy in any sector in any local authority areas in Ireland. This measure will eliminate ghettos, reduce poverty traps and increase choice, transparency and efficiency.

3.4.8 Equal Resources Shares
Cap and Share is appropriate for a growing economy that has growing fossil fuel use absent a fiscal mechanism to restrain it. By capping emissions at the upstream end of the supply system the price of emissions allowances is built into the price of fossil fuels, which then flows through the economy. The Cap would be set by an independent committee and Certificates would then be auctioned to those companies who import fossil fuels or extract them from the ground. 75% of the receipts from the auction would then be distributed to adult citizens as a personal carbon allowance or share of the climate commons; 25% representing the children’s share would be invested by government directly or indirectly by grant aid in renewable energy, grid upgrade, energy efficiency et. However, a cap on fossil fuel emissions does not add value to permits if as has happened last year, fossil fuel use dropped because of the recession. In that case, a carbon tax is appropriate as is currently in place, but set at a high level so that the Share mechanism can be used to compensate citizens as under Cap and Share. Whether under Cap and share or Tax and Share a register of eligible individuals should be compiled through a combination of the electoral roll and the Personal Public Service number system, to capture the majority of people. Making the scheme self-promoting and relatively simple to join are also seen as crucial features.

Smart Taxes recommends that the ‘citizen account’ include a heading for the carbon Share. This would comprise a carbon permit entitlement in tones of CO2 and its value. The account could be cashed in automatically or when needed as for the social benefits.

In the same way the free water allowance reflecting the citizen co-ownership of her bioregion water resources would be expressed as a water share in the citizen account. Water abstraction and discharge would be charged at full cost as it is used. This is much simpler to administer than working out a free allowance for each water connection and discharge point for every household. Ditto for waste collection and processing services. The citizen account would have headings under green waste, brown waste, recyclable and non recyclables and the citizen share clearly printed in tons and euro value. In the same way, it may be advantageous to set a high percentage of site value tax (SVT) and land value tax (LVT) so that behavioural change is maximized but offset by a citizen allocation or share representing co-ownership of land value created by collective social and economic activities. It can be pitched to all but eliminate SVT for families living in multiple occupancy modest dwellings in compact settlements.

The process for assessing the citizen account would substitute for all current means

testing and thus will pay for itself in operational savings throughout government departments.

Finally, the citizen account might also include a heading for citizen dues, the responsibility every adult citizen owes the society that is the counterpart of the contract to supply the social benefits and commons shares.