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Irish Congress of Trade Unions
Northern Ireland Committee

CORPORATION TAX - THE JOB CREATION MYTH.

NIC-ICTU briefing for the Committee for Enterprise, Trade & Investment

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The Irish Congress of Trade Unions is the federation body for trade unions on the island of Ireland. The Northern Ireland Committee is the elected body representing the interests of trade unions and their members. 34 trade unions affiliate to ICTU in Northern Ireland representing 211,800 members across public and private sector workplaces.

We are grateful to the ETI committee for the invitation to submit this briefing paper.

After years of lobbying by corporate interests and as part of the Stormont House Agreement, our local political parties have secured the passing of a Bill at Westminster, which will enable Northern Ireland to set its own rate of corporation tax from April 2017.

Announcing the measure, Theresa Villiers, Secretary of State for Northern Ireland, said:

"There is strong support for this change across all 5 of the parties in the Northern Ireland Executive and the business community who believe it would provide a major incentive for domestic businesses to invest further in Northern Ireland and significantly increase foreign direct investment. Given the land border shared with a lower corporation tax jurisdiction, this measure has the potential to create thousands of new jobs and stimulate crucial growth in Northern Ireland's private sector, leading to a stronger, re-balanced economy."

To prepare the ground for this measure these same parties are looking to 'lose' 20,000 public sector jobs in the next 4 years. This will enable the Assembly to make up the immediate shortfall in tax revenue lost to the Treasury, until the point is reached where new investment exceeds the amount sacrificed. The "re-balancing" of our economy will come apparently, from the Foreign Direct Investment (FDI) that will be attracted by the "harmonisation" of the current 21% rate payable, to the 12.5% rate payable in the Republic of Ireland. If the rate is lowered, around 34,000 businesses in Northern Ireland would stand to benefit, including 26,500 SMEs.

But here's the rub. None of these businesses need to create a single extra job to benefit from this effective windfall and there is little or no evidence that FDI will come flooding in.

Ignoring the Evidence

Indeed the Assembly's support for this measure flies in the face of the evidence gathered in the Varney Review into Tax Policy published in December 2007 of which the then, UK Chancellor, Alistair Darling, stated:

"I welcome Sir David Varney's report, which provides a professional and in depth analysis of the case for a lower rate of corporation tax in Northern Ireland. **The Government accepts his finding that there is no convincing case for such a change."**

The issue was examined again, in depth, by PwC in January 2011 in a report titled "Corporation Tax - Game Changer or Game Over." Just reading the Executive Summary of this report should send alarm bells ringing in Stormont. Amongst their findings they noted –

"***Low Corporation tax is not a key driver of investment for FDI locating in the UK, ranking 17th in a list that prioritised: language, culture and values; infrastructure; skills and proximity to markets.***"

They also noted that the Republic of Ireland had a lower rate of corporation tax for three decades before the 1980s and the Boom that was dubbed the Celtic Tiger. They noted too that other incentives were offered in the Republic and a more significant factor in respect of tax, is the total tax rate, representing the sum of all of the taxes payable in a jurisdiction.

Ominously, they state - "***we could not find any clear evidence that low Corporation Tax alone would create sub-regional competitive advantage sufficient to create a disproportionate increase of FDI into the UK or Northern Ireland and increased competitiveness amongst indigenous companies."***

PwC also reported claims made in a report by the Economic Research Institute of Northern Ireland (ERNI) in 2006, which asserted that cutting Corporation Tax could "create 180,000 new jobs by 2030." But they noted that by 2010, the Northern Ireland Economic Reform Group had revised this "forecast" down to 90,000 jobs by 2030 and reduced expectations, to the hope that it might cut unemployment "*much further than would otherwise be the case.*"

Most recently the Scottish Government have abandoned a similar policy of reducing corporation tax there. First Minister Nicola Sturgeon said "Instead, we will use these powers to create a long-term competitive advantage, not through a blanket approach, but by using targeted changes in tax allowances."

In plain words the Assembly is taking a reckless gamble with our economy. And they are doing so despite the relevant evidence that is freely available.

For example - A DOE report - "**An Analysis of the Social and Economic Impact of Loss of Jobs in Northern Ireland",** which examined the closure of local vehicle licensing offices, noted –

"***A large proportion of the population is registered as being economically inactive, with social exclusion levels well above other parts of the UK; Many of our households live in poverty, with joblessness and skills deficiencies, important contributory factors."***

And further that- ***"The percentage of the Northern Ireland workforce (aged 19-59/64) without any qualifications….significantly exceeds the UK average."***

This is significant, not least because PwC point out that "*a gradual shift of manufacturing away from the 'Western economies' is being compensated for by a growth in FDI by business services, financial intermediation, pharma, research and software*." However these sectors are concentrated in London, the South East and Scotland, where there is not the "skills deficiencies" and disadvantages identified in Northern Ireland. And yet the Assembly has just cut investment in Research and Development in our economy, notably in the Agri-food sector and made cuts in further education.

<u>NI Survey of Hours and Earnings</u>

The fundamentals of our economy are outlined in another report - the **NI Annual Survey of Hours and Earnings** (19/11/14), which explains the relatively higher public sector pay compared to the private sector, by noting – "*differences in the composition of the respective workforces. For example, many of the lowest paid occupations, such as bar and restaurant staff, hairdressers, elementary sales occupations and cashiers, exist primarily in the private sector, while there are a larger proportion of graduate-level and professional occupations in the public sector."* It also notes - "***Full-time employees in Northern Ireland had the lowest median gross weekly earnings (£457) across the UK regions at April 2014.***"

Having established that we have the lowest wages in the UK, the Assembly has determined we will continue on that path, refusing to invest in the sort of skills and infrastructure that attract higher value FDI to London, the South East and Scotland. To make up the shortfall in revenue from reduced Corporation Tax, we will instead have to rely on attracting significant volumes of new and highly labour intensive FDI - at low wages. Another Delorean anyone?

All of this will be done despite the evidence in the DOE report that a loss of around 300 jobs from the public sector then, would – "***not only affect the public sector, it could also have an impact on the private sector, given the multiplier effects. This is likely to be severely damaging to businesses in NI, particularly given the current economic landscape. Given how relatively weak the local labour market is, the timing of this proposal could not be worse and will be extremely damaging to the NI economy.***"

The "multiplier effect", they explained, effectively means that 1.5 jobs will be lost in the private sector for every public sector job cut.

The economists also indicated that economic inactivity and unemployment "***is expensive for government, for taxpayers and for society as a whole.****"* Using "*a conservative figure*" they estimated that ***"a reduction in employment of 300 in NI would represent an additional cost to taxpayers of £3m a year."***

No one has yet estimated the impact that 'a reduction in employment 'of 20,000 public service jobs will have. But it won't be good.