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Irish Congress of Trade Unions
Northern Ireland Committee

Committee for Enterprise, Trade and Investment

Inquiry into Growing the Economy and Creating Jobs with Lower Corporation Tax

Evidence for Tuesday 26 May 2015

Northern Ireland Committee – Irish Congress of Trade Unions

Peter Bunting (Assistant General Secretary, ICTU)

The purpose of the Inquiry is to examine how the two year period up to the devolution of Corporation Tax can be used to maximise the potential of Northern Ireland as a region to attract investment, grow the economy and create jobs.

The first point which should be made is well-known to this committee. The trade union movement rejects the assumptions behind first devolving and then drastically cutting the rate of Corporation Tax. We believe that the arguments deployed in favour of cutting CT to the headline rate in the Republic of Ireland is based upon a profound misreading of the evidence.

Therefore, the first piece of advice we can offer is to tread carefully.

We have known since the Varney Report of 2007 that devolving CT would come at a considerable cost. That cut to the block grant is now estimated to being around £400 million per annum. We have argued that this is a very expensive gamble, as there is no guarantee of a single new job being created from the additions profits which would be kept by private businesses.

A more detailed report on Corporation Tax was written in 2010 by Richard Murphy, an expert in taxes and how they are avoided.

Murphy wrote that in the Republic of Ireland, the effective tax rate for many of its high-profile Foreign Direct Investors was and is far lower than the headline rate of 12.5%. Thanks to an inquiry in the US Congress, we know that Apple computers have enjoyed an effective rate of less than 2 per cent. We know that Google based their European headquarters in Dublin partly due to an effective tax rate of 3.4 per cent.

As Richard Murphy noted: *"Tax collected in Northern Ireland will always be higher than tax collected in the Republic of Ireland on identical commercial operations even if the tax rate is equalised. Indeed, if, as is the case for many companies the Republic actually offers the chance to pay almost no tax at all then no tax rate that Northern Ireland can now offer can out-do the offering that the Republic currently makes available."*

Furthermore, it is important that the committee is aware of the clause in the legislation devolving Corporation Tax that financial services are excluded. Murphy predicted this in 2010: *"the reduced rate of tax could not be applied to finance and intra-group service companies under EU laws and these are the very companies to which the Republic is most attractive, even if they bring in remarkably little in the way of new net investment or employment now."*

The legislation also carries, as predicted*, "cumbersome and costly transfer pricing rules to prevent tax leakage from the rest of the UK."*

This is designed to ensure that Northern Ireland does not have an unfair competitive advantage over other parts of the UK.

This is in the spirit of the strange line in the Stormont House Agreement, which states:

"The block grant will be adjusted to reflect the corporation tax revenues foregone by the UK Government due to both direct and behavioural effects but it will not take into account second round effects on other taxes."

Now, like most of you in this room, I have negotiated many deals and agreements. I could never imagine signing up to something as vague as 'Behavioural effects'. Does that mean that any perceived loss to, say, FDI in Wales or Newcastle can be 'charged' to the Stormont Block Grant?

Also, NI gets the worst of the deal when it comes to 'second round effects on other taxes'. This seems to confirm a fear expressed by Sammy Wilson when he was Finance Minister, that taxes affected by increased employment, such as income tax, national insurance and VAT, would not be part of any calculation by HM Treasury when it came to estimating the cost to their coffers of reduced Corporation Tax.

So, it is there in the Stormont House Agreement. Northern Ireland will get all of the pain in exchange for vaguely defined gain.

The gain most boasted about by cheerleaders for the cut is that we will have an additional number of jobs ranging from 34,000 to 38,000 over the next 20 years. This seems a very back-of-the-envelope calculation, itself based on a theory that the private sector will increase jobs by 1% for every 1% cut in Corporation Tax.

It is just as likely that local business leaders will invest their money just as they did during the last time they have easy money to invest – they will invest in a property bubble like they did a decade ago, where those jobs that were created were the first to go when the recession hit after the bubble inevitably burst.

But let us not fight an old battle. Let us take the Westminster government at its word and assume that the tax is devolved and reduced to 12.5% in 2017. (Regardless of the debate in the Assembly chamber today.)

But we should also remember that similar claims were being made a decade ago when this campaign was led by Tony O'Reilly and the late Sir George Quigley. Back then, the headline rate for large businesses (which effected less than 4% of NI enterprises) was 30 per cent. It is now 21 per cent and will be 20 per cent within months. The UK headline rate will reduce as long as we have the Tories in power and each cut makes the supposed impact of a larger cut in NI less dramatic.

So what else do we have to attract FDI?

The excellent researchers in this Assembly have done an excellent job in summarising the debate around what attracts FDI, and most of the submissions you have heard in this Inquiry have benefitted from the research.

Daniel Donnelly's paper for this committee identified several determinants, especially the availability of skilled workers. Every business organisation, in their evidence, cited skills as being key to better quality FDI.

For example, Ann McGregor from the NI Chamber of Commerce stated that: *"The supply of skills is not well aligned to labour market needs, and there is a brain drain."*

She then recommended: *"We encourage the Committee to make sure that the planned skills barometer is put in place and that there are strong targets set for reskilling."*

Congress is fine with that.

"Secondly, prioritising investment in further and higher education is really important. Both FE and HE are facing cuts, around 15% for HE and 12% for FE, which will reduce drastically both the number of courses and students."

Congress is ok with that.

"There must be actions to increase the inflow of highly skilled, experienced migrant and diaspora workers."

Again, we largely agree.

"We also need to upskill the low skilled and improve basic literacy and numeracy. We are suggesting prioritising the budget in those areas, but upskilling the existing workforce will be important as well."

Again, the trade unions completely agree, and in fact we run one of the best value projects for upskilling the existing workforce – the Union Learning programme which is funded through DEL and which has not suffered cuts this year – a tribute to its value for money and effective outcomes.

We also agree with the Chamber that infrastructure is essential

However, the Chamber and Congress then diverge over what the term 'promoting competitiveness'. They cite *the "Economic Advisory Group's report on competitiveness in Northern Ireland produced in June 2013 concluded that Northern Ireland was forty-second of 145 countries."* This is junk research. This is a survey of the opinions of managers in companies which employ more than 500 people. It bears very little relation to even most businesses in NI, let alone any quantifiable research.

The Chamber then list their familiar complaints about business rates (frozen for years), the cost of energy (classic market failure) and 'red tape', most of which is designed to keep workplaces safe, consumers protected and marketplaces fair for all competitors.

Exports are as much of a concern for us as the Chamber. We also believe that *"it is critical that very accessible continual support is there for the whole business life cycle from start-up, to growth, to export, again with a particular focus on potential exporters and access to finance."*

We also agree that public procurement has a vital role to play in developing the export potential and innovation practices of local businesses. Like the Chamber, Congress "*would like to see the budget for export support increased, because it believes that it is essential for economic progress here."*

At which point we would like to ask that question which is always thrown at us whenever we recommend investment over cuts.

"Where is all the money coming from, then?"

We have listed alternatives to austerity, the present budget and the whole financial implication of the Stormont House Agreement, and have been vilified by some for doing so.

At least we are consistent. We never say to the public that you can have Tory taxes with Labour spending.

After the Chamber delegation had finished their submission, the chair of this committee, Mr McGlone, stated: *"Investment is a key issue but just as much as anything else, the investment, how you make it, and the strategic delivery of it is important. We were out in Stuttgart a couple of weeks ago to see how the Germans do things, and it is certainly a bit of an eye-opener. A key part of that is planning and strategic drive."*

These is something more to German success. A high degree of federalism and autonomy for the Lander, clusters of specialisation and the deep involvement in the decision-making process by representatives of the workers – Works Councils.

Germany is not a low-tax, deregulated, flexible environment. It baffles Anglo-American neoliberals. Everything shuts on Sunday. Families are subsidised. Public services are excellent and paid for by progressive taxation. Productivity is miles better than the UK.

Here is another comparison, which we will not find flattering.

The German government takes the leading role in the European Union. It defines it. It runs its economic policies and uses the weight of its 450 million citizens to add to its international influence.

I am glad to note, the concerns being expressed by the Chamber and the CBI on this pointless and damaging debate on having a referendum on EU membership.

Now, after the general election, the CBI in London is calling on their members to speak up for Britain's place in the EU. Nothing shows the problem we have with business' inability to think beyond the next quarterly report or tomorrow's share price, than the silence of (especially) exporters on the very real threat of the UK leaving the EU.

Bad for Britain – catastrophic for Northern Ireland.

Mr Kingston from the Chamber was right to tell this committee: *"Very clearly, we believe that membership of the EU is critical for business, going forward. We believe that Northern Ireland is particularly exposed to changes. Any changes in this area go to issues of business confidence and impact on issues like corporation tax. I had the opportunity to travel to Washington over St Patrick's Day and talk with not just the Invest NI team out there but with some American business representatives. I know just how important that whole issue of access to the EU is for their planning purposes."*

Look again at your own research. The paper by Daniel Donnelly and Aidan Stennett on FDI determinants in European regions, which states clearly that access to the European market is essential. Incentives are available that do not contravene EU rules. Having clusters of specialised industries works. Existing traditions of industry, and culture of work and learning, the infrastructure of rail, road and cable, all attract quality FDI.

The CBI have argued, in their submission to this committee, that we should follow the lead of the Westminster government and make Industrial Tribunals too expensive for most people to bring a case against an abusive employer. How will that stunt boost exports? How will more jobs come from cutting the collective redundancy period from 90 days to 45?

The CBI also makes spurious claims about the public sector reform agenda of the OECD. We do not know what they OECD team will find out and recommend, and nor do we know how their recommendations will be received by this Assembly.

We cannot grow the economy by breaking things – our devolved employment legislation, our membership of the EU (which is far greater than the sum of its 'market'), and our public services, to pay for tax cuts for the wealthiest.

The Scottish government understands this. In March, the SNP government made clear that *"we have no intention to engage in a 'race to the bottom'. 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."*

They dropped their plan to cut CT by 3 per cent. In her introduction to the strategy, the First Minister of Scotland states:

"We want to achieve more than simply a return to pre-recession levels of economic performance. We need to tackle the underlying challenges in our economy and labour

market, increase the competitiveness and sustainability of the Scottish economy and reduce inequality.

"We need to ensure that there are sufficiently skilled and well-paid job opportunities available, support the move to the low carbon age, take advantage of the opportunities presented by globalisation and technological change and ensure that the benefits of economic success are shared by everyone."

Then, she adds: *"Creating a fairer society is not just a desirable goal in itself, but is essential to the sustained, long-term prosperity of the Scottish economy. Our approach to economic policy is based on the principle that delivering sustainable growth and addressing long-standing inequalities are reinforcing – and not competing – objectives."*

That is an ambitious plan which merits attention. It presupposes something quite radically different from anything else heard by this committee during this Inquiry. That this is a society and not an economy, and the latter should serve the former, not vice-versa.

The whole ideological thrust of the Stormont House Agreement, and its financial consequences, is premised upon declaring that the very top priority are certain measurements like the deficit and the fragile confidence of the Captains of Industry.

Our low-tax neighbour bears witness to that. It took a Northerner, Seamus Heaney, to remind a Dublin audience of the cost of getting your priorities wrong:

"We are not simply a credit rating or an economy but a history and a culture, a human population rather than a statistical phenomenon."

We can write a different script, like Scotland, in which tackling inequality is as important as the standard measurements of 'growth':

"Creating greater prosperity and fairness is a shared national endeavour. Only by working in partnership with the wider public sector in Scotland, the third sector, trade unions, businesses and communities, will we be able to create a society where the benefits of economic growth are shared more equally and where future economic growth is stronger and more sustainable."

There is an alternative for Northern Ireland, but we have to invest in it.

The Stormont House Agreement, if implemented, would give extra borrowing power to the Northern Ireland Executive. At present the plan is to use this money to remove jobs from our public services. This plan is misguided, short-sighted and ultimately self-defeating.

We propose using all of Northern Ireland's resources to build a more stable and inclusive economy and these are just some brief examples of what that might look like.

The construction sector in Northern Ireland has lost thousands of jobs since the crash almost seven years ago. But the crash happened for a reason and we don't want to return to the days of sky-high house prices and profiteering developers. We should use our construction sector to build better, safer, warmer homes for families in Northern Ireland.

The Stormont Executive could amend its rules and allow the Northern Ireland Housing Executive to borrow money in order to retro-fit homes across Northern Ireland to make them more energy efficient. Retro-fitted homes require significantly less energy to heat during winter leading to a reduction in energy bills. This reduction provides a small boost to the coffers of the household, but it also pays for the borrowing made by the NIHE. In the long-term we will have significantly reduced our carbon foot-print in Northern Ireland and built a sustainable climate friendly construction sector that may become a world leader.

We also need to look carefully at the types of jobs we are creating in Northern Ireland and how that is affected by our investment. Too often we hear about companies receiving massive cheques from Invest NI to create jobs in Northern Ireland. In many cases the jobs are poorly paid and short-lived. This is no way to build for the future. Instead of simply

handing this money out we should use it to create the next wave of innovation here in Northern Ireland ourselves.

We know where the strength lies in Northern Ireland's economy from Agri-food to the creative industries .If we want well paid jobs in growing industries we need to be investing now so that we can lead the way in new technologies and new products in years to come.

Creating an 'innovation fund' will allow the state to provide long-term, committed and patient investment for the challenges facing Northern Ireland industry. It will also ensure that our new prosperity will be something that all citizens will share in.

Investing in our resources and our industries is important, but we also need to invest in Northern Ireland's greatest asset, its people. This means providing great education and lifelong learning, but it also means ensuring that no person in Northern Ireland will ever work their way into poverty.

Northern Ireland has a real problem of low paid jobs. At the very least we need to guarantee a Living Wage to every worker in Northern Ireland. Not only will this reduce poverty, it will boost household budgets which in turn will boost spending in our local shops giving a boost to the health of our economy overall. More equal societies create more prosperous economies.

Recently, the Tax Justice Network published an extraordinary thing[i].

They outlined ten reasons why it is essential to defend the corporate income tax. In summary, these are:

1. Corporate income taxes **raise essential revenue** for schools, hospitals and the rule of law.

2. Less well understood is the fact that **the corporate tax helps hold the whole tax system together**: without it, people will stash their money in zero-tax corporate structures and defer or even escape tax entirely.

3. The corporate income tax **curbs inequality and protects democracy**. The tax charge falls largely on the wealthy owners of capital: without it, corporations and their wealthy owners free-ride off the public services paid for by others.

4. Corporate taxes **enhance national welfare**. So-called "competitive" tax-cutting is fools' gold, particularly for the larger economies.

5. Corporate tax cuts, incentives and loopholes **ricochet around the world**. A tax cut in one place may suck capital out of others and prompt other jurisdictions to follow suit, in a race to the bottom where the only winners are the very wealthiest sections of society.

6. The corporate income tax is **particularly important for developing countries**, which rely more heavily on it than rich countries do.

7. Corporate taxes can **rebalance economies**. Corporations around the world are hoarding cash, not investing it. Corporate taxes harness this idle cash and put it to productive uses, via government spending on education, roads and other public services.

8. The corporate tax **curbs rent-seeking**. Because rent-seeking tends to be more profitable than genuine productive activity, the corporate tax falls more heavily on it.

9. Tax cuts and special incentives **don't stop at zero**: they turn negative. In this race to below the bottom there is no limit on corporations' zeal for free-riding off public goods and subsidies paid for and provided by others.

10. Corporate taxes **spur transparency and more accountable government**. To collect the tax, states must put in place good tracking measures.

Over the past three decades, the benefits of income and the burden of taxes have shifted – the wealthy are being paid much more and are paying less tax than any time since the late 19th century.

It is not enough to impose policies which have, without fail, made more unequal the societies in which they have been tried, and then plead ignorance.

This cut will make things more unequal. It is a straight transfer of public money to large and profitable businesses who can do whatever they like with the proceeds.

It is being paid for by cuts to skills and education, austerity for our infrastructure and the enforcement of a new form of welfare – harsh, judgemental and grudging.

It is a policy which matches a landscape of food banks and zero hours contracts and pay day loan sharks and FDI from fly-by-night operators of call centres and pound shops.

It is a cheap and nasty policy and it will end in miserable failure.

Or, as has been said many times on this island: “I wouldn’t start from here.”

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[i] http://www.taxjustice.net/2015/03/18/new-report-ten-reasons-to-defend-the-corporate-income-tax/