Why we need an Economic Plan B
(and what it might look like)

NERI Research Seminar, 25 April, 2012

Tom Healy
Director
Nevin Economic Research Institute
Dublin
Tom.healy@nerinstitute.ie
Key Points

• Confronted with a major crisis of unemployment and therefore social cohesion across Europe
• Fiscal Austerity is not working
• We need a European (and Irish) Economic Plan B spearheaded by EU States with ‘fiscal space’
• We need such a Plan very soon to begin to reverse the current disastrous path
Plan A

Reduce wage share of total income
Reduce the size of Government
Liberalise labour & product markets
‘Re-structure’ welfare
Incentivise work
Privitise remaining public enterprises
Stabilising (GDP)?
Domestic Demand

![Chart showing domestic demand over time]

[NERI logo: Research for new economic policies]
THINGS COULD BE WORSE
## Medium-Term Expenditure Reductions (CER, Dec 2011)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current</strong></td>
<td>1.45</td>
<td>1.70</td>
<td>1.90</td>
<td>1.30</td>
<td>6.35</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>0.75</td>
<td>0.55</td>
<td>0.10</td>
<td>0.00</td>
<td>1.40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2.20</td>
<td>2.25</td>
<td>2.00</td>
<td>1.30</td>
<td>7.75</td>
</tr>
</tbody>
</table>
“We believe it is economic nonsense, when unemployment is so high and private investment has collapsed, to cut back on productive public investment. We cannot keep chasing the economy down by simply focusing on raised taxes/decreased Government spending.”
‘While revenue raising measures will play an important role, the need to reduce expenditure is an inescapable reality’ (CER, page 7)
Plan A: Trends in govt. spend & Revenue

% GDP

EU27 Exp
IE Exp
EU27 Rev
IE Rev

'01 '02 '03 '04 '05 '06 '07 '08 '09 '10 11 12 13 14 15 16 17
Plan B: Trends in govt. spend & revenue

- EU27 Exp
- IE Exp
- EU27 Rev
- IE Rev

% GDP

Year: '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '15 '16 '17

GDP
Plan A: Trends in govt. spend & Revenue

- EU27 Exp
- IE Exp
- EU27 Rev
- IE Rev
Plan A: Total Govt Revenue % GDP 2011

Denmark
Finland
Hungary
Sweden
France
Belgium
Austria
Italy
Netherlands
EU 17
Portugal
Germany
EU 27
Slovenia
Luxembourg
Cyprus
Greece
United Kingdom
Czech Republic
Malta
Estonia
Poland
Ireland
Latvia
Spain
Bulgaria
Slovakia
Romania
Lithuania
Who can pay?
Continuing at this scale, to include the income of €118 million, the average of the top three wealthiest households in Ireland in 2007, the Chart would be 780m high or 12.5 times taller than Liberty Hall.
Towards a 0.5% structural deficit?

<table>
<thead>
<tr>
<th>Total Deficit</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-10.1</td>
<td>-8.6</td>
<td>-7.5</td>
<td>-5.0</td>
<td>-2.9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>‘Structural’ Deficit</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-8.6</td>
<td>-8.0</td>
<td>-7.1</td>
<td>-5.3</td>
<td>-3.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Further fiscal consolidation</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-8.1</td>
<td>-7.5</td>
<td>-6.6</td>
<td>-4.8</td>
<td>-3.2</td>
</tr>
</tbody>
</table>
General Government Deficit % GDP 2011

Cyclical
- Ireland
- Greece
- Cyprus
- Spain
- Slovakia
- France
- Portugal
- Austria
- Estonia
- Luxembourg
- Finland
- Germany
- Malta
- Belgium
- Malta

Structural
- Netherlands
- EA-17
- Slovenia
- Spain
- Cyprus
- Greece
- Ireland
Plan B – what might it look like?

• Part 1 ‘do no further harm’ thru more cuts in public spending

• Part 2 Investment in social and economic infrastructure – *Green New Deal*

• Part 3a *Afflict the comfortable* - rebalance taxation towards unproductive wealth and high income – inc FAT tax
Plan B – what might it look like?

• Part 3b Comfort the afflicted - protect low pay/low income groups/young people

• Part 4 Seek orderly, negotiated debt write-downs – private and ‘socialised’ private debt

• Part 5 Reform private and public sectors

• Part 6 Grow indigenous, exporting firms in key sectors

• Part 7 Reform Banking
INVEST IN INFRASTRUCTURE

“We believe that the economic crisis provides us with a unique opportunity to invest in Ireland’s strategic infrastructure. There is huge spare capacity in the economy, with a large pool of skilled and un-skilled unemployed workers.”
NPRF & Commercial Semi-State €5 billion + Private sources (inc pensions) €5 billion + European Investment Bank €5 billion
NPRF & Commercial Semi-State
€5 billion

Private sources (inc. pensions)
€5 billion

European Investment Bank
€5 billion

€15 billion Investment Fund
NPRF & Commercial Semi-State €5 billion + Private sources (inc pensions) €5 billion + European Investment Bank €5 billion = €15 billion

Investment Fund

Water, Broadband, Energy, Early Childhood, Retrofitting
€15 billion Investment Fund

Plan A: Investment % GDP in 2017

- Romania
- Latvia
- Slovak...
- Estonia
- Bulgaria
- Poland
- Austria
- Lithuania
- Belgium
- Belgium
- Luxembourg
- France
- Slovenia
- Sweden
- Finland
- Netherlands
- Spain
- Italy
- Hungary
- Germany
- UK
- Greece
- Portugal
- Denmark
- Cyprus
- Malta
- Ireland
Would it be possible to imagine in 2022?

- Fundamental human rights – cultural, economic and social – are respected in both jurisdictions of the island?
- Some measure of lost economic sovereignty is restored following the ignominious events of Autumn 2010?
- That sovereignty is shared in a renewed European project based on stronger economic integration and democratic governance?
- Both parts of the island of Ireland take their place along with Britain and other Northern European States as an example of a social market economy based on the principles of freedom and human solidarity consistent with the aspirations of the Democratic Programme of the first Dáil?
Ar scáth a chéile a mhaireann pobal na hEorpa