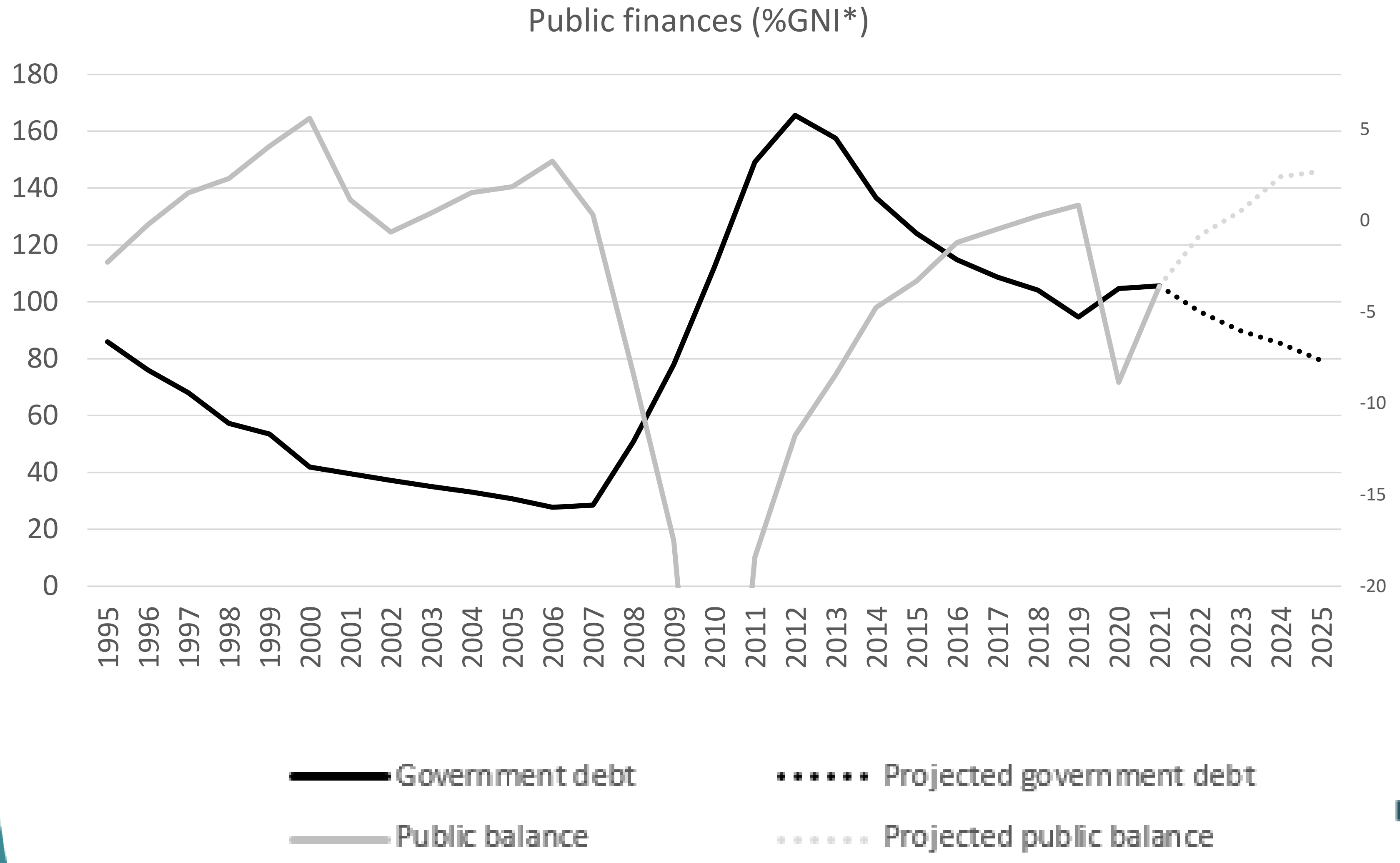
The state post-pandemic

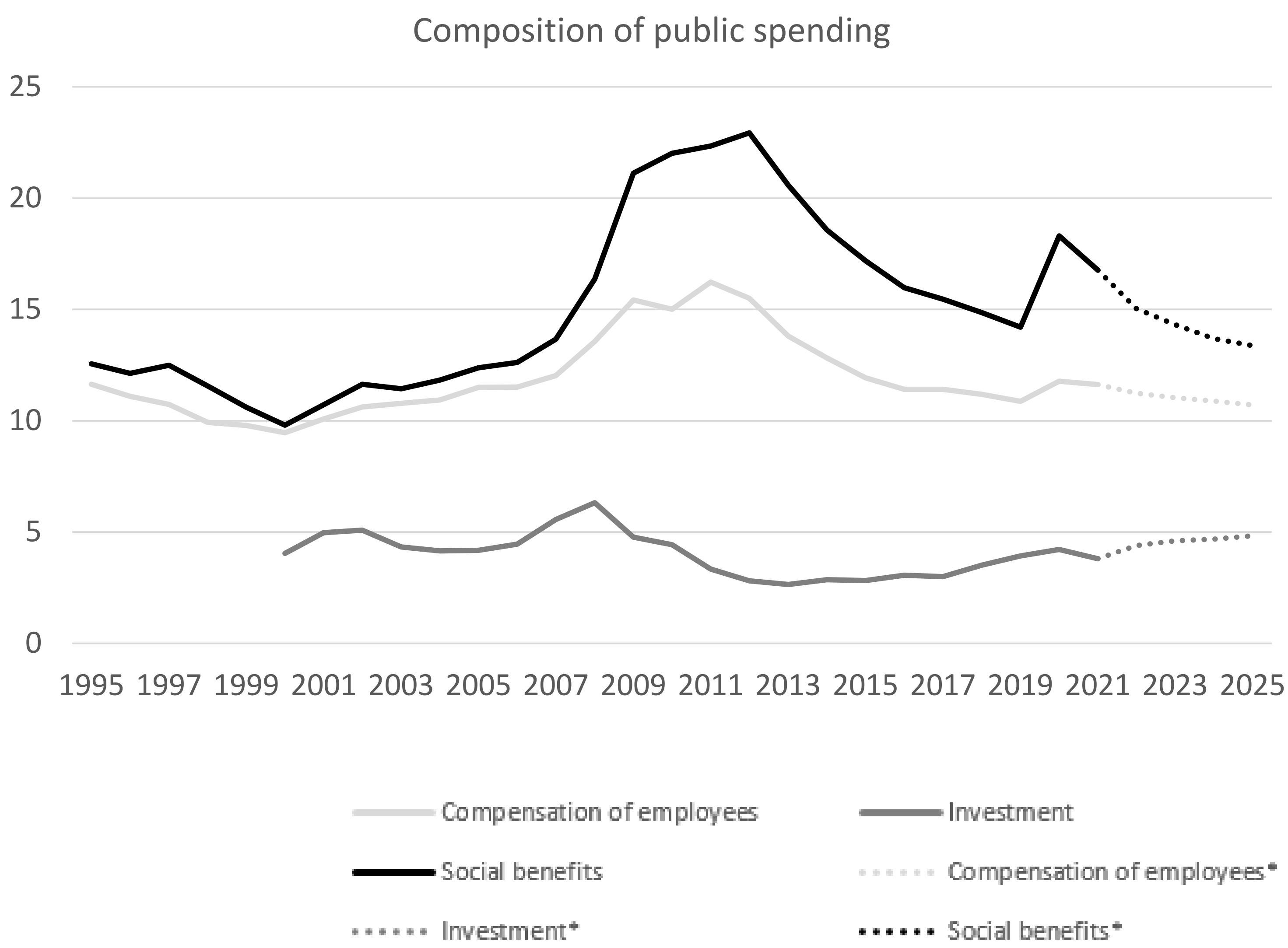
Outline

- Public finance
- How much space do we have
- Politics attitudes
- Expanding or shrinking the state?

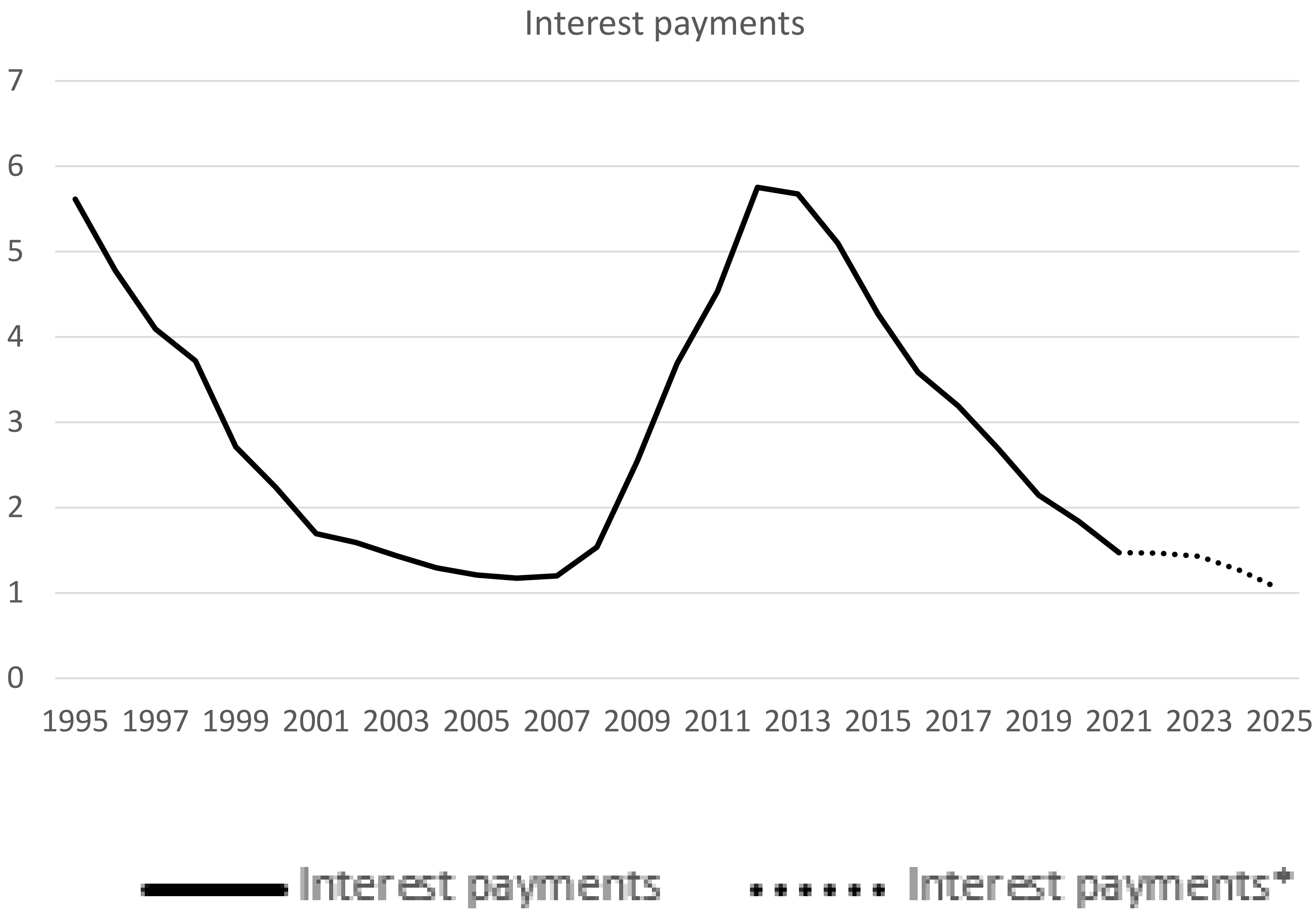
Public finances



Composition of spending



Debt servicing costs



Fiscal rules

- Debt-to-GDP should not exceed 60%, deficit should not exceed 3%.
- Structural deficit should not exceed 0.5%.
- ‘unfunded’ spending increases limited to the projected growth rate of the economy, aside from one-off and other temporary measures.
- + additional margin when in breach of structural deficit
- July 2021, the government committed to limiting permanent increases in exchequer spending to 5%

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Public spending in comparative perspective

- Transport, health spending around average
- Housing-related spending high
- Environment and care spending low
- Education?
- Social protection spending low

Political space for expanded state

- 21% favour increased spending, 20% favour spending reductions, 44% favour maintaining current levels
- People tend to oppose higher taxation
- High tax not high on electoral agenda
- Cross-country, support for taxation higher when governance is perceived to be high

Views of senior policymakers on expanded state

- “[W]ithout that mechanism to channel things towards the public goods, we’re just seeing wage increases there that are trying to compensate for the lack of public infrastructure. And then it’s just you just keep paying higher wages. Yeah, not getting the things that are needed.”

Views of senior policymakers on expanded state

- “[I]f you talk to the senior civil servants in there, if you talk to X, in private, you know, it’s all about the debt servicing costs, because that’s the meaningful metric. Like, that’s the thing that matters. I mean, you know, the size, the quantum of the debt and deficit that are just entirely arbitrary. Things like they’re kind of accounting things they don’t have any, they’re not rooted in any, you know, real world economic kind of consequence.”

Conclusion

- Ireland has fiscal capacity to expand
- Public investment set to increase
- Social benefits and service spending to fall