Why we need an Economic Plan B

(and what it might look like)

NERI Research Seminar, 25 April, 2012

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NERI Nevin Economic Research Institute

Research for new economic policies

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)?

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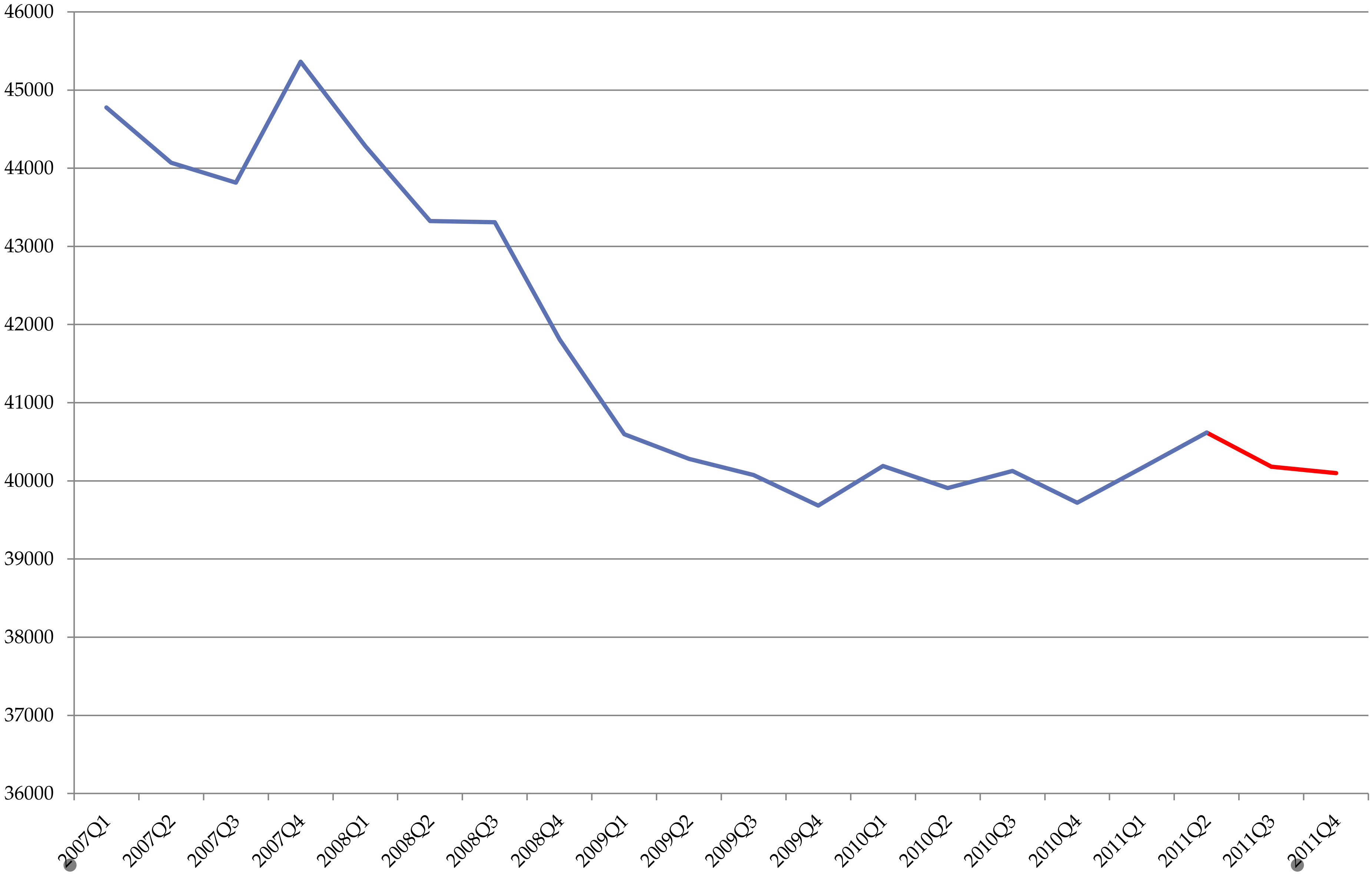
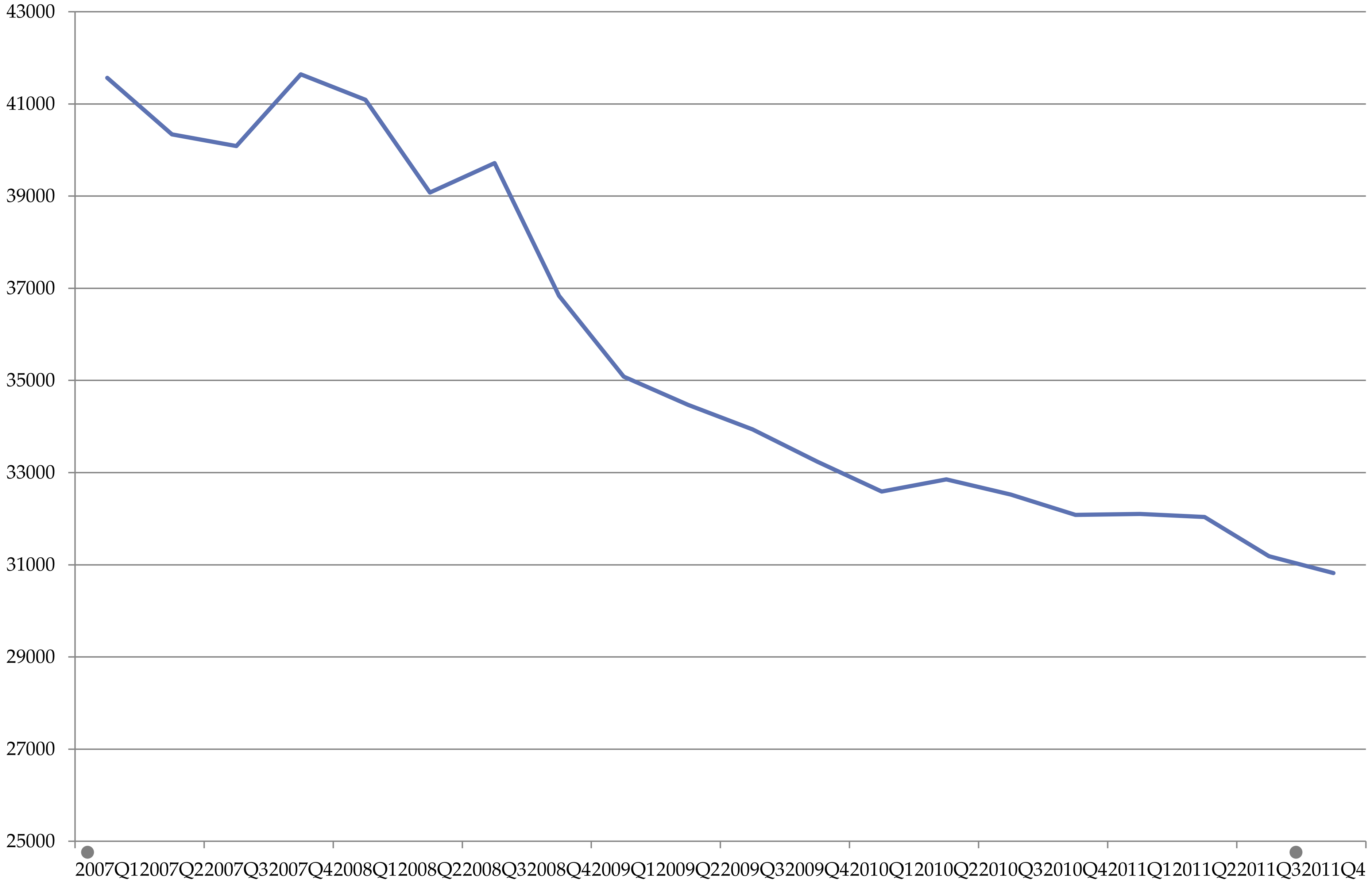
Research for new economic policies



Domestic Demand



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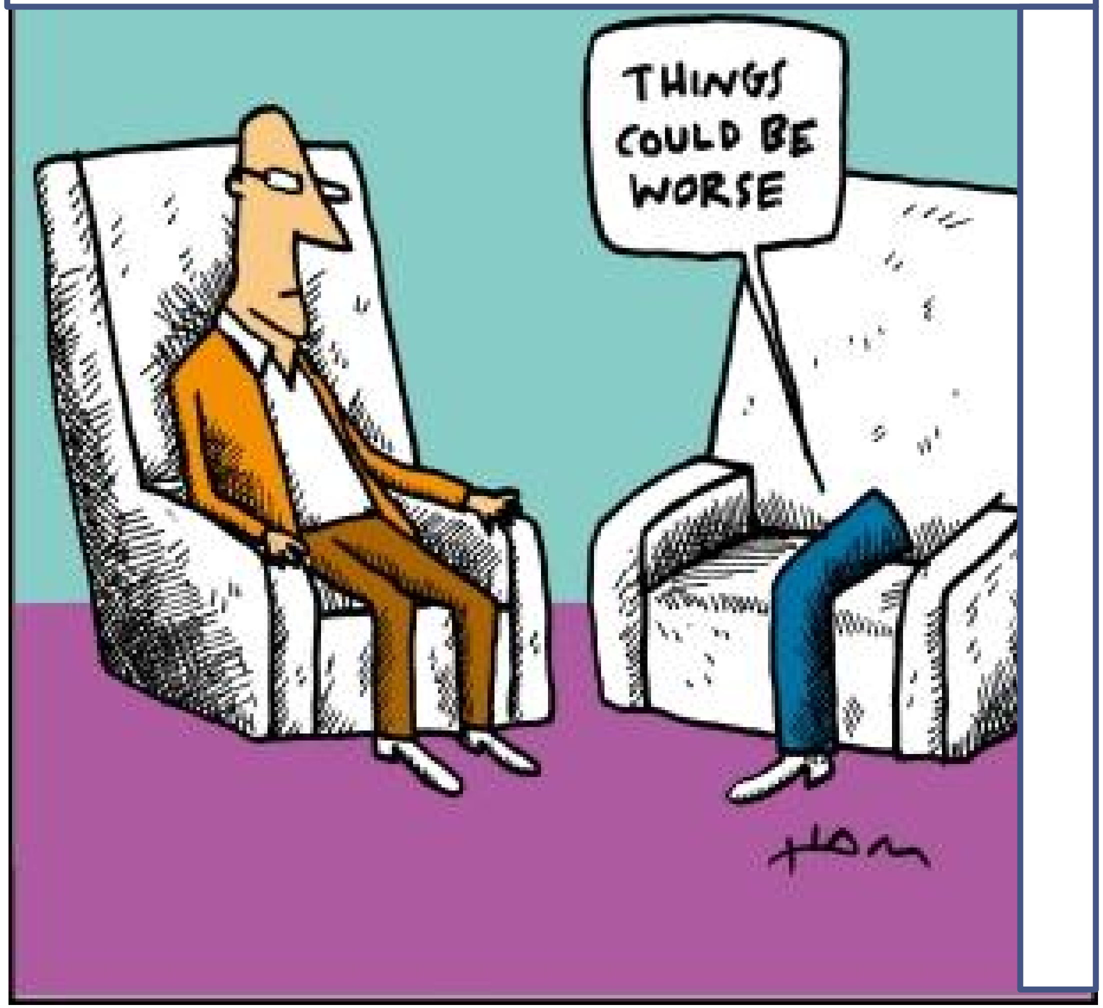
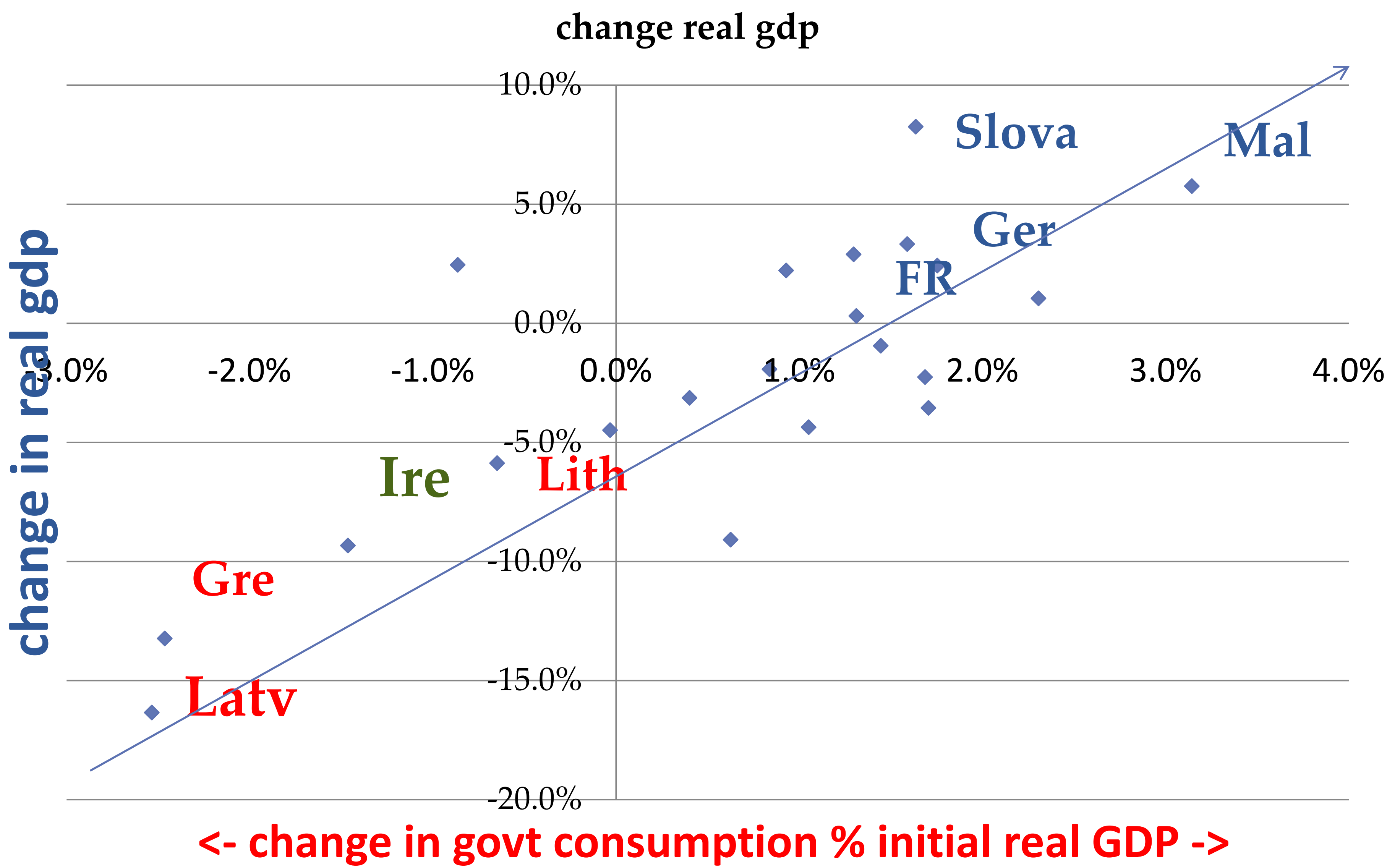
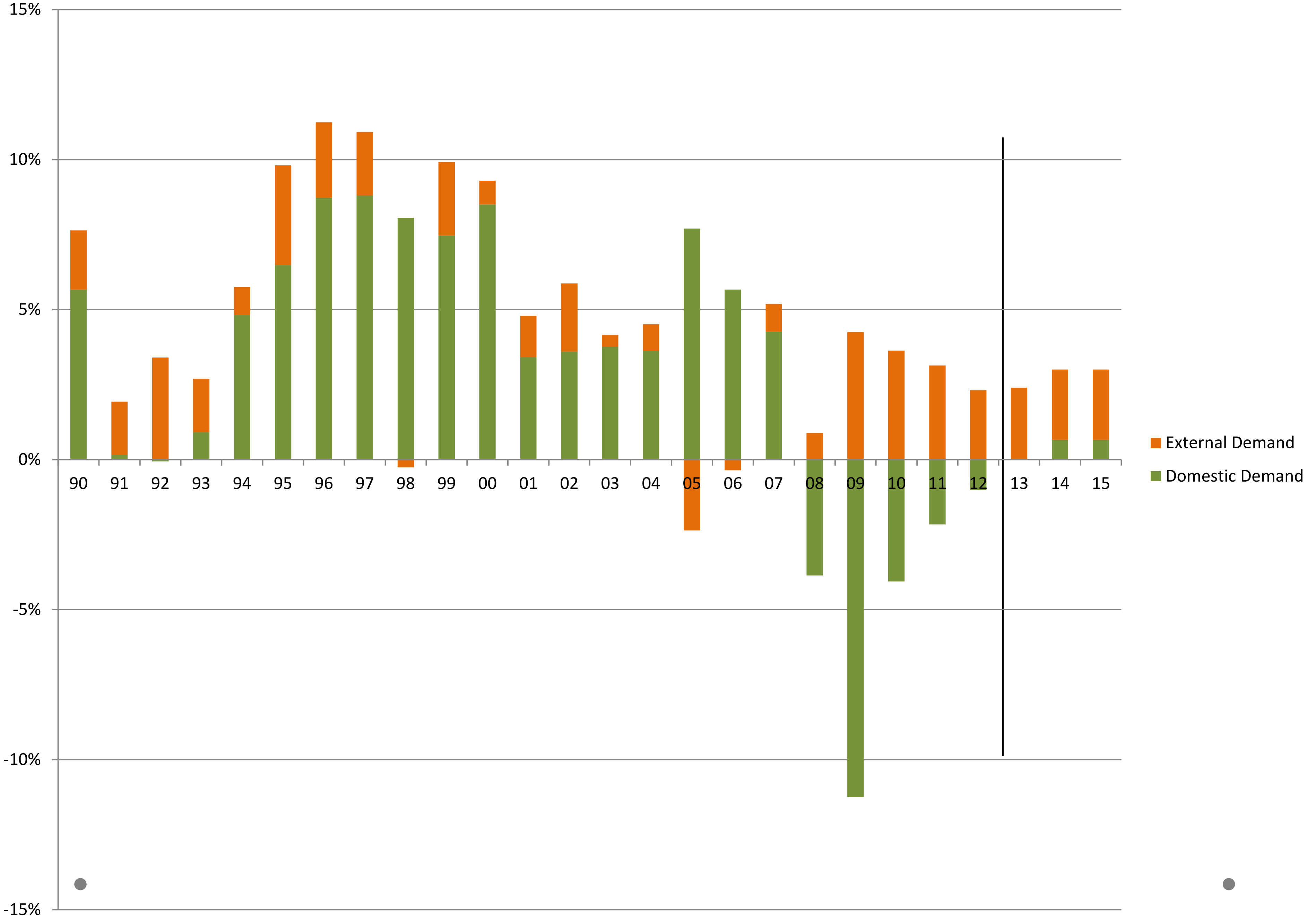


Austerity regression line

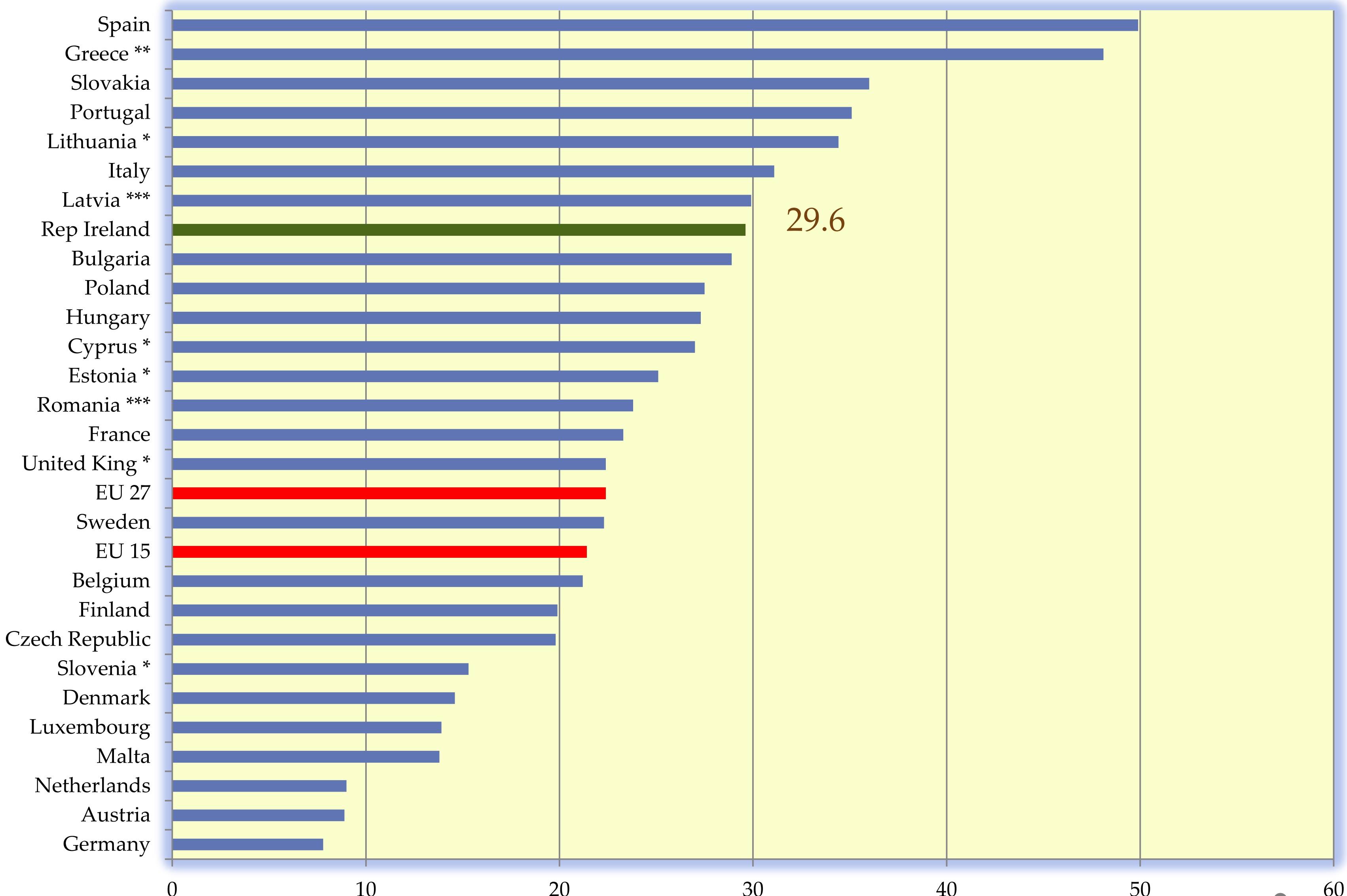


Components of growth in real GDP (% points)



Youth Unemployment – Jan 12

Indicator 2.2 – Quarterly Economic Facts



* Dec2011 ** Nov 2011 ***Sep 2011

Medium-Term Expenditure Reductions (CER, Dec 2011)

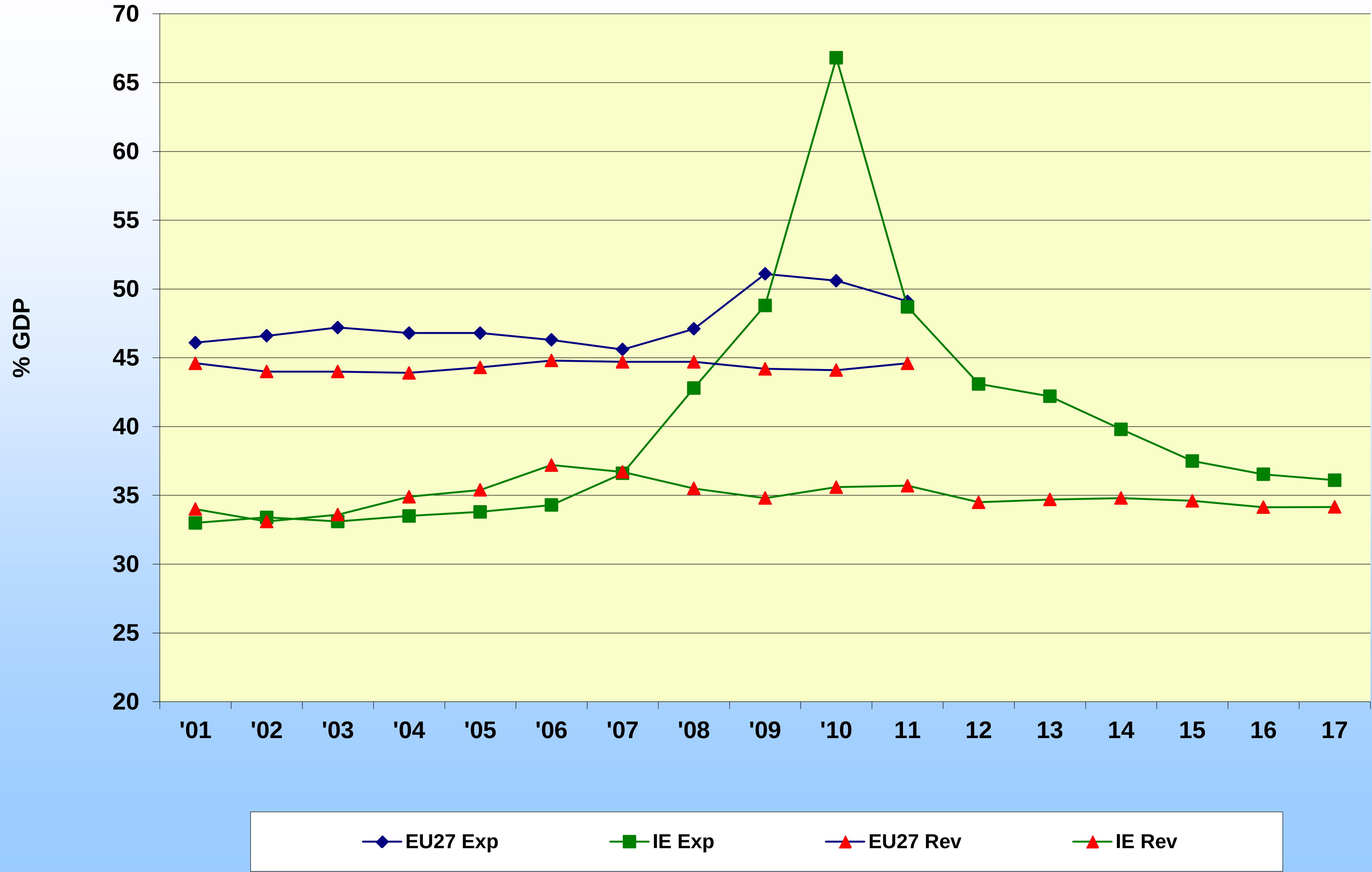
	2012	2013	2014	2015	Total
Current	1.45	1.70	1.90	1.30	6.35
Capital	0.75	0.55	0.10	0.00	1.40
Total	2.20	2.25	2.00	1.30	7.75

The Future of the Public Capital Programme

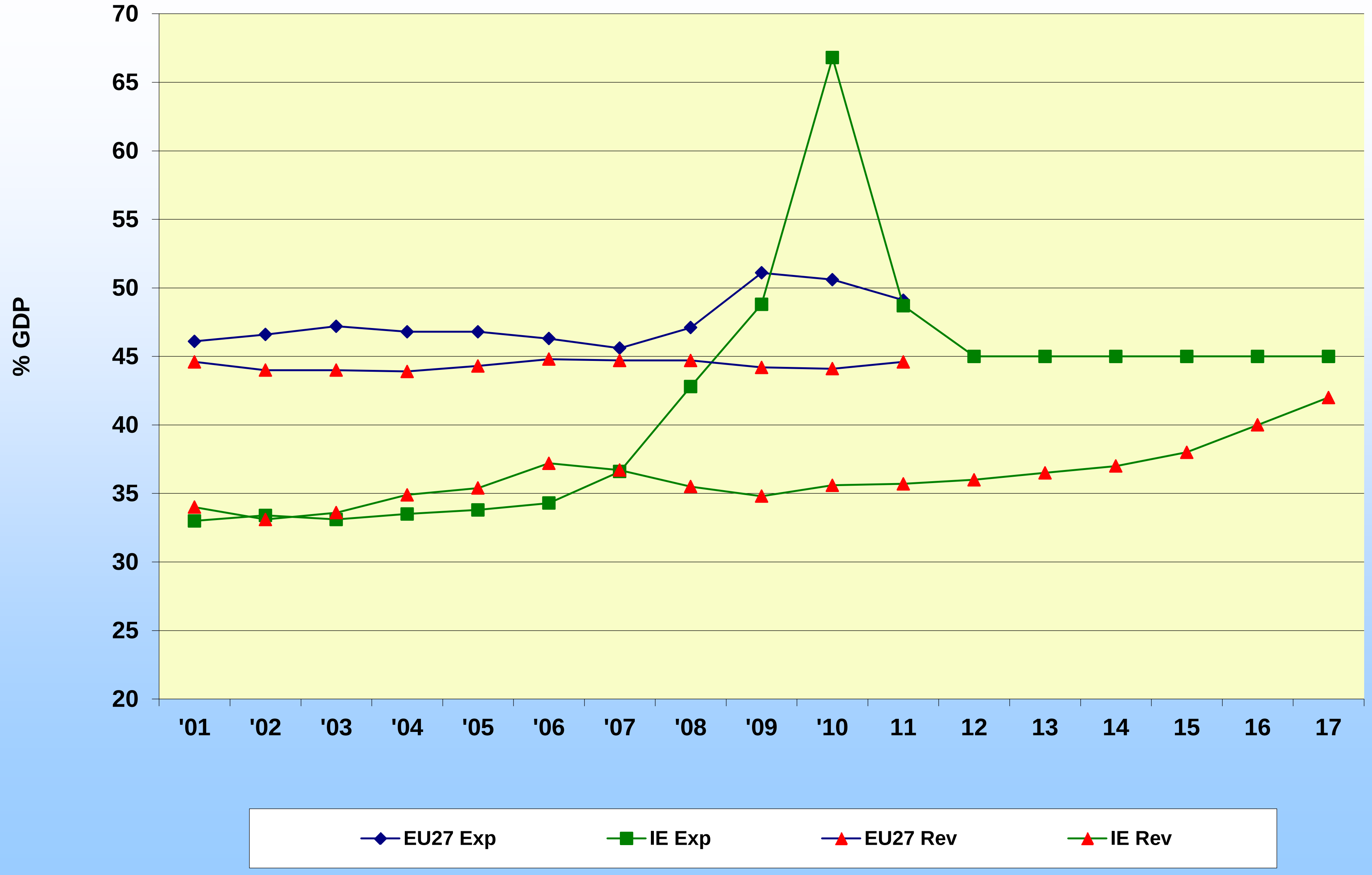
"We believe it is economic nonsense, when unemployment is so high and private investment has collapsed, to cut back on productive public investment. We cannot keep chasing the economy down by simply focusing on raised taxes/decreased Government spending."

‘While revenue raising measures will play an important role, the need to reduce expenditure is an inescapable reality’ (CER, page 7)

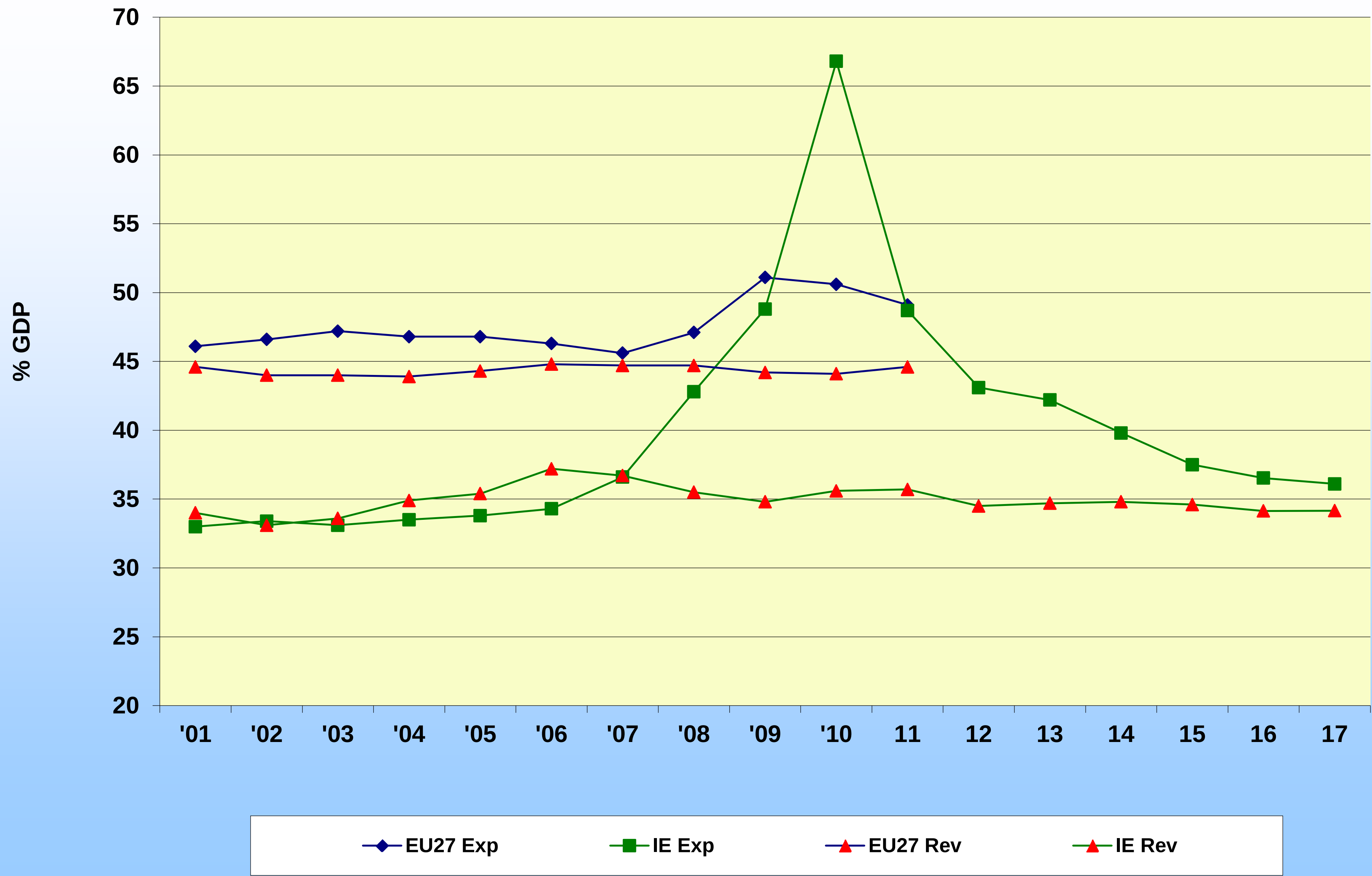
Plan A: Trends in govt. spend & Revenue



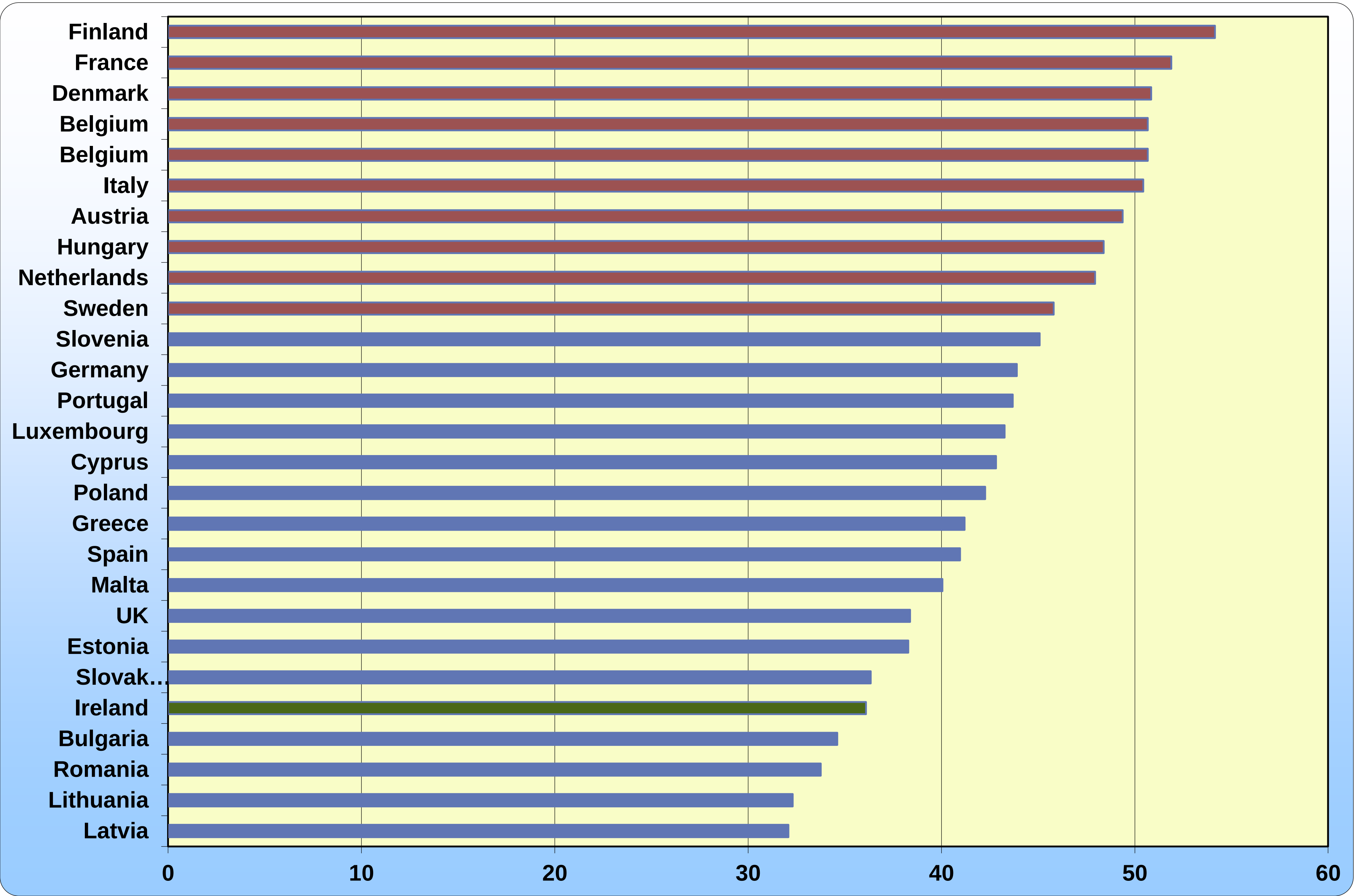
Plan B: Trends in govt. spend & revenue



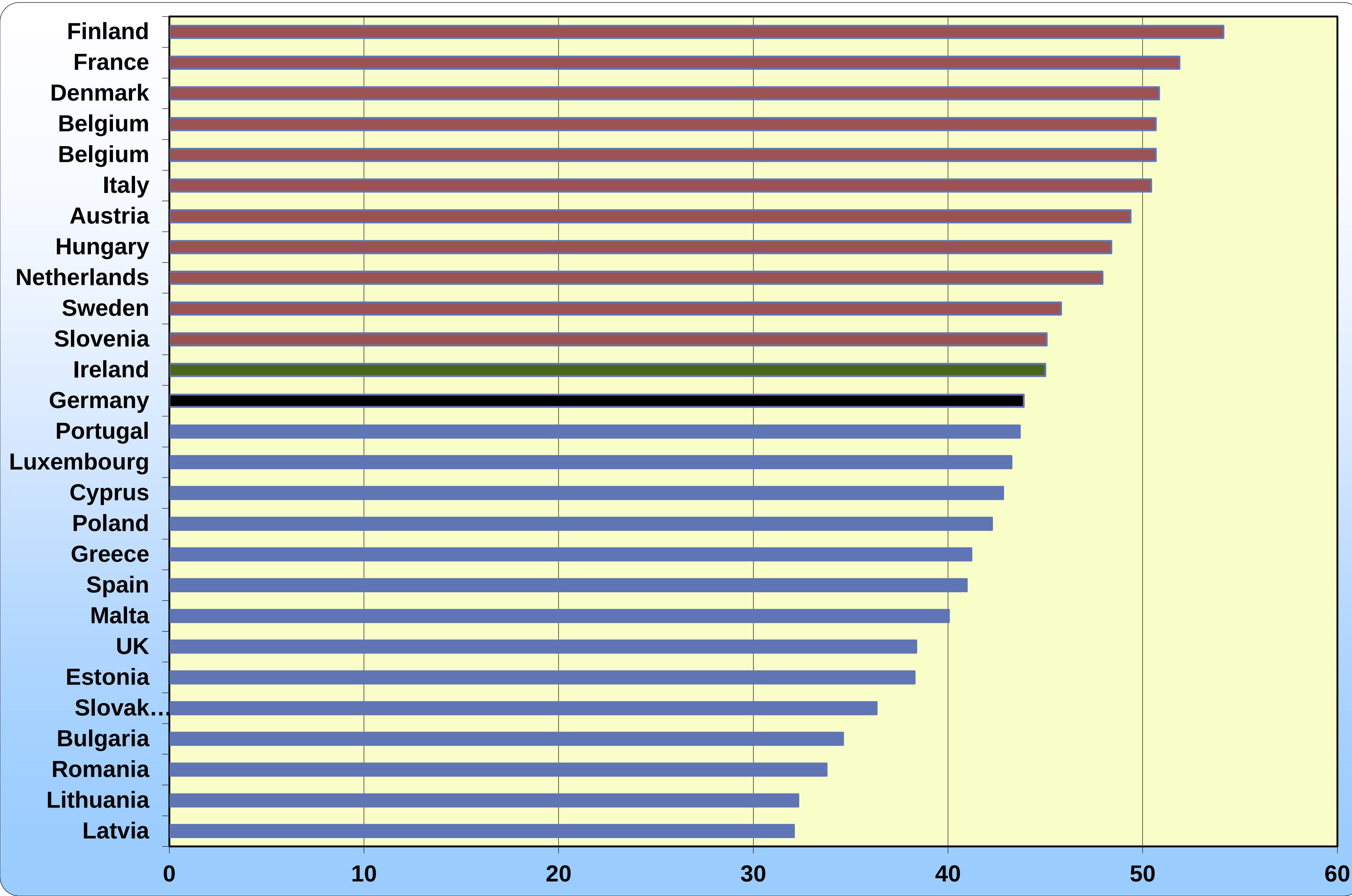
Plan A: Trends in govt. spend & Revenue



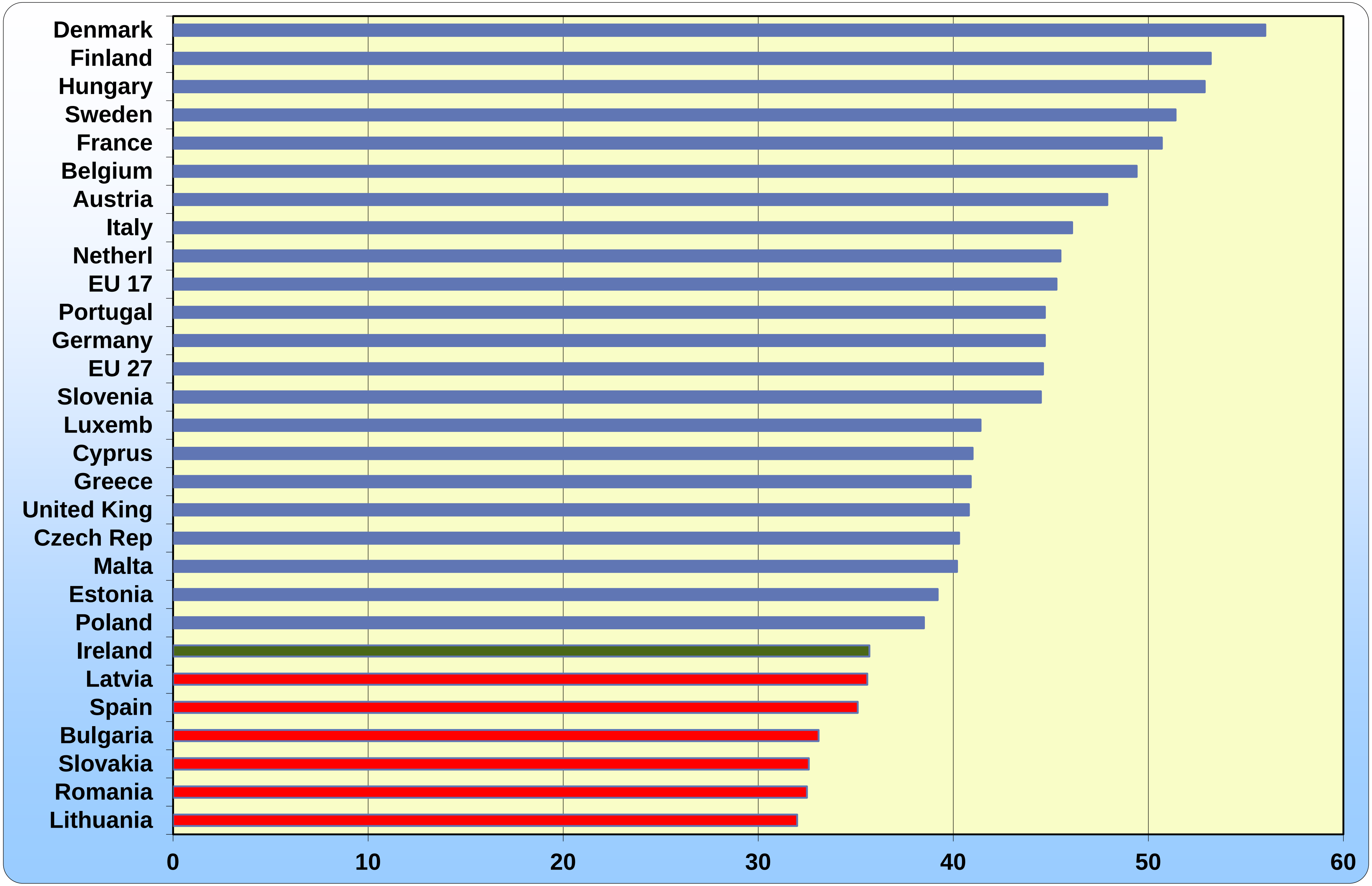
Plan A: Total Govt Spend % GDP 2017



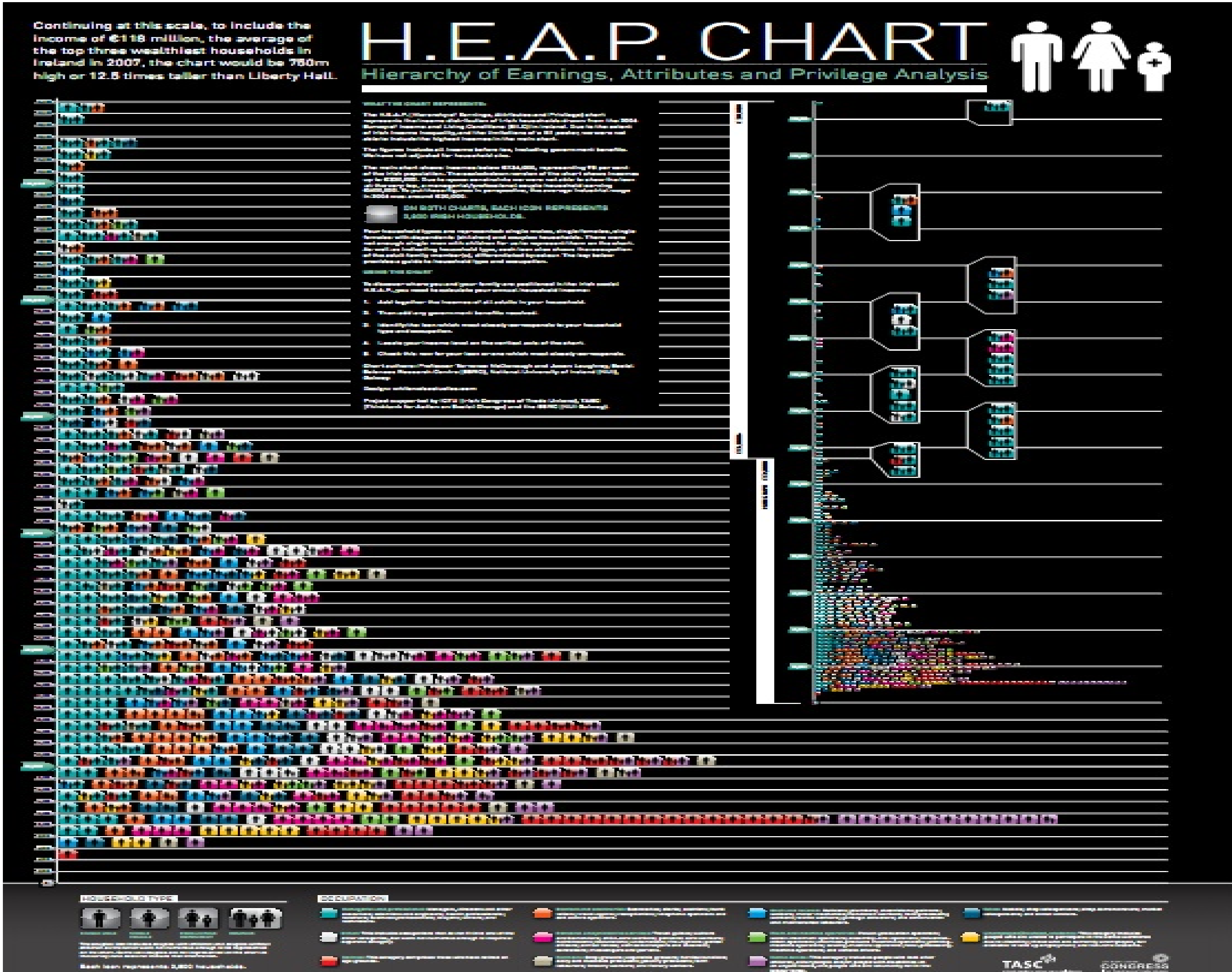
Plan B: Total Govt Spend % GDP 2017



Plan A: Total Govt Revenue % GDP 2011

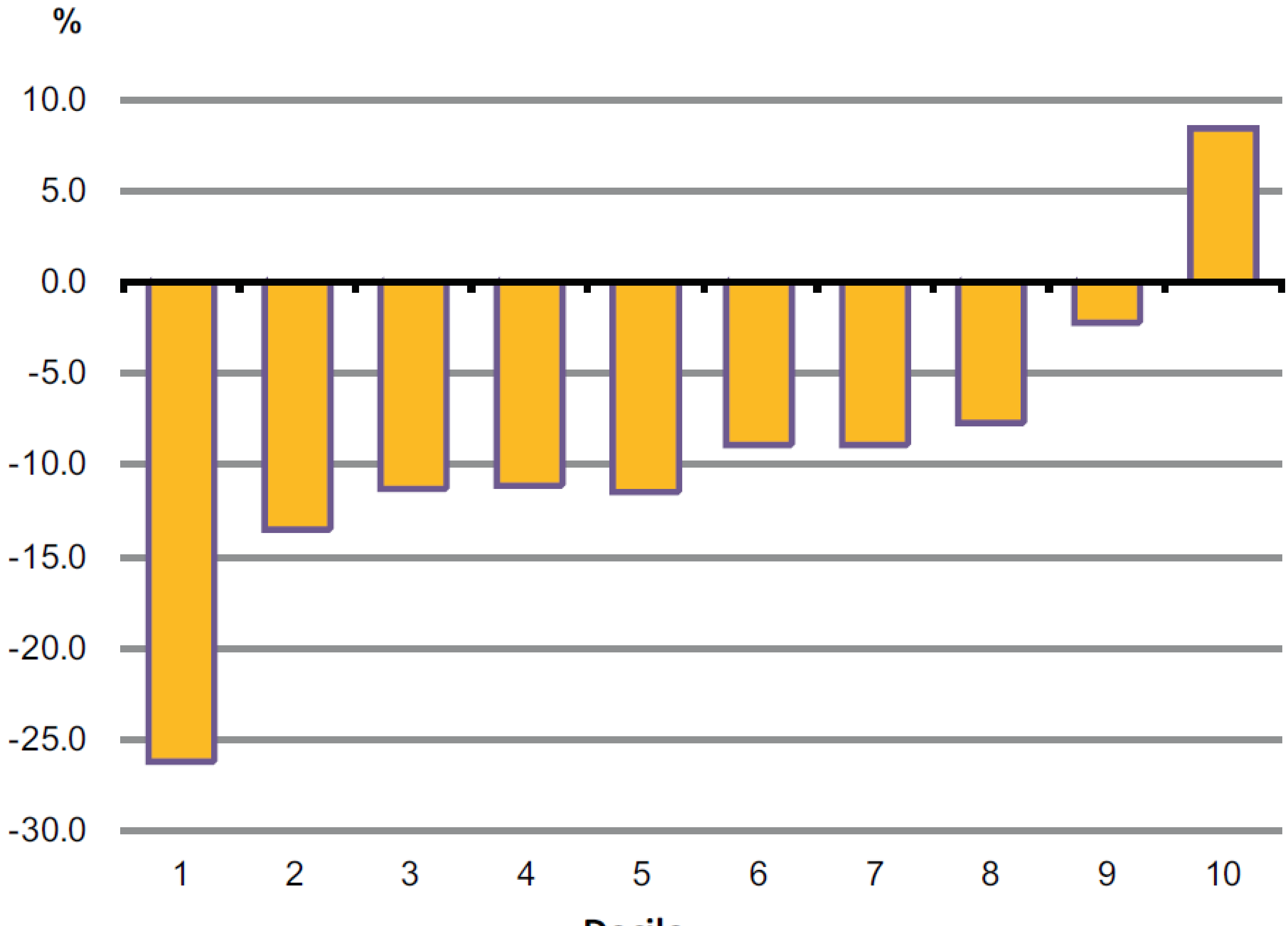


Who can pay?



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 750m high or 12.5 times taller than Liberty Hall.
H.E.A.P. CHART
Hierarchy of Earnings, Attributes and Privilege Analysis
HOUSEHOLD TYPE
OCCUPATION
TASC
CONGRESS

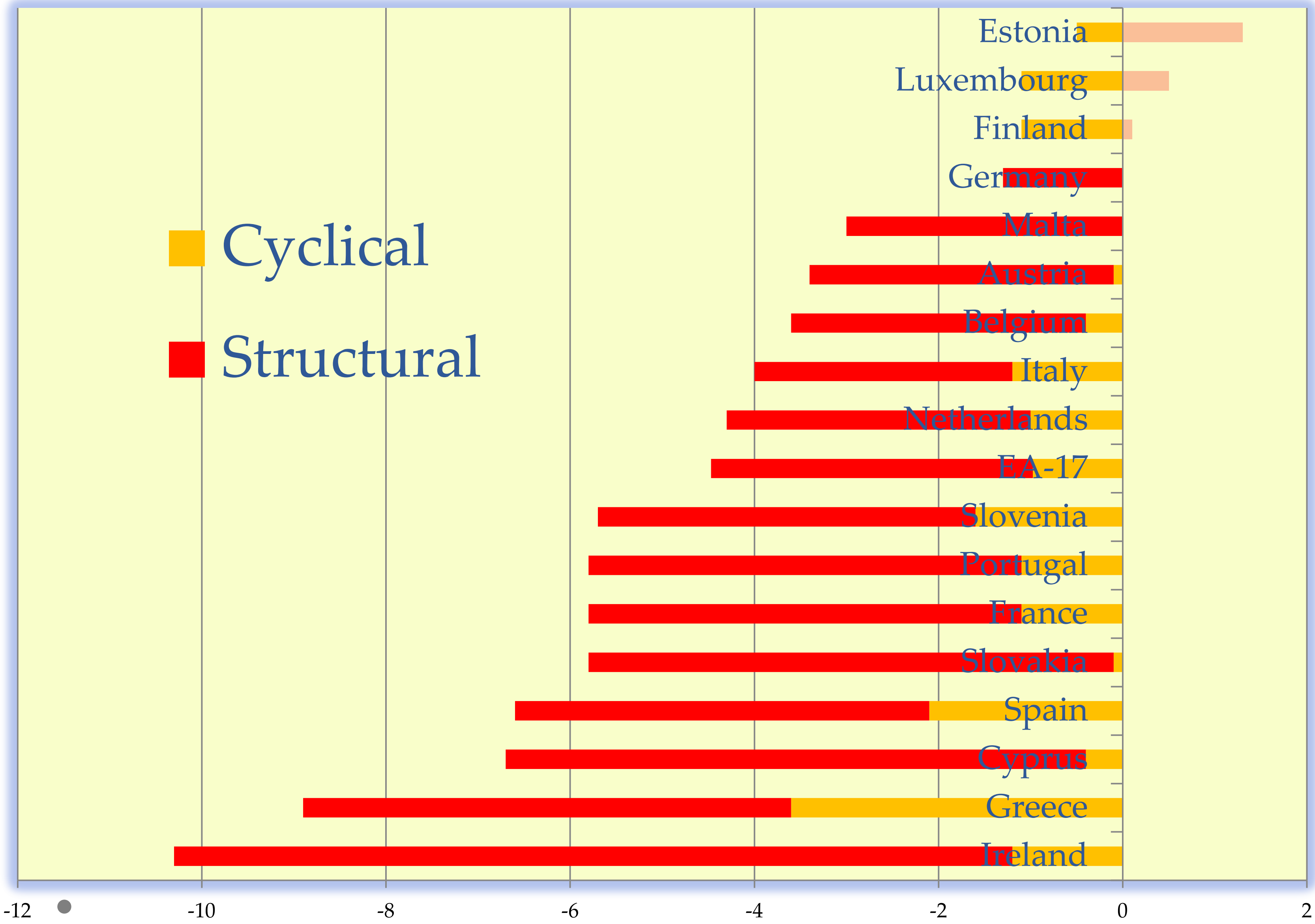
Fig 1d Percentage change in equivalised disposable household income by decile SILC 2010



Towards a 0.5% structural deficit ?

	2011	2012	2013	2014	2015
Total Deficit	-10.1	-8.6	-7.5	-5.0	-2.9
'Structural' Deficit	-8.6	-8.0	-7.1	-5.3	-3.7
Further fiscal consolidation	-8.1	-7.5	-6.6	-4.8	-3.2

General Government Deficit % GDP 2011



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

Plan B Strand 2

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

\+

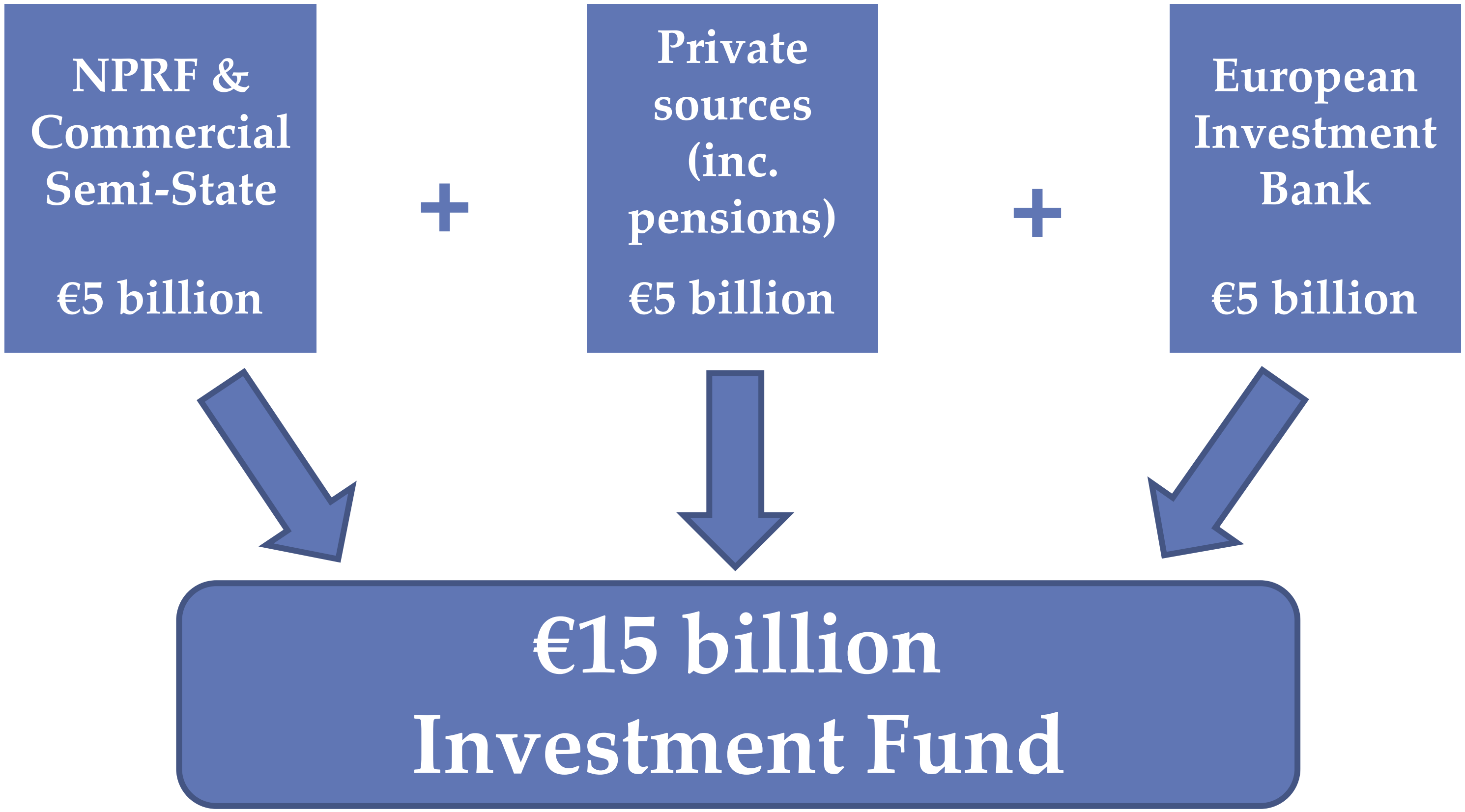
Private sources (inc pensions)

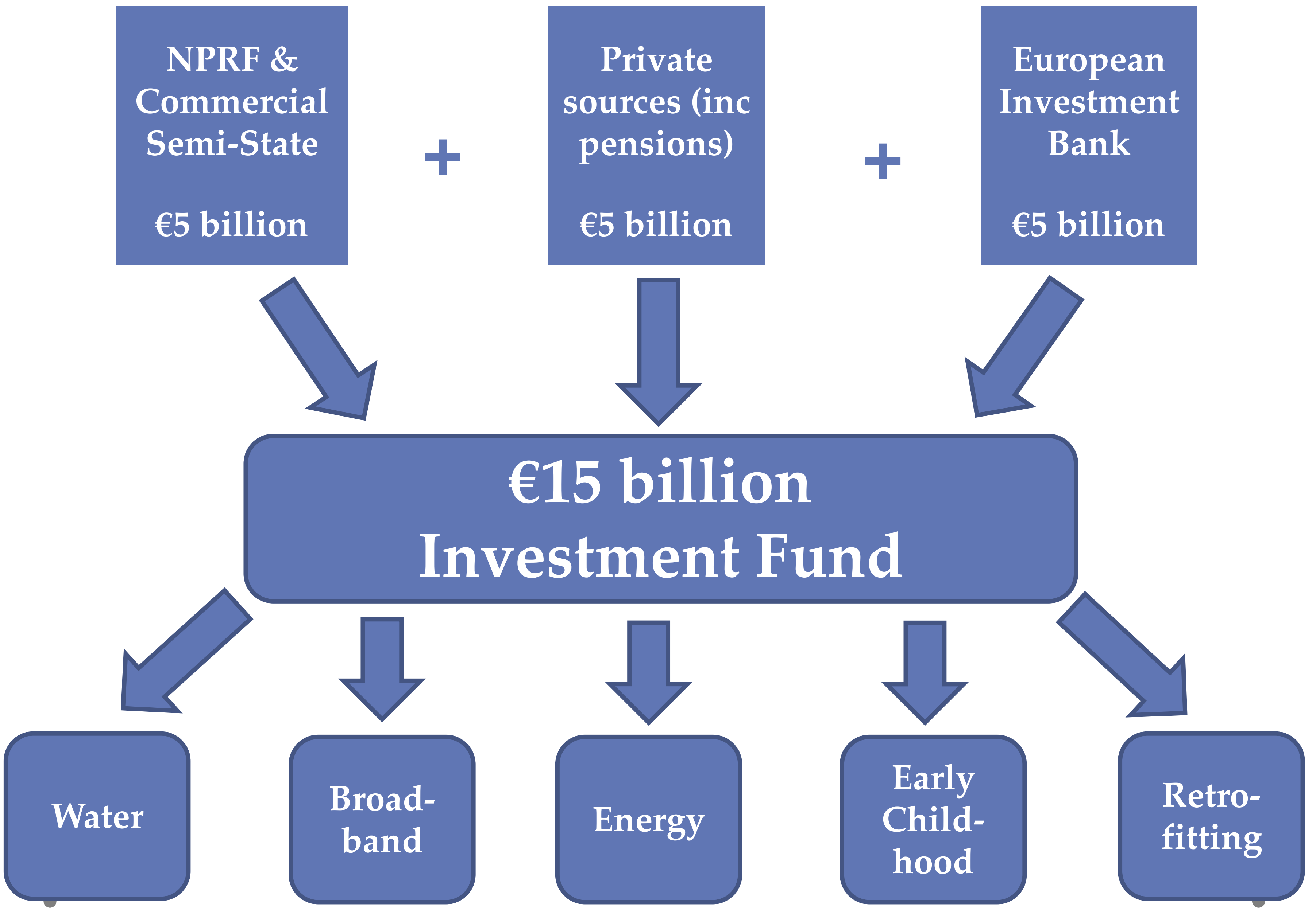
€5 billion

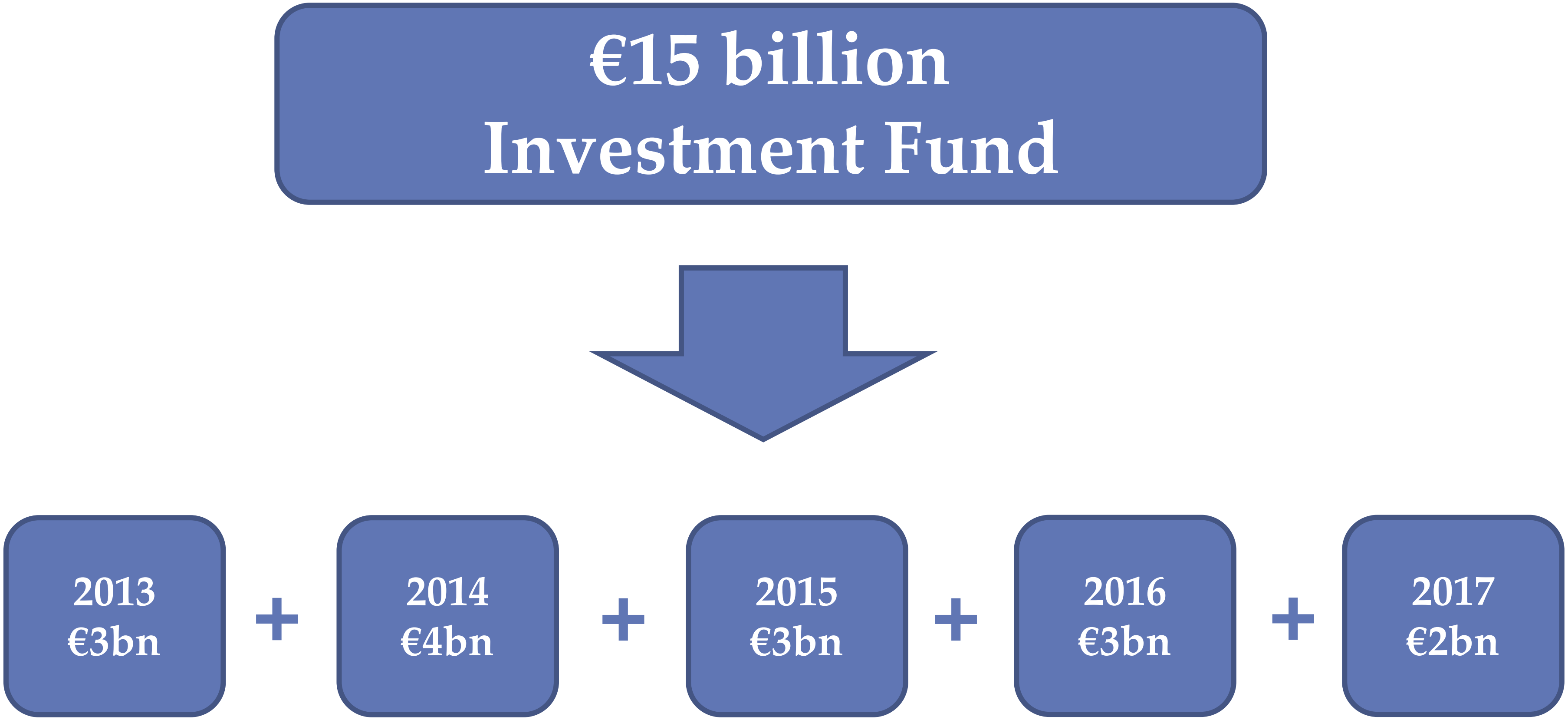
\+

European Investment Bank

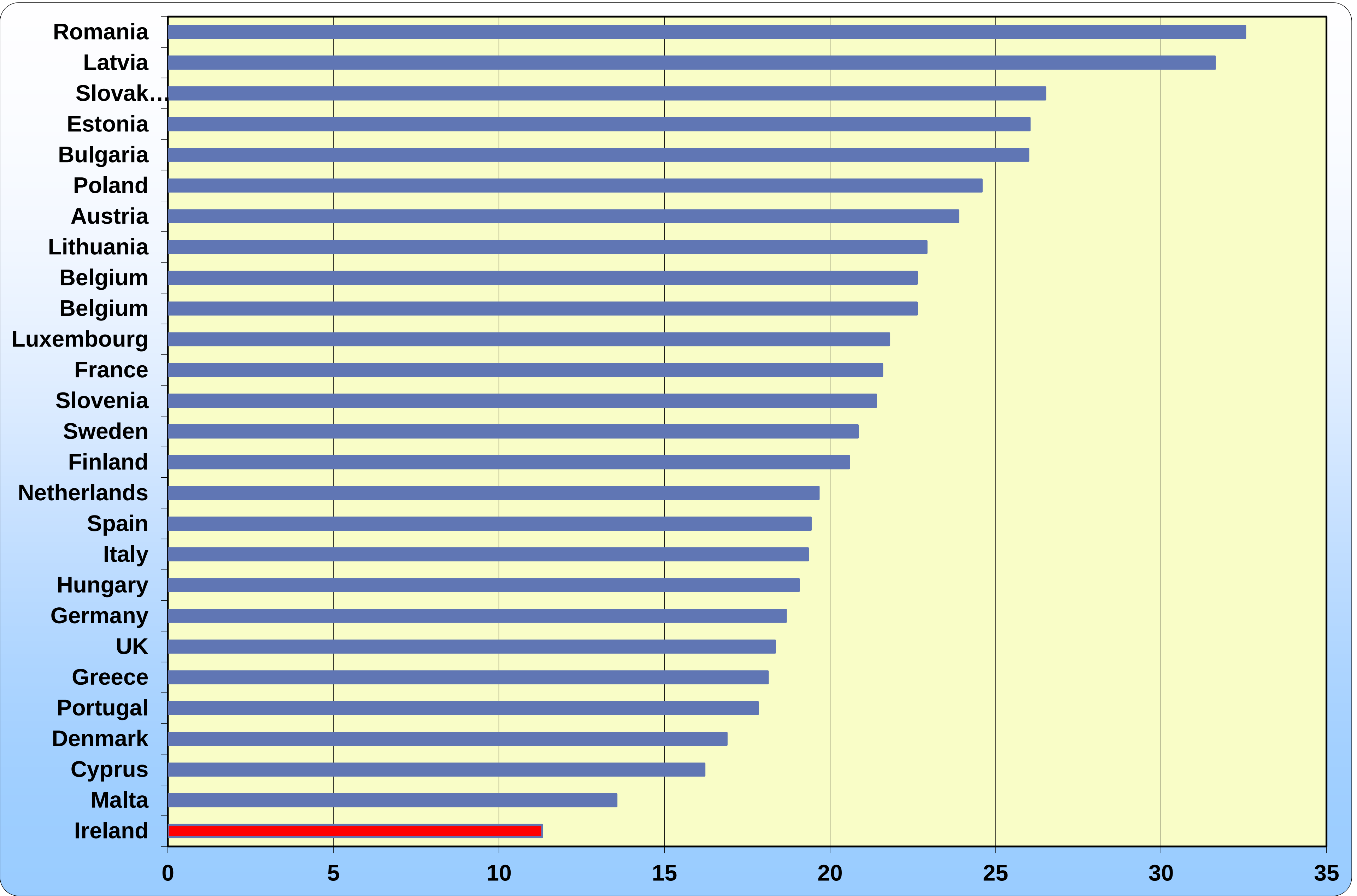
€5 billion


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
Broad-band
Energy
Early Child-hood
Retro-fitting

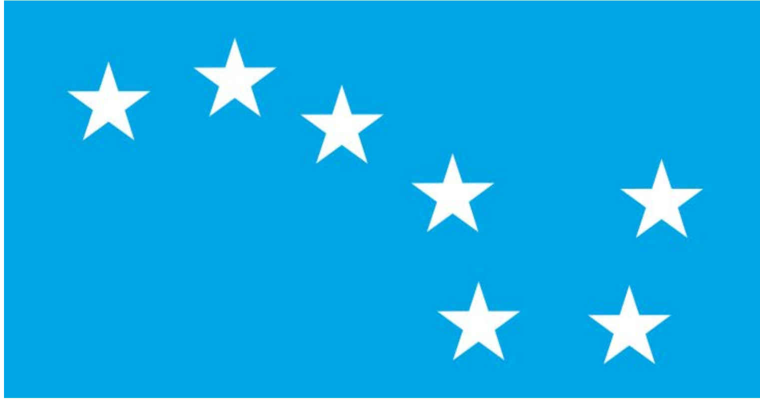

€15 billion
Investment Fund
2013
€3bn
+
2014
€4bn
+
2015
€3bn
+
2016
€3bn
+
2017
€2bn

Plan A: Investment % GDP in 2017



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

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