Quarterly Economic Observer

Summer 2013

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NERI Nevin Economic Research Institute

About NERI and this publication

The Nevin Economic Research Institute (NERI) has been established to provide information, analysis and economic policy alternatives. Named in honour of the late Dónal Nevin, scholar, trade unionist and socialist who gave a life of service to the common good, the Institute aims to undertake research that will be of relevance to the Trade Union movement and the general public across the island of Ireland.

This is the sixth Quarterly Economic Observer (QEO) of the Institute. The purpose of the QEO is to provide regular, accessible and timely commentary so as to equip trade unions and others in articulating and advancing a new economic paradigm where the old has failed. The QEO complements the Summer 2013 Quarterly Economic Facts (QEF) which provides a set of statistical indicators to underpin our analysis. Unless otherwise stated, the data cited in this Observer are the latest available as of 10th June 2013. The final draft of this document was completed on 21st June 2013.

This report has been prepared by staff of the Institute. We are grateful to our external reviewers from the academic and research community who reviewed and commented on an earlier draft of this document. The analyses and views expressed in this publication are those of the NERI and do not necessarily reflect those of others including the Irish Congress of Trade Unions or the unions supporting the work of the Institute.

Further information about NERI may be obtained at our website **www.NERInstitute.net**

The Nevin Economic Research Institute

Quarterly Economic Observer

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Executive Summary

A recovery of growth in output and in total employment is likely to be very slow in both economies of Ireland over the coming two years. Economic activity remains depressed in some of the key trading partners and continuing fiscal austerity coupled with high levels of private debt are taking their toll on domestic demand. While there are some positive signals, with regards to service exports in the Republic of Ireland as well as a reduction in unemployment since early 2012, the overall outlook remains very challenging. This will continue to weigh on public finances where Government ambitions to reach the deficit target of 3% by 2015 very much depend on a range of circumstances not all of which are under full domestic policy control.

This Observer focusses on the option of pursuing a growth-friendly and jobs-rich approach to budgetary policy in the Republic of Ireland over the next two years. The approach has three main components:

(i) full use of the proceeds of the 'Promissory Note' deal to reduce the fiscal consolidation by €1 billion in 2014 and again in 2015;

(ii) a fully commercial investment stimulus of €1.5 billion and €3 billion, respectively, in 2014 and 2015; and

(iii) further increases in taxation amounting to €1.65 billion and €700 million, respectively, in 2014 and 2015 targeted at households in the top 10% income bracket as well as capital assets of those who can afford to pay more than they are doing now.

Compared to the current trajectory of public policy and fiscal adjustment, and on the basis of an expected slow economic recovery in Ireland's main trading partners, an alternative budgetary approach such as outlined in this Observer is very likely to:

- raise output and employment further and help accelerate the welcome recent downward trend in unemployment (Table 4.7 on page 46);
- avoid further damage to the quality of Ireland's fragile public service and income support (page 34);
- avoid further increases in poverty (refer to Quarterly Economic Facts page 75);
- reinforce market confidence in Ireland through a policy founded on growth, investment and fiscal prudence (page 54);

– begin to address some of the key social and economic infrastructural short-comings in Ireland (page 35); and

– reduce the government deficit to 3% in 2015 (Table 4.6 on page 39).

1 Introduction

The impact of fiscal austerity and high levels of private debt continue to weigh on both economies on the island of Ireland. Unemployment and under-employment remain at elevated rates as long-term unemployment impacts particularly severely on a new generation of young people faced with the prospects of emigration or long-term precarious employment. As both economies await a long overdue economic lift-off, developments in Europe do not augur well for a quick recovery in trade and external demand. Policy-makers must look to areas of domestic policy within their reach to ameliorate some of the worst impacts of this recession. The scope for domestic policy choice and action is severely limited but not negligible as is sometimes claimed.

This Quarterly Economic Observer focuses on budgetary choices in the Republic of Ireland especially in the context of emerging developments in the run-up to the unveiling of 'Budget 2014' which is due almost two months earlier than is normally the case. While a combination of unforeseen events and changing economic fortunes may modify the general macro-economic context in which budgetary choices are made it is evident, as of mid-2013, that the current trajectory of fiscal policy in the Republic of Ireland is impeding, unnecessarily, the path to economic recovery and employment growth. There is, also, some preliminary evidence that recent budgets may have worsened poverty and income inequality in the Republic of Ireland. Choices need to be made in the coming months about vital areas of public service from health to education and income support. These choices should be made taking into account alternative options and impacts based on the best available empirical evidence. The Nevin Economic Research Institute offers this report as a contribution to public debate on policy making and formation. We welcome feedback, comment and suggestions. The precise data used and the specifics of any proposal/projections are subject to review as fresh information and data become available.

This Observer provides an outline of an alternative approach and is structured as follows. Economic trends in both parts of Ireland are reviewed in Section 2 while Section 3 provides an overview of recent macro-economic projections made by various agencies and includes NERI's macroeconomic projections. In Section 4 an alternative budgetary approach for 2014-2015 in the Republic of Ireland is outlined and proposed.

2 Overview of Recent Economic Trends

The term stable stagnation is appropriate to describe the current situation facing both economies on the island of Ireland as the initial shock of recession with a sharp loss in output and employment in 2009 has been followed by a period of prolonged stagnation with rising unemployment in the case of the Republic of Ireland up to early 2012.

There has been a welcome, but limited, fall in the rate of unemployment in the Republic since Spring 2012 and more recently in Northern Ireland. However, indicators of retail sales, employment and domestic demand do not suggest any major or sustained recovery. Positive signals in relation to the cost of commercial borrowing by public agencies as well as continuing growth in service exports are helping to counter-act the negative impacts of stagnant domestic demand. Growth in service exports provide one of the few positive signals in terms of overall economic activity. Some of this upward trend has been driven by an increase in exports of computer and financial services where tax-based planning of activities may distort trends. Signs of a partial recovery in commercial property demand may suggest a bottoming out in price falls for commercial property.

As in previous Observers, we summarise the evidence in regard to the most recent trends in both the Republic of Ireland and Northern Ireland. Prospects for future developments are considered in Section 3. The review of developments in both parts of Ireland begins with a review of the global, European and all-UK economic situation.

Recent economic developments are summarised in Table 2.1

Table 2.1 Some key economic trends in Ireland and the UK (2007-2012)

		2007	2008	2009	2010	2011	2012
Total Employment *(% of the working-age population)*	ROI	69.2	67.6	62.2	59.6	58.9	58.8
	NI	68.4	67.8	64.7	66.0	67.4	67.2
	UK	71.5	71.5	69.9	69.5	69.5	70.1
Unemployment *(% of labour force)*	ROI	4.7	6.4	12.0	13.9	14.7	14.7
	NI	4.0	4.5	6.5	7.1	7.2	7.5
	UK	5.3	5.6	7.6	7.8	8.0	7.9
Gross Domestic Product (% volume change over previous yr)	ROI	5.4	-2.1	-5.5	-0. 8	1.4	0.9
	NI*	3.1	-2.0	-3.6	1.4	0.0	n/a
	UK	3.6	-1.0	-3.9	1.8	1.0	0.3

Sources: Republic of Ireland (ROI) and UK labour market data refer to the whole year and were taken from the Eurostat Labour Force Survey database (online reference code lfsi_emp_a and une_rt_a).
Northern Ireland labour market data are based on an average of the four quarters for each year with data taken from the Labour Force Survey.
GDP data for ROI and UK are from Eurostat National Accounts database (reference code nama_gdp_k).
Northern Ireland Gross Value Added data are taken from ONS Regional Trends Series (Office for National Statistics, 2013).

Notes: ROI = Republic of Ireland, NI = Northern Ireland and UK = United Kingdom.
* Northern Ireland output refers to Gross Value Added (GVA). Regional GVA (Income Approach) is taken from Office for National Statistics (2012) December.
Total employment refers to all persons in employment (ILO definition) aged 15-64 as a proportion of all persons aged 15-64. Unemployment is measured on the ILO definition basis and refers to persons aged 15-74.
n/a = not available.

2.1 Global developments including the United Kingdom

Uncertainty and fragility of economic recovery characterises many of Ireland's major trading partners. The US economy is growing again and the immediate prospects appear to be cautiously positive with an expectation by most analysts of GDP growth in the region of 2% this year. Most of the Eurozone as well as the UK remains stuck in recession or stagnation. The cumulative effect of fiscal austerity along with rising levels of unemployment hamper a return to economic growth in many countries. Measures to reduce government debt and deficits have not been successful in most countries.

The Eurozone economy as a whole contracted by 0.2% on a seasonally adjusted basis in the first quarter of 2013 – the second consecutive quarter of contraction. In contrast, the UK economy returned to sluggish growth (0.3%) in the first quarter of 2013 following a drop in the last quarter of 2012 while the US saw a slight pick-up in growth (0.6%) in the first quarter. Oil prices have declined slightly in recent months with some impacts on price inflation in EU States. Since March 2013 the Euro has remained relatively stable in exchange with both the US Dollar and Sterling. Demand from key European trading partners for manufactured goods and services from Ireland is likely to remain subdued into the early part of 2014.

The announcement by the European Central Bank of Outright Monetary Transactions in September 2012 has helped to stabilise European financial markets. For now, the Euro currency and the European Union have withstood severe tests in terms of confidence, political instability and economic recession. The situation remains, however, fragile. On balance the prospects for a slow, difficult and uneven recovery across Europe seem to outweigh the risks of a further collapse in output and emergence of severe political instability.

The UK labour market has managed to maintain an increasing level of employment throughout a period of economic stagnation. However the growth in employment has shown signs of weakening and unemployment levels have begun to rise again. Although no significant trend has yet emerged, this could indicate the beginning of the end for the so-called 'productivity paradox' which has lasted two years (MacFlynn, 2013).

2.2 Republic of Ireland

The Republic of Ireland has undergone a very significant economic contraction between 2008 and 2010. This has been followed by a period of relative stagnation[1] with little evidence, so far, of a significant turn-round in economic conditions especially in the case of jobs and investment. The situation has not changed markedly since our The Spring Observer. However, a number of continuing mildly positive developments are noted:

- A falling unemployment rate (measured as the monthly standardised unemployment rate) from a high of 15.1% in February 2012 to 13.7% in May 2013.
- A small increase (1.1%) in total employment in the 12 months ending March 2013.
- An estimated real increase of 3.1% in Gross National Product in 2012 but with a small contraction in the second half of last year[2].
- A significant fall in the cost of borrowing as indicated by a yield of just over 4% on a Government 10-year bond in June 2013 compared to approximately 7% in June 2012[3].
- A modest fall in the General Government Balance (government deficit) as a percentage of GDP (whether measured as the 'headline' or 'underlying' rate).
- Positive signals, as of now, that Ireland will be able to fully re-enter the capital markets in 2014 following the end of the current Troika lending programme.

On the negative side, the following is noted:

- Continuing high levels of net outward migration (with an estimated 34,400[4] more people emigrating than immigrating in the year ending April 2012).
- A rising proportion of long-term unemployment at over 60% of the total (indicator 2.3 in Quarterly Economic Facts, Nevin Economic Research Institute, 2013a) with a strong impact on young people for whom rates of under-

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[1] Technically the economy of the Republic of Ireland is in recession because, over a period of two consecutive quarters in the latter half of 2012, estimates of both real GDP and GNP have been falling slightly.
[2] However, this increase is likely to be largely associated with an upsurge in re-domiciled companies (see FitzGerald, 2013).
[3] The improvement in market confidence is indicated by the success in raising €5 billion in new 10-year Government bonds at a yield of 4.15 per cent in March 2013.
[4] Refer to Table 7.1 in the Appendix.

employment and unemployment or disengagement from the labour force and training is a major concern.

- Continuing high levels of unemployment especially among those under the age of 25 where, in April 2013, the rate was 26.6%.
- Little or no increase in real GDP in the 12 months ending the final quarter of 2012.
- A downward trend in real average weekly earnings from employment since 2010 (Chart 2.3 below).
- Continuing decline in the volume of retail sales (down by 0.8% in the 3 months ending April 2013).
- No recovery in the total level of capital investment which is at a historical low of close to 10% of GDP.
- Contraction in the volume export of goods[5].
- Continuing falls in the overall level of lending to households (-1.7%) and non-financial businesses (-0.9%) in the first quarter of 2013.
- Continuing mortgage loan distress with the proportion of Private Dwelling House loans in arrears of more than 90 days rising to 12.3% at the end of March[6].

The long-term and unknown impact, post-2015, of strict fiscal disciplinary measures incorporated into legislation (through for example the Ministers and Secretaries Act, 2013) should be noted. This will enshrines a fiscal policy that places ceilings on the level of discretionary public expenditure and aims at a 'structural balance' in the medium-term.

Timely data are available for a number of key indicators of domestic economic activity and demand in the Republic of Ireland and presented in this Section as follows:

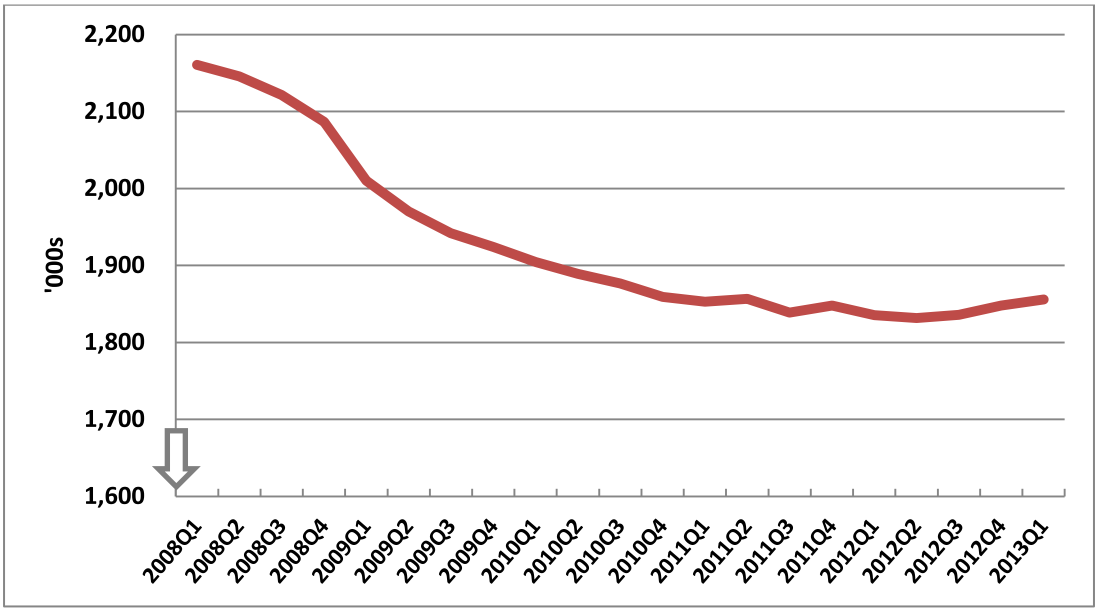
- Total employment (Chart 2.1);
- The volume of retail sales (Chart 2.2);
- Changes in real average weekly earnings from employment (Chart 2.3); and

[5] Although some of this decline is due to a change in the arrangements for patenting of pharmaceutical products.
[6] Central Bank of Ireland. Residential Mortgage Arrears and Repossessions Statistics: Q1 2013.

– Changes in the real value of total domestic demand (Chart 2.4).

These indicators point towards an economy that remains subdued after a contraction in the early phase of recession in 2008 and 2009. Real average earnings have trended downwards since the beginning of 2010. In the aggregate, and in line with the experience of other EU States, household savings as a proportion of personal income remains somewhat elevated indicating a continuing lack of consumer confidence as well as a process of de-leveraging.

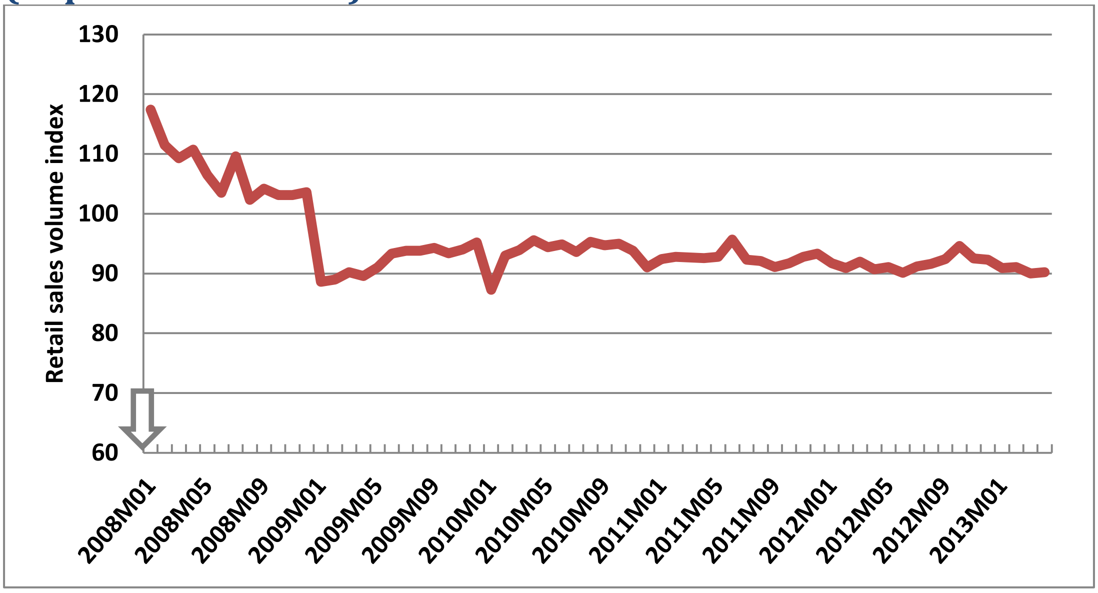
Chart 2.1 Quarterly Trends in Total Employment (Republic of Ireland)



Source: CSO Quarterly National Household Survey (reference code from CSO StatBank is QNQ03)

Note: Total employment seasonally adjusted.

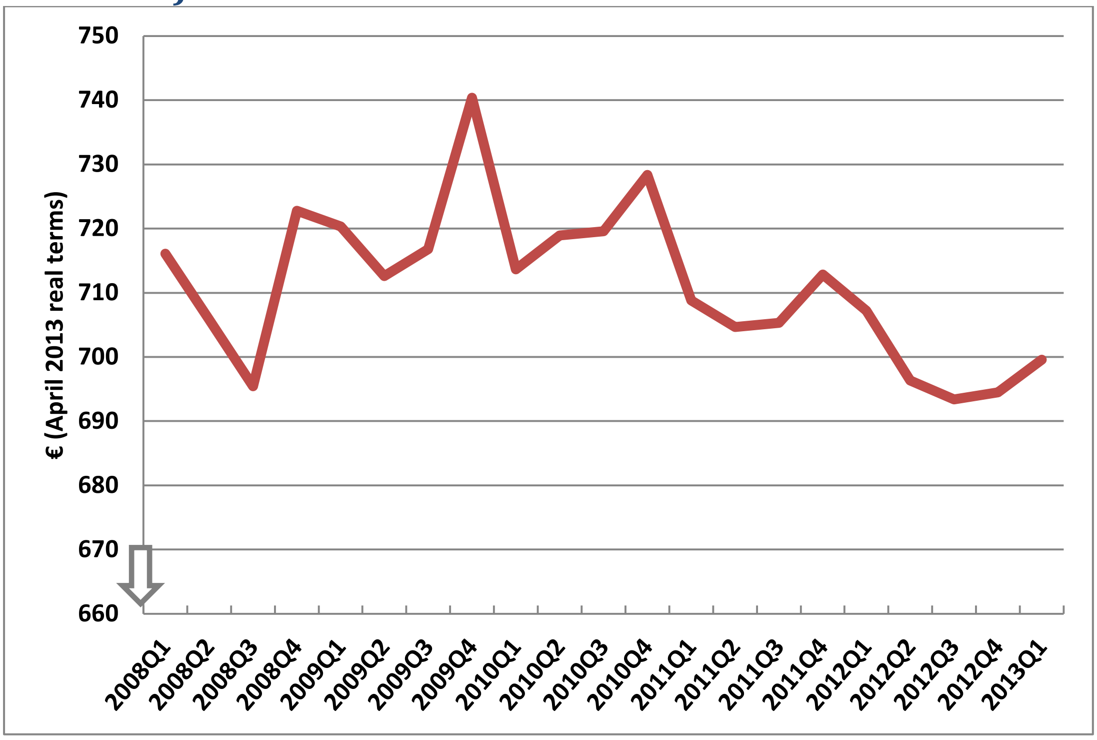
Chart 2.2 Monthly Trends in the Volume of Retail Sales (Republic of Ireland)



Source: CSO Retail Sales Index (StatBank code RSM03)

Note: Volume of retail sales (seasonally adjusted)

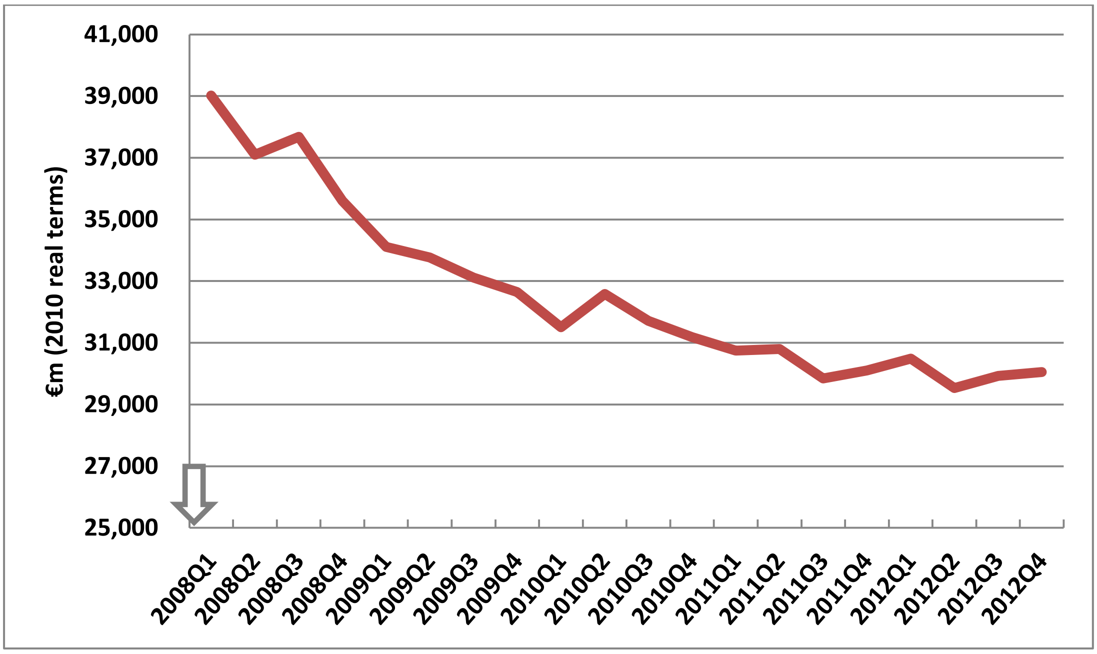
Chart 2.3 Changes in Real Average Weekly Earnings (Republic of Ireland)



Sources: Source: CSO survey on Earnings Hours and Employment Costs (EHQ08); CSO EU Harmonised Index of Consumer Prices (CPM05)

Note: Values expressed in April 2013 prices.

Chart 2.4 Trends in the real value of domestic demand (Republic of Ireland) (€m)

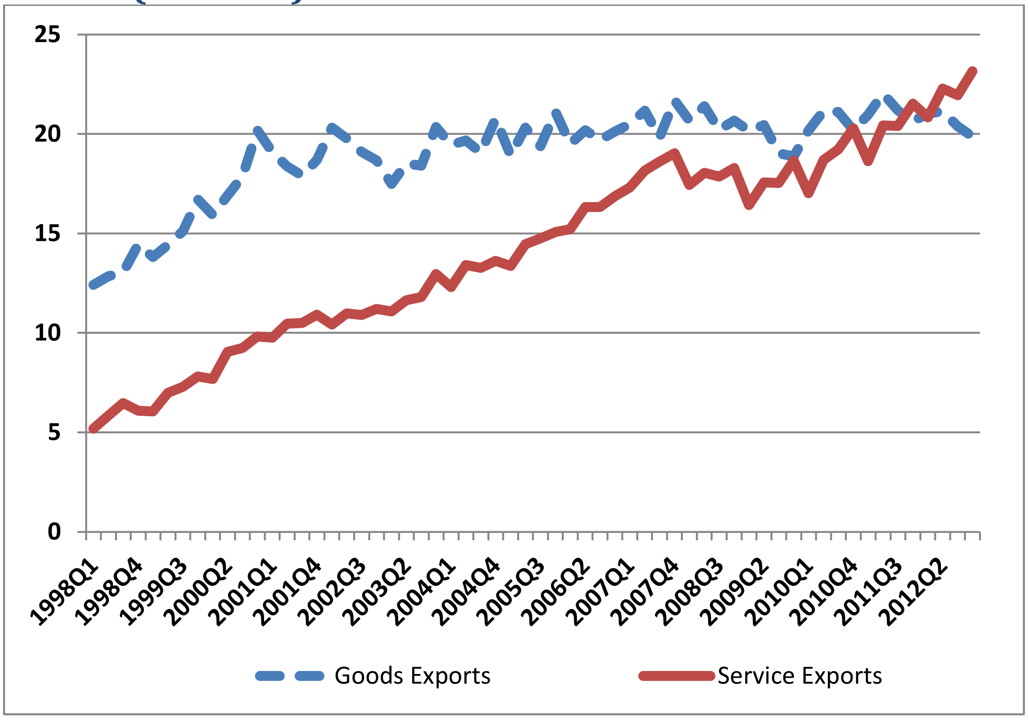


Source: CSO: Quarterly National Accounts.

Notes: Final Domestic Demand = Personal Consumption + Government Consumption + Investment. Domestic demand chiefly differs from Gross Domestic Product due to the size of net exports = exports – imports, and changes in values of physical stocks. All values have been adjusted for seasonal variation.

As noted above, a key major positive development in recent times has been the growth in service exports from Ireland. The continuing increase in service exports is part of a global trend, partly driven by improvements in information and communication technology.

Chart 2.5 Trends in the Volume of Exports – Republic of Ireland(€ billion)



Source: Central Statistics Office, Quarterly National Accounts.

2.3 Northern Ireland

The Northern Ireland economy remains in a similar position to that of the UK with sluggish growth in output and little change in employment or real earnings.

In a publication of the Northern Ireland Assembly All-Party Group and Community Relations Strategy[7] some elements of the NERI recommended Youth Guarantee (Nevin Economic Research Institute, 201b) may be implemented with a focus on 'United Youth' initiatives targeting 10,000 one-year placements at 46,000 young people not in education, employment or training (NEETs).

There has been some positive news on job announcements, including the financial, healthcare and the professional services sectors. American financial services company All State announced 650 jobs for Belfast over the next three years while consultancy firm Deloitte plan to create nearly 200 and Terumo BCT have announced 416 jobs. While these are welcome announcements, they are dwarfed by the scale of the jobs crisis. Northern Ireland lost over 45,000 jobs from the end of 2008 to the end of 2012; the vast majority of these jobs were lost in the retail and construction industry. Export activities by local, UK and foreign-owned companies will provide an important basis for recovery in the future. However, without any significant upturn in the domestic economy including sectors such as construction, it is difficult to see how employment growth will be adequate to the challenge of reducing unemployment.

The 'Economic Package' announcement by the UK Government in June 2013 is a positive development and may help to reverse the negative employment trends experienced in recent months. The package comprises an investment plan, enhanced capital borrowing powers and Government top-ups to EU peace initiatives and structural funding. It remains to be seen how this money will be allocated and what the overall net effect will be for Northern Ireland.

Earlier this year the Northern Ireland Statistics Research Agency (NISRA) released, on a trial basis, a new index referred to as the Northern Ireland Composite Economic Index (NICEI) which measures overall economic activity in Northern Ireland[8]. The

[7] http://www.northernireland.gov.uk/together-building-a-united-community.pdf
[8] In the absence of full national accounts data at a regional level, the Northern Ireland Composite Economic Index (NICEI) provides an overall measure of production. The NICEI is a

Index for Northern Ireland shows an increase of 0.4% in the last quarter of 2012 in contrast to a fall of 0.3% for the UK as a whole. Output in the UK, as measured by GDP, remains 2.6% below its peak in the first quarter of 2008, whereas economic activity in Northern Ireland, as measured by the Index, remains nearly 8.7% below the first quarter 2008. The Index reached its peak in the second quarter of 2007 and it remains nearly 11% below that level as of the last quarter of 2012. The Northern Ireland economy has significantly more ground to make up than the UK as a whole.

An overview of trends in the value of the Composite Index is shown in Chart 2.6 while a sectoral breakdown is provided in Chart 2.7. The construction sector has continued to contract very sharply while the production sector has shown signs of modest recovery following a sharp fall in 2008-2009. The services sector, including the public sector tracks the performance of the overall composite index. Chart 2.8 shows the breakdown of activity for the public and private sector. It shows that from 2002 until 2007/08 public sector activity increased moderately while the bulk of growth in the composite index was driven by a rapid expansion in the private sector. The private sector reached its peak in the second quarter of 2007, as did the composite index, while public sector reached its peak in the third quarter of 2009.

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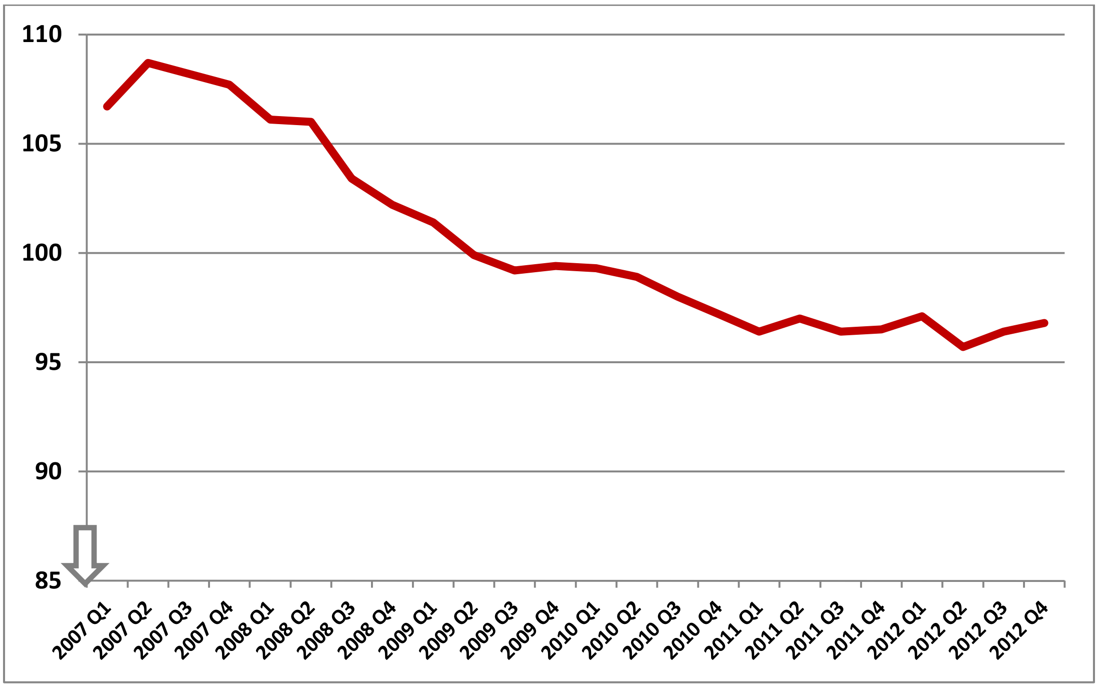
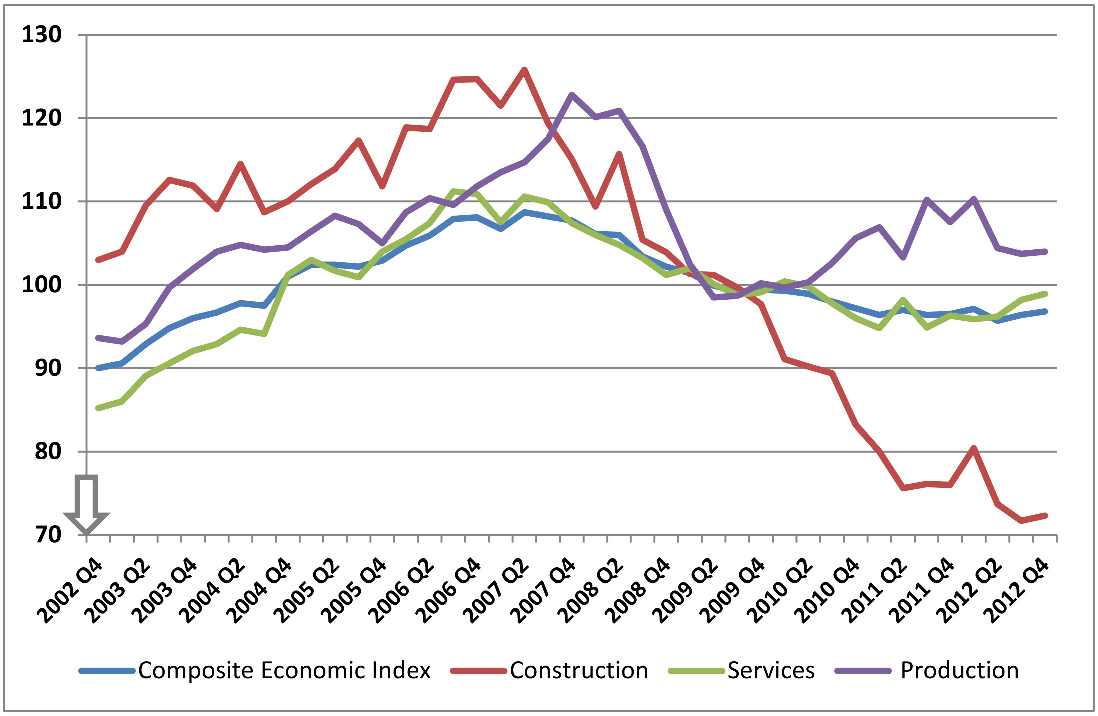
quarterly measure of output similar to the production approach to calculating National income and making use of survey data where gaps exist. A similar index was constructed for the UK using the same methodology, and this index tracked UK GDP almost exactly over the last number of years.

Chart 2.6 Trends in the Northern Ireland Composite Economic Index 2007-2012



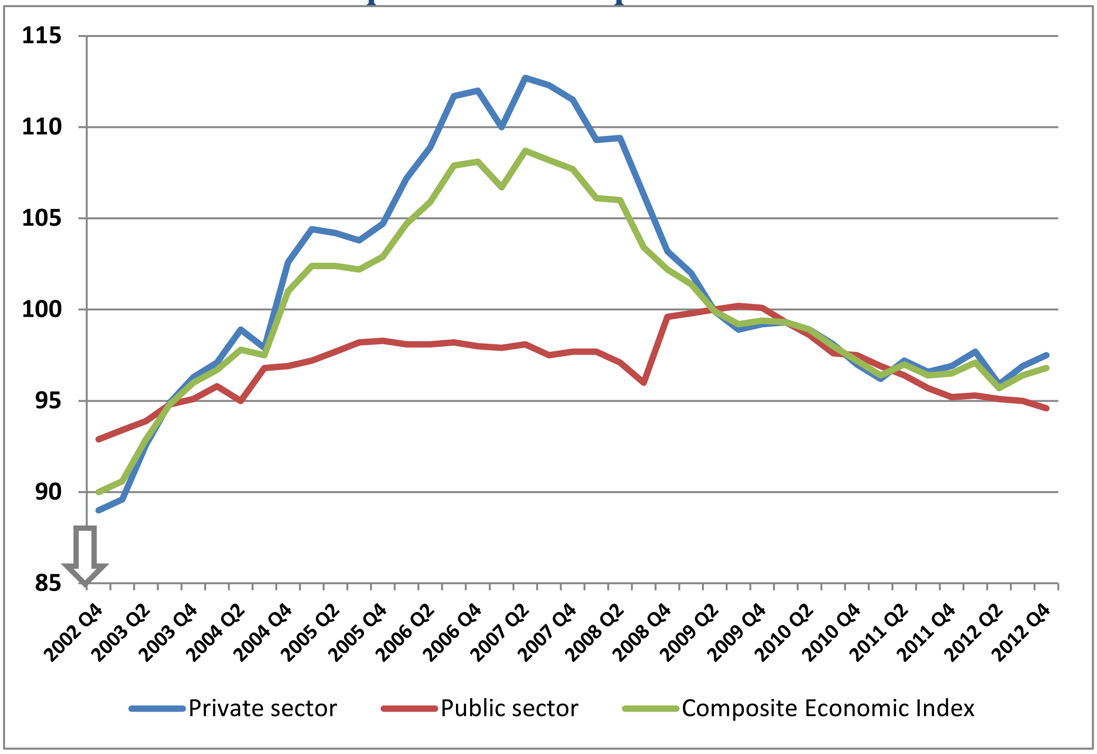
Source: Northern Ireland Statistics and Research Agency (2013)

Chart 2.7 Sectoral change in the Northern Ireland Composite Economic Index 2002-2012



Source: Northern Ireland Statistics and Research Agency (2013)

Chart 2.8 Public and private sector performance 2002-2012

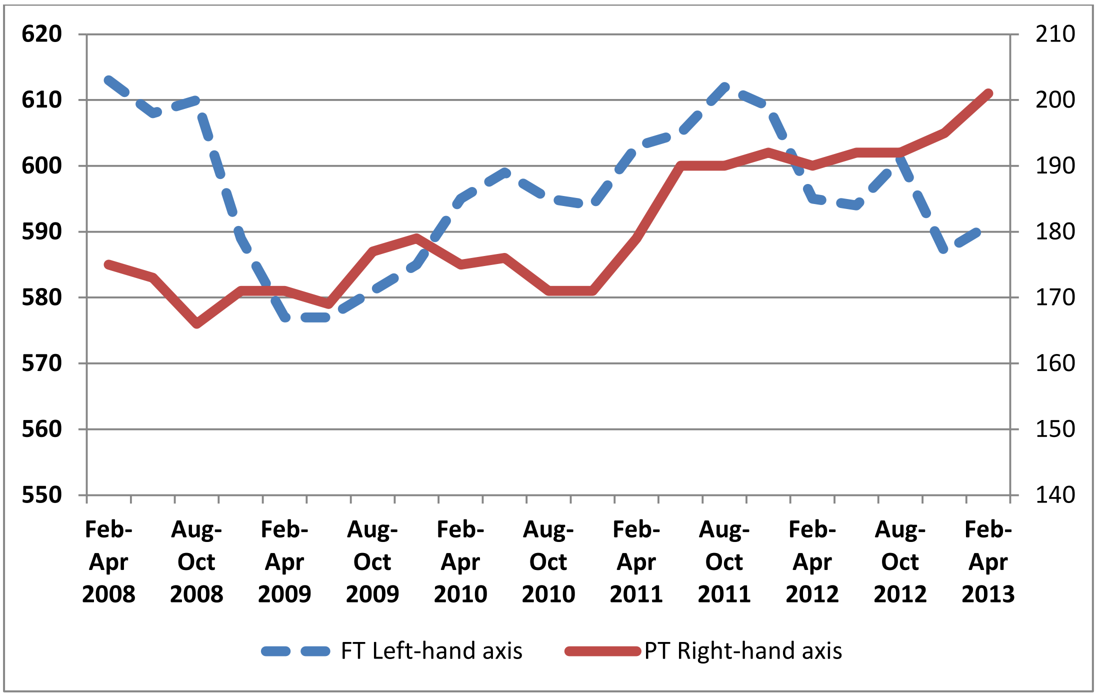


Source: Northern Ireland Statistics and Research Agency (2013)

The picture for the Northern Ireland Labour market for 2013 so far is mixed. The total rate of unemployment in the three months ending April 2013, at 7.8%, which represents a fall of 0.6 percentage points over the three months ending in January 2013. However the unemployment rate for the three months ending March 2013 was 8.1% and increase of 0.3% over the three months ending December 2012. Looking at either of these figures it is clear that unemployment in Northern Ireland is significantly lower than in the Republic of Ireland and is very similar to that for the UK. Employment in Northern Ireland has tended to fluctuate following the collapse in 2008. The experience has given rise to what has been referred to as 'productivity puzzle'. This topic is discussed in a recent NERI *Research inBrief* (Mac Flynn, 2013). The paradox features employment increases at a time of stagnant or low growth. However, figures for the first quarter both in Northern Ireland and the UK show that the increases in employment have abated, and small reductions in employment were reported for both. Although no trend has emerged, this may indicate that the labour market has reached the limits of its flexibility when faced with continuing stagnation in the economy.

As in the Republic of Ireland, part-time employment has been increasing significantly as full-time employment has not significantly recovered since early 2011. This may signal an increase in precarious employment as well as endemic under-employment (Chart 2.9).

Chart 2.9 Full- and Part-time employment 2008-2013



Source: NISRA (LFS Quarterly Supplement)

3 Future Economic Outlook

Little has changed since our last Quarterly Economic Observer to alter our generally pessimistic outlook in regards to economic developments over the immediate one or two years. This Section of the Observer provides an overview of macro-economic projections for both parts of the island of Ireland. In the case of the Republic we extend the projections period out to 2016 and include the main expenditure components of Gross Domestic Product while in the case of Northern Ireland we extend the projection of unemployment and employment to the end of 2014 building on an initial set of estimates for 2013 published in the last Observer. As in previous Observers, we contrast some of the main forecasts of other agencies in relation to output and employment. This Section is structured as follows:

- assumptions in regard to international developments;
- projections for the Republic of Ireland; and
- projections for Northern Ireland.

In the Republic, we expect a low growth rate of between 1 and 2% per annum for the coming two years. We do not expect any significant growth in total employment until 2016 at the earliest while unemployment is expected to remain at a very high level. While medium-term developments beyond 2015 are particularly difficult to foresee at this point, it is suggested that GDP could grow by approximately 3% in 2016 if international conditions are favourable. A combination of fiscal consolidation easing and take-up of under-utilised capacity could see a bounce-back in output after 2015.

The outlook for the Northern Ireland economy reflects, in the main, that of the UK as a whole with a relatively static level of projected employment and the likelihood of a further small increase in unemployment.

3.1 Macro-economic Assumptions for the Global Economy

As noted in Section 2, some of the main trading partners with the Irish economies have undergone a contraction in economic activity in late 2012 with signs of continuing recession in early 2013 in some of the larger European trading partners. The Department of Finance (2013) expects that GDP in Ireland's key trading partners (weighed by their share in Irish exports) will increase by 0.6% this year and 1.7% next year. In 2013 we expect import demand in the main trading partners for the Republic of Ireland to grow by 0.5% followed by faster growth in later years.

3.2 Macro-economic Projections for the Republic of Ireland

A summary of the NERI economic outlook to 2016 is provided in Table 3.1.

The projections of annual GDP growth in 2013 and in 2014 remain the same, at 1.0 and 1.2% respectively, as in the last Observer. The projected increase in 2015 is very slightly lower at 1.8% (compared to 2% in the last Observer) reflecting a slightly less benign international setting in the next two years. A tentative figure of 3.0% is indicated for 2016.

Gross Domestic Product

The two main components of total economic demand are net exports and domestic demand. The key expenditure components of GDP are:

Personal consumption where we expect a small contraction this year and stabilisation next year. Personal consumption remains subdued as households hold back on spending through decisions to save or because household budgets are heavily squeezed and there is little or no room to increase spending. Rising taxes and charges including the Local Property Tax and Water charges as well as cut-backs in the real value of social welfare payments and entitlements continues to weigh on personal consumption decisions.

Investment where we expect very little recovery in the overall level this year given continuing difficulties in accessing loans as well as continuing economic uncertainties. High levels of corporate debt impact on investment decisions of enterprises. A recovery in investment is projected from 2014 onwards at an annual rate of around 4% reflecting, among other factors, the impact of the recent Government investment stimulus.

Government consumption (government current spending other than social transfers which are counted under personal consumption) where we expect, in line with current policy intentions, continuing contraction more or less in line with Department of Finance projections in the most recent Stability Programme Update (Department of Finance, 2013). A stabilisation in the real value of government consumption is projected for 2016.

Exports where we expect a modest increase (compared to performance in 2010-2011) of around 2-3% per annum up to 2015 followed by faster growth in 2016.

Imports where growth is projected to remain subdued in 2013 reflecting depressed economic conditions this year followed by modest annual increases of around 2.5% per annum in the following three years.

Government Finances

Based on modest increases in the level of real GDP over the coming two years and on the assumption of Government fiscal consolidation decisions as re-confirmed in April 2013 and incorporating the impact of the Promissory Note deal in February 2013 we project a steady fall in the deficit to just under 4% of GDP in 2015. This projected outcome, which depends on a number of assumptions and variables, would be still above the target of 3% agreed between Government and the Troika. The level of total General Government Debt is projected to peak at just under 124% of GDP this year and to fall only very gradually in the following three years. It is assumed that the sale of Irish Banking Resolution Corporation (IBRC) assets through NAMA in 2013 and possibly 2014 will not add further to general government debt in the foreseeable future. It remains to be seen if this assumption will hold.

Labour Market

Employment growth remains anaemic with no significant upturn. A year-on-year increase of 20,000 to the first quarter of 2013 was due to an increase in part-time employment some of which is likely to be precarious in nature. However, employment performance has proved to be better than we had expected in the last Observer. Consequently we are raising our projection of total employment slightly for 2014 and 2015 to give increases, respectively, of 0.2 and 0.6% indicating a net job addition of approximately 15,000 jobs over the coming two years. No growth in employment is projected for this year[9].

By contrast, the Department of Finance projects a net increase of just over 50,000 jobs to the end of 2015. If this latter scenario were to be achieved total employment, at the end of 2015, would be approximately back to the level of the first quarter of 2010 but still 250,000 below the level of employment in the first quarter of 2008.

Unemployment, both as a percentage of the total labour force as well as in absolute level terms, has been falling since February 2012 as employment levels stabilised and net outward migration has absorbed the natural demographic increases in the labour force coupled with a reduction in labour force participation especially among those under the age of 25 (either through emigration or extension of education and training). Future labour market prospects in the UK and other traditional English-speaking destinations for Irish emigrants remain mixed with signs of buoyant demand for specialist or general, but high-level, skills and limited demand for low-skilled labour. Net outward migration is likely to continue to play a significant role in channelling excess labour supply abroad. In line with the most recent projections by the Central Statistics Office (2013a) of population and the labour force we project the following levels and changes in regards to the labour force for 2013-2016:

- Net outward migration of 23,000 per annum on average over 2013-2016 (scenario M3 in the latest CSO projections).
- Relatively stable rates of labour force participation over 2013-2015.
- A small decrease in the total labour force by 15,000 between its 2011 level and projected 2016 level (consistent with M3 net migration scenario).

Projected unemployment is shown as peaking, this year, at 14.4% of the workforce and declining gradually to 12.5% in 2016 as employment slowly picks up and net migration impacts on the labour market. These projected changes are highly sensitive to shifts in patterns of net migration (including inward migration which is still substantial) as well as labour force participation rates by males and females which may vary in response to shifting labour market and training policies. Compared to our previous projection in the last Observer, these latest projections of unemployment

[9] It is to be noted that the ESRI in its latest Quarterly Economic Commentary (Duffy and Timoney, 2013) project a net increase of 3,000 and 8,000 jobs, respectively, in 2013 and 2014.

represent a small improvement in the level of projected unemployment in 2013 and a more sizeable difference in 2014 and 2015 where rates of 15.1 and 15.0, respectively, had been indicated. The difference is explained by a combination of factors: higher employment projection in this Observer (15,000 net additional jobs to the end of 2015) as well as higher projected net migration.

Table 3.1 Projections of Output, Public Finances and Labour Market (Republic of Ireland) to 2016

	2012 Levels	2012	2013	2014	2015	2016
GDP	€ billion	*Percentage change over previous year*				
Gross Domestic Product	163.6	0.9	1.0	1.2	1.8	3.0
Private Consumption	77.9	-0.9	-0.4	0.0	0.9	1.7
Investment	16.4	0.9	0.8	4.1	4.1	4.1
Government Consumption	28.7	-3.4	-1.0	-2.0	-1.5	0.2
Exports	177.1	2.9	2.0	2.9	3.0	3.5
Imports	137.6	0.3	1.0	2.4	2.5	2.6
Government Finances		*Percentage of GDP*				
General Government Deficit		-7.6	-7.1	-5.1	-3.8	-3.2
Gross Debt	169.2	117.6	123.9	123.0	122.3	118.1
Labour Market		*Percentage change over previous year*				
Employment	1,837,800	-0.6	0.0	0.2	0.6	1.6
		Percentage of Labour Force				
Unemployment	316,000	14.7	14.4	14.0	13.3	12.5
		Percentage of GDP				
Wage share (adjusted)	50.6	50.6	50.2	49.4	48.4	47.9

Notes: 2012 data are taken from a number of sources: Eurostat National Accounts, Eurostat Labour Force Survey, CSO Government Financial Statistics, Department of Finance Stability Programme Update, and AMECO database
Data for 2013 and later years are projections made by the NERI. Eurostat definitions for expenditure are used.

NERI projections of changes in GDP are compared with those of other agencies in Table 3.2. Projections of GDP growth in 2013 vary between a low of 0.8% (Ernst and Young) and a high of 1.8% (ESRI). The NERI 2014 projection is at the lower end of the forecast spectrum at 1.2% within a range of 1.2-2.7%. Although the NERI projected growth in 2015 is lower than the four other projections included, the NERI projection for 2016 is among the highest reflecting our view that a moderation in fiscal austerity in 2016 could have a beneficial impact in that year.

Table 3.2 Overview of recent projections of change in real GDP (Republic of Ireland)

	2011	2012	2013	2014	2015	2016
Outcomes	**1.4**	**0.9**				
Projections						
NERI	-	0.3	1.0	1.2	1.8	3.0
Department of Finance	1.7	0.9	1.3	2.4	2.8	2.7
Central Bank	2.4	0.5	1.2	2.5	-	-
EU Commission	0.9	0.4	1.1	2.2	-	-
IMF	2.3	0.4	1.1	2.2	2.7	2.7
OECD	1.5	0.5	1.0	1.9	-	-
ESRI (QEC)	1.4	1.3	1.8	2.7	-	-
Ernst and Young	1.1	0.0	0.8	2.2	2.6	3.0
Investec (formerly NCB)	1.0	0.3	1.2	2.0	2.2	2.7

Sources: Department of Finance Stability Programme Update (April 2013) (Department of Finance, 2013); Central Bank: Quarterly Bulletin (April 2013); European Commission European Economic Forecast: Spring 2013 (May 2013); International Monetary Fund: World Economic Outlook (April, International Monetary Fund, 2013); OECD: Economic Outlook (May 2013); ESRI: Quarterly Economic Commentary (Spring 2013) (Duffy and Timoney 2013); Ernst and Young (2013); Investec: Irish Economy Monitor (May 2013).

Notes: Data sources for Outcomes: Central Statistics Office and Eurostat.
Previous forecasts for 2011-2012: Forecasts made at the end of the previous year (2010 and 2011, respectively, for 2011and 2012)
Current forecasts for 2013-2015 as of June 2013 or the most recent period.

NERI projections of changes in unemployment are compared with those of other agencies in Table 3.3. Projections of unemployment in 2013 vary between a low of 14.0% (Department of Finance) and a high of 14.5% (Central Bank). The 2013 NERI projection of unemployment lies mid-way in the range for this year having been lowered a little from 14.7% in our most recent Observer. We expect the rate to fall slowly over the next three years to reach 12.5% in 2016.

Table 3.3 Overview of recent projections of unemployment as % labour force (Republic of Ireland)

	2011	2012	2013	2014	2015	2016
Outcomes	**14.7**	**14.8**				
Projections						
NERI	-	14.9	14.4	14.0	13.3	12.5
Department of Finance	13.2	14.9	14.0	13.3	12.8	12.3
Central Bank	13.3	14.8	14.5	13.9	-	-
EU Commission	13.5	14.8	14.2	13.7	-	-
IMF	13.0	14.8	14.2	13.7	12.9	11.9
OECD	13.6	14.8	14.3	14.1	-	-
ESRI (QEC)	13.5	14.8	14.2	13.9	-	-
Ernst and Young	12.7	14.9	14.0	13.8	13.3	-
Investec (formerly NCB)	13.0	14.2	14.2	13.3	11.4	10.4

Sources: See table 3.2.

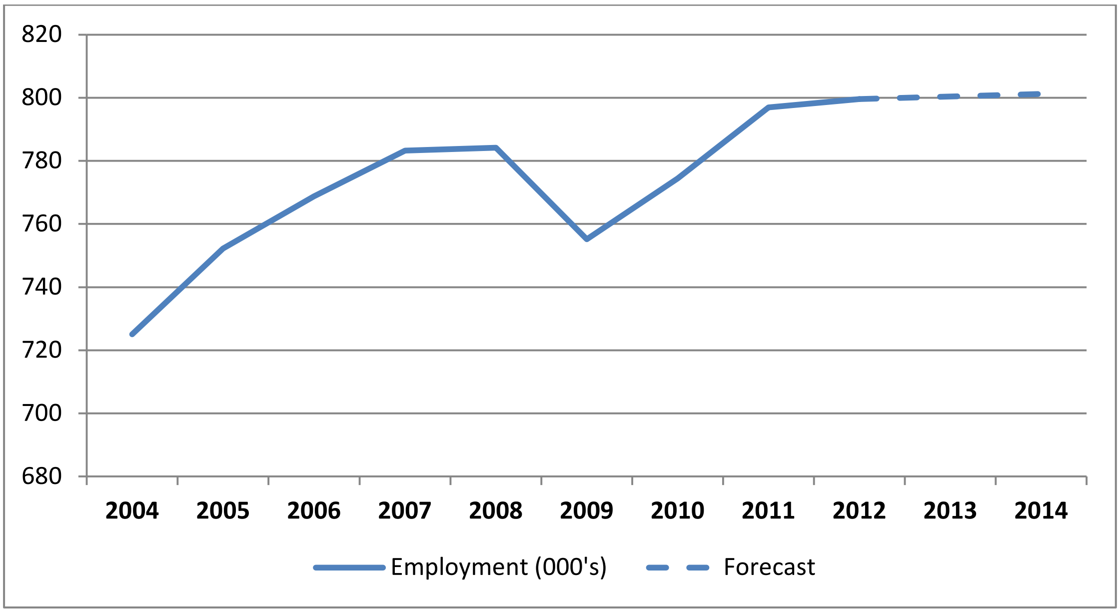
Notes: See table 3.2.

As with all macro-economic projections there is considerable uncertainty especially as analysts project out beyond the next 6-12 months. International political developments, reform of the European Union banking system, the price of energy, the main interest rates and the speed of economic recovery will play a strong and possibly determining role in the changes to GDP, employment, unemployment and, of necessity, public finances which depend closely on the state of the labour market and the economy more generally. For example, according to Department of Finance estimations (2013:30) an increase of 1% in the ECB policy interest rate could impact negatively by as much as 1.7 percentage point on GDP in 2016 or 1 percentage point on the government deficit/GDP ratio in 2015.

3.3 Macro-economic Projections for Northern Ireland

As a regional economy within a much larger national economy, Northern Ireland's economic future is very much tied to monetary, fiscal and trade conditions for the UK We expect employment to remain more or less static at a level of close to 800,000 in 2013 and 2014 with little or no change (Chart 3.1). We project output (NICEI) to contract by 1% this year (see table 3.4).

Chart 3.1 NERI projections of Employment for Northern Ireland in 2013 and 2014

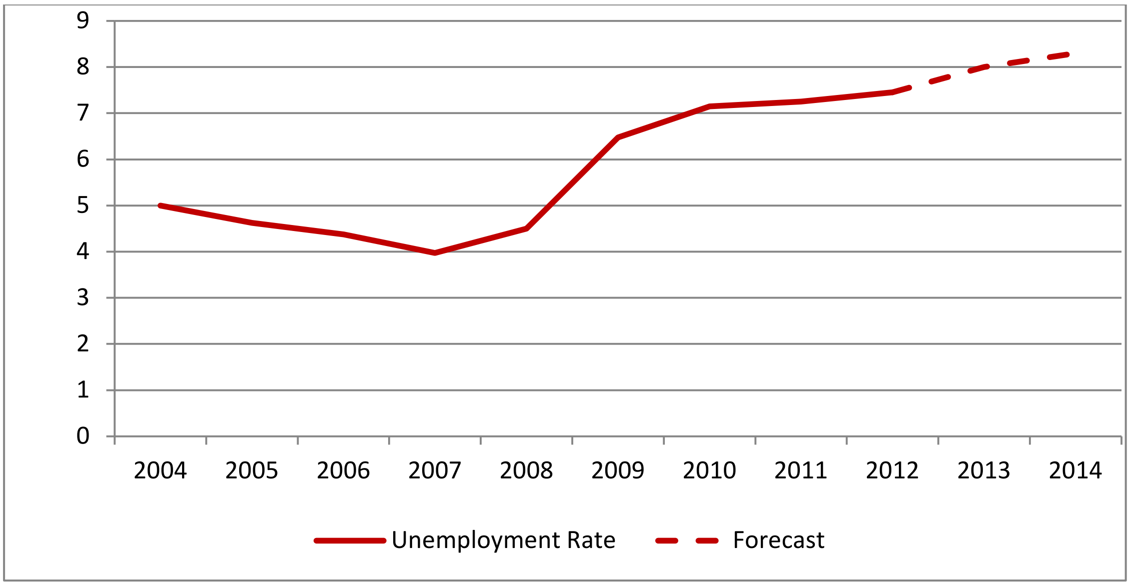


Using the latest population projections of the National Statistics and Research Agency (2011 and based on 2010 mid-year population estimates) we project total labour force and unemployment with given employment totals in 2013 and 2014 and assuming stable labour force participation rates for males and females. Our projection is for a further rise in unemployment to 8.1% this year and to 8.3% in 2014 (chart 3.2). These outcomes could be revised downwards if employment were to increase further[10]. We assume a slightly higher rate of net outward migration at the regional level than was assumed by NISRA for 2010-2015. The population projections and net migration

[10] Publication of Labour Force Survey estimates on 12th June indicates a fall in the rate of unemployment to 7.8% in the quarter February – April 2013 from 8.5% in November- January 2013 as well as an increase in total employment by 11,000 over the same period (Department of Finance and Personnel, 2013)

assumptions are both based on 2010, and net migration is assumed to be moderately positive until 2015. The actual outcome for net migration for 2010-11 has actually been substantially negative (see Appendix 7.2). Based on this trend and the short term prospects for economic recovery, we assume slightly higher emigration leading to lower unemployment particularly in 2014.

Chart 3.2 NERI projections of Unemployment for Northern Ireland in 2013 and 2014



In table 3.4 NERI projections of output, employment and unemployment for Northern Ireland are compared with those of other agencies. The projections are broadly similar except that we expect a small fall in overall activity, this year, as measured by the NICEI and a smaller growth in unemployment reflecting underlying assumptions on net migration.

Table 3.4 Overview of recent projections of Economic Activity and employment/unemployment (Northern Ireland)

	2011	2012	2013	2014	2015
Outcome (GVA)	0.0	-	-	-	-
Outcome (NICEI)	-1.8	-0.1	-	-	-
Outcome (Employment)	2.9	0.3	-	-	-
Outcome (Unemployment)	7.2	7.5	-	-	-
Economic Activity					
NERI (NICEI)	-	-	-1.0	-	-
Ernst & Young (GVA)	0.5	-0.8	0.2	1.7	2.2
PWC (GVA)	0.3	-0.3	0.4	-	-
Danske Bank (GVA)	-	-0.8	0.4	-	-
Employment					
NERI	-	-	0.1	0.1	-
Ernst & Young	-2.6	-1.7	-0.6	0.1	0.3
Unemployment % Labour Force					
NERI	-	-	8.1	8.3	-
Danske Bank	7.3	7.6	8.2	-	-
Ernst & Young	7.4	7.6	8.3	8.5	8.3

Sources: Ernst and Young: Economic Eye, Summer (2013); PWC: Economic Outlook March (2013); Danske Bank/Oxford Economics Economic Outlook (2013)

Note: Gross Value Added differs from GDP by the difference between taxes and government subsidies.

As with the Republic of Ireland the main risks to forecasts of future economic activity in Northern Ireland are likely to arise from external events which are difficult to assess in terms of likelihood. A change in UK fiscal policy or an easing of the terms for fiscal adjustment could have a significantly positive effect for the Northern Ireland economy as could an to recession in Europe at large. Alternatively, a tightening of fiscal policy in the Spending Round or a change in EU funding for Northern Ireland could have negative effects on future growth. Mortgage debt and difficulties in access to credit for small and medium-sized businesses continues to hamper economic growth in the region.

4 Options for a Growth-friendly Approach to Public Finances (Republic of Ireland)

Government is committed to reducing the General Government Balance (or deficit) to 3% of GDP by 2015. It plans two further 'austerity' budgets in 2014 and 2015 based on spending cuts and tax increases. This Section explores an alternative approach to reducing the Government deficit over time using an investment stimulus along with a tax-based fiscal consolidation aimed at high-income households and a smaller level of planned consolidation measures this year and next. We project a General Government deficit of 3% of GDP in 2015 on the basis of this alternative approach.

4.1 Recent Trends in the Government Deficit

The total government deficit in 2013 is projected by the Department of Finance to stand at €12.6 billion (or 7.5% of GDP in 2013). Of this, a projected €8.3 billion (4.9% of GDP in 2013) represents payments of interest on the total amount of Government debt. The remaining €4.3 billion (or 2.7% of GDP) is referred to as the 'Primary General Government Balance' (the difference between total spending and total revenue when interest payments are not included on the spending side). The Government projects that the total deficit inclusive of interest payments will decline to €7.7 billion (or 4.4% of GDP) in 2014 leaving a small 'primary surplus' of €800 million in that year. It is open to question whether this target will be achieved on the basis of current policies and uncertainties globally as well as domestically[11].

The total 'headline'[12] deficit has fallen from 13.9% of GDP in 2009 to an estimated 7.5% in 2013. However, when 'like with like' is compared the fall in the underlying deficit is less. This is because of the existence of large injections of capital into the banks by Government as well as the emergence of temporary revenue flows resulting from the 2008 Bank Guarantee and payment of levies by the banks covered by this scheme. If a correction is made for these transfers or flows using the latest published

[11] It should also be emphasised that the 'primary' balance is not the main subject of fiscal targets in terms of compliance with EU Treaties and oversight. Italy is running a primary surplus and is projected to continue in a primary surplus up to 2018 according to IMF figures.
[12] The headline deficit is the gap between revenue and expenditure before adjustment for bank-related expenditures and revenues which impact on the deficit as reported to Eurostat.

CSO data (Central Statistics Office, 2013b), the estimated 'underlying deficit' is calculated to have fallen from 11.5% in 2009 to 8.6% in 2012.

Table 4.1 Trends in various parts of Government deficit as % GDP

		2007	2008	2009	2010	2011	2012	2013
A	Total 'Headline' Deficit	0.1	-7.4	-13.9	-30.9	-13.3	-7.6	-7.5
B	*Of which payments of interest on debt*	-1.0	-1.3	-2.0	-3.2	-3.2	-3.7	-4.9
C	Primary 'headline' deficit (A-B)	+1.1	-6.0	-11.8	-27.7	-9.9	-3.9	-2.6
D	'Underlying' deficit (excluding banking)	0.1	-7.4	-11.5	-10.7	-9.6	-8.6	-6.9

Sources: Central Statistics Office (2013b) and Department of Finance (2013)

Note: The underlying deficit is calculated by subtracting from the headline deficit the value of capital transfers plus imputed interest on bank debt and adding to the headline figure receipts include bank levies associated with the bank guarantee scheme as well as dividends, interest and fees.

The bank debt deal announced on 7th February 2013 involving a re-structuring of the Anglo-Irish/INBS Promissory Notes and the creation of long-term Government bonds provides a significant opportunity in terms of potential for fiscal adjustment and policies to generate additional investment and employment.

4.2 The Current Fiscal Plan

Table 4.2 summarises planned 'consolidation' measures in 2014 and 2015 as confirmed in the most recent Stability Programme Update (Department of Finance, 2013). These correspond to 'effort' and not outcomes. So, for example, a planned 'effort' of €1.9 billion in current spending cuts in 2014 will not necessarily reduce the actual final outcome spending amount in 2014. The actual outcome will depend on a variety of factors such as the numbers unemployed, the numbers seeking school places, the numbers departing from the public service etc. While the Department of Finance projects a deficit of -2.2%[13] of GDP in 2015 (based on a 'technical' assumption that the gains from the Promissory Note deal are allocated to debt reduction) NERI modelling of the planned fiscal consolidation projects a higher deficit at around – 3.8% in 2015.

[13] Government deficit figures are sometimes presented with a negative sign to indicate an excess of expenditure over revenue.

Table 4.2 Planned fiscal consolidation effort in 2014-2015 € billion – Department of Finance

	2014	2015
Current	1.90	1.30
Capital	0.10	0.00
Total Expenditure	**2.00**	**1.30**
Total Revenue *(including both new and 'carry-over' measures)*	**1.10**	**0.70**
Overall Total	**3.10**	**2.00**
Department of Finance projected deficit	*-4.4*	*-2.2*
NERI projected deficit:	*-5.1*	*-3.8*

Sources: Department of Finance, 2013 and NERI projections.

The NERI projected deficit in 2015 based on current policies is somewhat higher than that provided by the Department of Finance even when the Department of Finance projections of GDP growth are used along with a relatively benign international economic recovery. The difference in projected deficit is due to different measurements of the impact of unemployment and stagnant domestic demand.

Under current Government plans, it is projected by the Department of Finance that the level of public spending will fall from 42.5% of GDP in 2013 to 36.5% in 2016 while Government Revenue is set to remain at its current estimated level of 35% of GDP (Table 4.3 below). The plan is to reduce public spending significantly as a proportion of GDP. GDP is projected by the Department to grow by 2-3% per annum from 2014 onwards. 'Primary' expenditure (the total less interest payments) is set to decline from 37.6% in 2013 to 31.7% in 2016 while total revenue remains at its current level as a percentage of GDP. If this were to happen it would represent a very sharp further contraction in the proportion of GDP allocated to public services such as education, health and income support as well as public investment in infrastructure. Significant reductions, as a proportion of projected GDP, in total spending are indicated for 'staff compensation' and 'social transfers' as well as 'other current spending'. These outcomes, if achieved, will represent a very significant contraction in the size of Government in overall economic activity by recent economic experience as well as by international and European comparison. This continues to be a domestic political choice.

Table 4.3 Projected general government revenue and expenditure % GDP – Department of Finance

		2013	2014	2015	2016
A	Total Expenditure	42.5	39.6	37.5	36.5
B	Total Revenue	35.0	35.2	35.3	34.8
C=A-B	Borrowing (Government Deficit)	-7.5	-4.4	-2.2	-1.7
D	Interest on debt (included in total expenditure above)	4.9	4.9	4.9	4.8
A-D	Primary Expenditure (expenditure less interest payments)	37.6	34.7	32.6	31.7
	Components of primary expenditure				
	Staff compensation	11.2	10.2	9.2	8.9
	Social transfers	16.8	16.0	15.1	14.6
	Other current spending	7.5	6.6	6.3	6.1
	Public capital spending	1.9	1.8	1.7	1.7

Source: Irish Stability Programme Update. Page 50. Table A1 (Department of Finance, 2013).

Using data supplied by the IMF in its most recent World Economic Outlook, the projected ‘primary’ expenditure for public services in Ireland is set to decline by such an amount that it will leave Ireland with the second lowest level of ‘primary’ public spending of 26 European Member States for which data were available up to 2018 (Table 4.4). In addition, the fall in ‘primary’ spending from the IMF estimated level of 37.3% in 2013 to 30.6% (6.7 percentage points) is the second highest fall in ‘primary’ spending of any EU Member State over the period 2013-2018.

Table 4.4 Projected general government revenue and expenditure % GDP across European Union (2013-2018)

		2013	2014	2015	2016	2017	2018
Ireland							
A	Total ‘Primary’ Expenditure	37.3	34.5	32.3	31.6	30.9	30.6
B	Total Revenue	34.0	34.4	34.3	34.2	34.0	34.1
EU 26 (average)*							
A	Total ‘Primary’ Expenditure	43.8	44.1	43.2	42.5	41.9	41.6
B	Total Revenue	42.4	42.9	42.8	42.6	42.5	42.4

Source: World Economic Outlook (WEO). (International Monetary Fund, 2013). IMF WEO does not show ‘primary’ spending directly. Interest payments were first calculated, for each country, as the difference between the total government deficit and the ‘primary deficit’. ‘Primary’ Expenditure was calculated by subtracting interest payments from total Government spending.

Note: * Data were available for only 26 of the 27 EU Member States. Data shown in the above table, for Ireland, do not exactly match those in table 4.3 due to different assumptions and estimates used by the IMF and the Department of Finance.

4.3 An Alternative Approach

Ireland is likely to exit the current Troika 'bailout' funding arrangement in 2014. Part of this process involves a planned, negotiated and timely reduction in the Government deficit from its current level of over 7% of GDP to 3% within an agreed timeframe. The scale, timing and composition of fiscal adjustment are important. In a global context there is an acknowledgement that fiscal austerity has been damaging in many countries and contexts. Staff of the International Monetary Fund have pointed out:

> *The large fiscal legacies of the global financial crisis have reignited the debate around the impact of fiscal policy onto economic activity during fiscal consolidations. The analysis in this paper shows that withdrawing fiscal stimuli too quickly in economies where output is already contracting can prolong their recessions without generating the expected fiscal saving. This is particularly true if the consolidation is centred around cuts to public expenditure—likely reflecting the fact that reductions in public spending have powerful effects on the consumption of financially-constrained agents in the economy—and if the size of the consolidation is large. Large consolidations make recessions more likely even when made at an expansion time.*
>
> *From a policy perspective this is especially relevant for periods of positive, though low growth. Accordingly, frontloading consolidations during a recession seems to aggravate the costs of fiscal adjustment in terms of output loss, while it seems to greatly delay the reduction in the debt-to-GDP ratio—which, in turn, can exacerbate market sentiment in a sovereign at times of low confidence, defying fiscal austerity efforts altogether. Again this is even truer in the case of consolidations based prominently on cuts to public spending. (Batini, Callegari and Melina, 2012)*

'Fiscal Consolidation' may refer to two policy wings: (i) measures to stimulate economic activity and thereby boost revenues to Government and reduce social transfer spending as income and employment increase, or (ii) measures to apply policy 'effort' to cut public spending or raise revenue by means of measures to change rates of payment, eligibility or rules for allocation of resources. These two approaches are not mutually exclusive. An approach that relies exclusively on 'fiscal effort' under the second wing risks miring the economy in a slow and disruptive recovery if not a continuing depression as is evident in a number of European Member States.

Under the second policy wing the 'outcome' will differ from 'effort' to the extent that any given change may be counter-balanced by other changes including semi-automatic changes in Government spending or revenue flows. So, for example, a reduction in eligibility for a particular payment scheme might be counter-balanced by an increased demand for that scheme as a result of changed economic circumstances. Another example would be where an increase in tax rates is counter-balanced by a fall in tax yield due to lower income or spending in the economy.

Economic history, including the experience of the Irish recession of the 1980s, suggests that the fastest and most sustainable way to reduce the Government deficit is through policies that promote growth and employment creation. Measures to cut current public spending and raise taxes can help to reduce the deficit. However, the actual impact will vary depending on the set of measures adopted. Research undertaken by the Nevin Economic Research Institute indicates very different outcomes for different measures (Healy and O'Farrell, 2012). Cuts in most areas of public spending seem to be less effective than increases in taxation. In a review of various macro-economic models used by organisations such as the IMF and EU, Coenen et al. (2012) found that the models reviewed by them show a somewhat greater negative effect from raising taxes than cutting spending.

The following provide estimates of the net impact on the Government deficit in the first full year following implementation of various fiscal measures[14]:

- a cut of €1 billion in the public sector pay bill is likely to reduce the deficit by an estimated €330 million (or somewhat less if the cut is targeted on incomes over €65,000 per annum);
- a cut of €1 billion in 'social transfers' (of which social welfare payments are a part) is likely to reduce the deficit by approximately €550 million in a full-year; and
- a cut of €1 billion in public capital investment is likely to reduce the deficit by approximately €430 million in a full-year.

On the Government Revenue side the following net impacts have been estimated:

- an increase of €1 billion in income tax is likely to reduce the deficit by approximately €540 million;
- an increase of €1 billion in indirect taxes (VAT and excise duties) is likely to reduce the deficit by approximately €930 million in a full-year;

[14] Estimates are based on macro-economic modelling carried out by NERI. See Healy and O'Farrell (2012).

– an increase of €1 billion in capital taxes including capital acquisition taxes (but not capital gains) is likely to reduce the deficit by just over €1 billion in a full-year.

All of the above estimates are conditional on circumstances and are subject to variation in underlying conditions. By contrast, work by Bergin et al. (2010) provides somewhat different estimates. However, their research confirms that the impact of most revenue measures exceeds that of expenditure measures suggesting that raising taxes – especially those relating to property – provides a more effective way of reducing the government deficit than cutting public spending.

Were the Government to take a different approach that involved the following six components it could reach a significantly lower deficit in 2015:

I. Preservation of the real level of 'primary' public spending albeit with some decline as a proportion of GDP to 33% of GDP in 2015 (still leaving Ireland with the second lowest proportion of 'primary' spending out of 27 EU Member States[15]).
II. Improvements in the efficiency and delivery of public services for any given revenue outlay.
III. A targeting of tax measures on high-income/high net wealth households to raise, gradually, the proportion of total government revenue in total GDP.
IV. Allocation to a smaller fiscal consolidation in 2014 and 2015 of the net savings of €1 billion in recorded interest payments arising from the Promissory Note agreement of February 2013.
V. A smart, front-loaded investment stimulus funded 'off balance sheet' drawing on public, private and European investment sources.A smaller fiscal consolidation in 2014 and in 2015 than is currently signalled by Government.

I Preservation of existing levels of 'primary spending'

It is useful to focus on 'primary' public spending as distinct from total public spending as the latter include the cost of servicing government debt and is not amenable to discretionary change except through negotiated settlements such as happened in February 2013 on the Promissory Note issue. On the assumption that the Government will proceed to extract an additional €1 billion from the public sector pay-bill in 'fiscal effort' by 2015 it is important that the quality and volume of public services on the non-pay side should not be further eroded through further discretionary expenditure cuts in 2014 and 2015. Non-pay areas include social transfers (mainly social welfare

[15] Based on IMF data from the World Economic Outlook, April 2013.

but also other transfers to households such as student maintenance support), 'non-wage consumption' (for example purchase of materials from the private sector) and capital investment (expenditure on equipment, buildings and maintenance). The Government is currently committed to making further reductions in 'primary' spending from its projected level of 37.3% of GDP in 2013 to 34.5% in 2014. The discretionary cuts to the public sector pay bill in 2014 and in 2015 are incorporated into these figures with a projected fall in the projected outcome of 1% of GDP (from 11.2 to 10.2% in 2014 according to the latest Department of Finance projections). As an approximation for planned non-pay spending cuts (other than interest payments which are not counted in 'primary' spending) an indicative figure of 1.8% may be assumed for projected outcomes in terms of actual spending (as distinct from 'effort'). It is questionable if it is possible to provide adequate public services in 2014 and beyond unless the current level of 'primary' spending is stabilised and, gradually, increased over time.

II Improvements in the efficiency of public services for any given revenue outlay

Areas of waste, duplication and under-performance in the public sector need to be addressed. Public procurement (such as in the area of medicine) needs to be constantly reviewed. Where economies and efficiencies obtain the money saved should be re-directed to improving critical areas of public service delivery that have suffered both as a result of cuts in recent years as well as chronic under-funding even prior to 2008. Areas for priority funding could include some of the following non-exhaustive list:

- early childhood education, care and regulation;
- mental health services for the population including teenagers and young adults;
- guaranteed quality training, education and work experience for young people in transition from full-time education to employment; and
- Provision of quality primary health care in the community for young and old.

III Targeting of tax measures on high-income/high net wealth households

The total revenue received by General Government is estimated to be 35.2% of GDP in 2013 and is projected, under current policies, to decline slightly as a proportion of GDP in 2015 and in 2016. This is remarkable considering (i) the large remaining gap between public spending and revenue, (ii) the evidence that revenue measure have a bigger impact on government deficit reduction than spending measures and (iii) the exceptionally low level of revenue as a proportion of GDP in Ireland compared to other European countries. Ireland cannot continue to provide adequate public services and income support without addressing the level, composition and incidence of taxation. Reform and widening of the tax base is a crucial part of a medium-term fiscal strategy which needs to commence now. Some reforms and progress have taken place in recent years but there is still some distance to go. There is a strong case, in social justice, to begin tax reform 'at the top' by addressing the unacceptably low level of 'effective' tax paid by many high-income households. Table 4.5, below, provides a summary of proposed discretionary taxation measures which could be brought in 2014 and 2015 as an alternative to cuts in current spending on non-pay front line services and social transfers to households. The details of these measures are outlined in sub-section 4.4 below.

Table 4.5 Proposed additional tax measure in Budgets 2014 and 2015 (€ billion)

	2014	2015
Revenue 'carry-over' from previous year's budget	600	100
Changes to income tax reliefs (e.g. pensions)	400	200
Wealth tax	150	150
Employer Pay-related Social Insurance	100	100
Corporation Tax	250	100
Capital Gains Tax	100	-
Capital Acquisition Tax	50	50
TOTALS	**1,650**	**700**

IV Allocate €1 billion from 'Promissory Note' deal to fiscal easing

It is estimated that the total reduction in the cost of interest payments on General Government Debt will be in the region of €1 billion in 2014 with little or no impact in 2013 due to the costs associated with the winding up of IBRC. The cost of liquidating IBRC in 2013 is likely to negate the entire benefit arising from lower interest payments in 2013 leaving the General Government Balance (government deficit as measured by Eurostat) close to 7.5% of GDP. The target as presented by the Department of Finance in late 2012 was to reach a General Government Balance (GGB) of 5.0% by 2014 and 2.9% by 2014 and 2015 respectively. However, in its most recent Stability Programme

Update (Department of Finance, 2013) these targets have been revised to 4.4 and 2.2% of GDP, respectively, in 2014 and 2015.

V A smart, front-loaded investment stimulus funded 'off balance sheet'

The case for an investment stimulus has been outlined in Irish Congress of Trade Unions (2012), Nevin Economic Research Institute (2012a) and Duggan (2013) among others. Ireland is at a serious competitive risk if present historically low levels of investment persist over the remainder of this decade as is projected the International Monetary Fund. An investment stimulus would:

- address some of the key *long-term* areas of economic and social infrastructural deficit including provision of adequate facilities for early childhood care, insulation of buildings, generation of new forms of energy, upgrading of broadband infrastructure and provision of improved transport, health and education facilities;
- generate significant, *short-term* output, employment and revenue buoyancy effects (O'Farrell, 2012).

An initial boost of €1.5 billion in extra investment in 2014 as part of the announced Government investment stimulus of €2.5 billion over 8 years would help. It is not clear how much additional investment was factored into the Department of Finance projections of the public finances for 2014. However, assuming that some of the investment is front loaded into 2014 it is assumed, for the purposes of this paper, that €1.5 billion is additional to what was planned by Government. It is vital that this investment is carefully selected on the basis of a complete cost-benefit analysis, prioritised, planned and funded through the appropriate means. This will take time and, in any case, might entail a lead-in period of 12 months or more depending on the stage of development in terms of funding, planning approval etc. at which any particular proposal is at. An immediate start could be made in regards to particular projects of high social benefit and which are close to 'ready-to-go' in terms of planning permission, funding and assessed need.

An 'off-the-books' investment stimulus corresponds to an additional investment in the economy financed and operated in such a manner as not to add to the Government deficit according to Eurostat rules and in keeping with the Excessive Deficit Procedure used to monitor the government deficit in EU States. Such a stimulus could be financed in a number of ways (see Nevin Economic Research Institute, 2012a). The option of using some limited portion of exchequer cash balances could be considered given the large amount held in such balances at this time. A portion of cash balances represents the proceeds of the sale of Bank of Ireland and Irish Life equities or bonds and should be used to compensate the run-down of the National Pension Reserve Fund in 2009-2010 as a result of bank bailouts. This money has not been 'pre-borrowed' and could be used to finance a commercial infrastructural project as a part of a stimulus.

If an investment boost of €1.5 billion were put in place in 2014 over and above what has been assumed by the Department of Finance for 2014 it could have a significant economic impact creating 25,000 jobs in the first year and raising GDP growth from 1.2% to 2.7% in 2014 (refer to O'Farrell, 2012). These outcomes are not inconsistent with similar findings of Bradley and Untiedt (2012) under the assumption of off-balance sheet borrowing and no additional taxes to finance the stimulus.

VI A smaller fiscal consolidation in 2014 and in 2015

The current plan to undertake a fiscal consolidation of €3.1 billion and €2 billion in 2014 and 2015, respectively, has been outlined in Table 4.2 above. Since there is some significant, but limited, space arising from the Promissory Note deal and since an investment stimulus in 2014 would boost economic activity and revenue a smaller fiscal consolidation is possible within the overall budgetary deficit target of -3.0% of GDP in 2015. A different fiscal consolidation which incorporates the Government's planned discretionary reduction in the public sector pay-bill along with no further cuts in other areas of 'primary spending' is possible.

Table 4.6 provides an alternative fiscal consolidation comprising two elements:

- Off-the-books investment stimulus; and
- A tax-based fiscal consolidation aimed at the highest earning households as well as a modest contribution from the corporate sector.

A more growth-friendly consolidation would raise levels of employment and output more than under the current planned consolidation in 2014 and 2015.

Table 4.6 An alternative fiscal consolidation effort in 2014-2015 € billion combined with a €4.5 bn investment stimulus

	2014	2015
Current	0.35	0.30
Capital	0.00	0.00
Total Expenditure	**0.35**	**0.30**
Total Revenue*	**1.65**	**0.70**
Overall Total	**2.00**	**1.00**
NERI projected Government deficit	*-4.8*	*-3.0*

Notes: * including revenue carry-over effects.

4.4 Examples of Tax Measures

Eurostat (2013:96) has stated that:

> *At 28.9 % in 2011, the total tax-to-GDP ratio in Ireland is the sixth lowest in the Union and the second lowest in the euro area.*[16]

The overall level of taxation plus other revenue sources to Government came to 35% of GDP in Ireland in 2012. Gross Domestic Product (GDP) includes the taxable income of multinational corporations resident here who repatriate some of their profits to other countries (thus availing of favourable corporate tax conditions in Ireland). Even if all of this net revenue flow were to be excluded and revenue expressed as a proportion of Gross National Income the proportion would come to 43% of total income. A hybrid measure has been estimated by the Irish Fiscal Advisory Council in 2012. The estimate lies between GDP and GNI (but is closer to GNI). There is a case for considering GDP as the definitive measure because all of GDP is taxable and the choice of effective tax rates is a domestic political one. However, it is necessary to accept that GDP might not be as high as it currently is had Ireland followed a radically different taxation regime in recent decades (at least some of GDP as currently reported is composed of the income and profits of corporations who have chosen to book their profits in this jurisdiction). The proliferation in service exports involving cross-border management of intellectual

[16] The EU27 unweighted average was 35.7% in 2011.

property transfers and the establishment of holding companies in certain jurisdictions complicates comparisons based on GDP[17].

Data published by Eurostat indicate a low 'implicit tax rate' on labour in Ireland in 2011 (Eurostat, 2013). Implicit Tax Rates provide a measure of the effective average tax burden on different types of economic income or activities. In each case, the Rate expresses aggregate tax revenues as a percentage of the potential tax base. The Implicit Tax rate on consumption, in the case of Ireland, is not much out of line with the rest of the EU. However, the implicit tax rate on labour is lower and the reason for this is mainly due to lower employer social contributions. For Ireland the implicit rate, in 2011, was 28.0% compared to an EU27 (unweighted) average of 33.7%. Unfortunately, data were not available on the implicit tax rate on capital in 2013. However, in previous reports by Eurostat it emerges that the implicit tax rate on capital in Ireland was considerably lower than that in other countries. TASC (2012:24) cites 14.0% for the implicit tax rate on capital in Ireland compared to 27.4% for the EU17 (weighted).

Rates of taxation on consumption and energy seem to be broadly in line with elsewhere in Europe in the 2013 Eurostat report. Aside from implicit tax rates the level of Corporate Income Tax as a percentage of GDP was 2.4% in Ireland and is similar to the EU average. The lower effective rate of tax on corporates, here, is combined with a higher volume of corporate taxes as a percentage of GDP. Further details on how additional taxes could be raised are outlined in Collins (2013 forthcoming). Table 6 provides an overview of possible additional taxes over a two year period under various headings.

Income taxes

Taxation of income has increased very significantly since 2008 as a result of various measures including increases in employee Pay-Related Social Insurance, withdrawal or scaling back of various tax reliefs and the introduction of the Universal Social Charge. However, Ireland stands out from other European countries in at least two important respects:

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[17] The use of GNI (or GNP) which is very similar in magnitude) is also problematic due to the rise in domiciled companies with limited trading in the local economy in Ireland in recent years (FitzGerald, 2013).

- Employer social security contribution are relatively low at 3.5% of GDP in 2011 compared to an EU27 unweighted average of 6.4% (Eurostat, 2013:195); and
- The average effective tax rates paid by low to middle income groups is low.

Using OECD data (OECD, 2012) for average personal income tax and social security contribution rates on gross labour income it is calculated that tax payable by a married couple in Ireland in 2011 with standard tax reliefs, only, is 13, 19 and 32%, respectively, for incomes 33% below the average industrial wage, incomes at the average and incomes 67% above the average. The corresponding OECD averages were 21, 25 and 30%. It is not possible to compare internationally effective rates as distinct from notional rates reported on standard reliefs.

There is a case for raising the effective income tax rate including employee social security contributions on income groups above the poverty level. However, this needs to be planned and timed carefully taking account of the following:

- The relatively unequal distribution pre-distribution income (before adjustment for social transfers and taxes); and
- The impact of any measure on domestic demand during a period of prolonged economic stagnation.

Based on estimates from CSO EU-Survey of Income and Living Conditions (SILC) data (see Collins, 2013 forthcoming) it is estimated that households in the top 10% of all households sorted by gross income had income in excess of €109,000 per annum in 2011[18]. Furthermore it is estimated that these household paid, in 2011, an estimated €6.8 billion in taxes on income including income tax, Universal Social Charge and Pay-Related Social Insurance. This corresponds to 25.6% of their total gross income of €26.4 billion[19].

The average rates of tax paid by high-income households could be increased in a progressive way over a given threshold. For example, it would be possible to generate €600 million in additional revenue over two budgets through a raising of the average

[18] It is to be noted that EU-SILC may under-estimate the number of very high-earners.

[19] Gross income includes all income from employment, dividends, property as well as 'non-cash' benefits plus social transfers. Gross income is inclusive of income that may be tax deductible such as employee contributions to pensions.

effective tax rate by 2.3% points from its 2011 level of 25.6% to 27.9%[20]. This could be done in a number of ways which are not mutually exclusive such as:

- introduction of a minimum effective rate payable of 35% in each case;
- reduction in the level of tax reliefs those in the top income decile; and
- gradual withdrawal of tax credits above a threshold of €109,000 per annum (top 10% gross income decile).

An alternative approach could target households on a somewhat lower income – for example those in the ninth decile which comprises households in the €80,000 to €109,000 annual gross income range. However, it would be possible to raise €600 million in 2015 including a carry-over from 2014 without any changes to income tax/USC/PRSI paid by households under €109,000 and through the lifting of the effective rate by 2.3% points. Using a graduated approach above €109,000 so that those in the €109,000-€140,000 income range (in the 90^{th}-95^{th} percentile ranges) paid, on average, 1.3% more in tax on their incomes while in the upper 5% range 2.9% more were paid on average it would be possible to generate €600 million in additional revenue in a full year. Alternatively, applying additional tax of 3.8%, only, to households on €140,000 per annum or above would yield an additional €600 million by 2015 (including carry-over from 2014 into 2015). Based on 2011 estimated levels of effective tax, the latter measure would raise the effective rate to 31.4% for households in the top 5% of household income.

The key conclusion, here, is that it is possible for Government to raise half a billion in income tax revenue in a full year by targeting revenue increases on the top 5% or 10% of households. This would not require a huge increase in their annual tax bill. For example, an increase of 1% point in the effective tax paid by those in the €109,000 - €140,000 would add €1,600 per annum to their total income tax bill (inclusive of USC and PRSI). An increase of 2.9% in the effective rate paid by households above €140,000 would add €5,700 to their tax bill. These outcomes could be achieved through adjustments to tax relief or tax credits without changing the higher income tax rate of 41% or the USC rates or PRSI rates paid by households at these levels of income.

[20] It is likely that the effective tax rate will be higher than 27.9% in 2014 as a result of pension-related tax reforms announced in Budget 2013 and to be implemented with effect from 2014.

Corporation profit taxes

Considering that Corporations, to date, have made very little new or additional contribution in payments of tax to fiscal consolidation there is a strong case on social justice grounds that a minimum effective tax rate be set for all corporations without necessarily changing the headline rate of 12.5%. It is suggested, pending further research, that €250 million additional revenue could be raised in 2014 by reforms to Corporation Tax reliefs and provisions for carry-over of losses. An additional €250 million in corporation tax receipts would represent an increase in the effective rate by a fraction of one percentage point. This measure is unlikely to deter existing or future foreign direct investment.

Losses, Reserves and Interest Relief

Given the nature of the financial crisis which impacts on the public interest the following measures should be brought forward[21]:

Government should reform how companies can manage corporate losses. Under the current system, companies have the facility to take a corporate loss back to the previous year of trading; to move losses in a company between trades; and there is a facility for terminal losses which allows a loss to move back for three years when a company ceases. These generate repayments of tax in many cases. Such practices are of doubtful economic impact, often regressive and are in many cases transferring various risks from corporate activity indirectly onto the exchequer.

Similarly, reforms to the rules regarding how companies currently can manage undistributed reserves and limits on the scale of interest relief available to companies (relative to company assets) have potential to broaden the tax base and limit the use of tools often employed for tax minimisation purposes.

Wealth Tax

McDonnell (forthcoming 2013) estimates that a potential tax yield well in excess of 0.1 per cent of GDP is compatible with a high threshold of liability and low marginal rate provided exemptions and reliefs are minimised. An Irish wealth tax so designed could

[21] These proposals draw on those outlined in a previous Quarterly Economic Observer published by the NERI in Autumn 2012 (Nevin Economic Research Institute, 2012b)

yield well over €150 million for the exchequer while minimising distortions to economic activity due to its low effective rate. He suggests a case for minimising exemptions and reliefs in such a way as to help preserve horizontal equity to the greatest extent, while reducing the scope for tax avoidance through the use of tax shelters. A wealth tax with highly restricted exemptions and reliefs can also be a valuable tool for clamping down on tax evasion by revealing potential sources of income which might otherwise go undeclared.

4.5 Comparing the Impact of an Alternative Approach

Applying a moderated fiscal adjustment such as outlined above would have a beneficial impact on output and employment compared to the current Government plan. Estimates are provided in Table 4.7, below. A smaller fiscal consolidation allied to an overwhelmingly revenue-based adjustment targeted at high-income households and a modest capital tax component and complemented with an ambitious investment stimulus of €4.5 billion over a 30-month period would have a positive impact on employment, government revenues and GDP. Our estimates indicate a net addition of over 40,000 jobs compared to the current fiscal consolidation plan. The deficit would be lower than the current plan by approximately 0.3 percentage points. It is to be noted that any fiscal consolidation effort will cost, other things constant, jobs and output. What may be described as a 'do nothing' scenario involving no fiscal consolidation effort on taxes and spending would help avoid job loss and reduction in GDP. Table 4.7 contrasts the net impact of the current plan against an alternative plan. Although an alternative plan could yield 75,000 more jobs than the current plan it would be only 36,000 more jobs than under a 'do nothing' approach.

In modelling these impacts no account is taken of the unknown impacts of any policy course on market confidence as well as the political and economic reputation of the Republic of Ireland. Consistency, seriousness and demonstrable progress are key to re-building trust and confidence over time. A key challenge in Ireland, as in the rest of Europe, is to address the very present danger of prolonged (and unnecessary) stagnation with high and socially unsustainable levels of youth unemployment.

Table 4.7 Estimated Net Differences in 2014 and 2015 – Output, Employment and Public Finances

	2014		2015	
	Current plan versus 'do nothing'	Alternative plan versus current plan	Current plan versus 'do nothing'	Alternative plan versus current plan
GDP (% point difference)	-1.4	+2.3	-1.0	+1.8
Employment	-22,000	+41,000	-39,000	+75,000
Government Deficit (% point difference)	-0.7	-0.3	-1.2	-0.8

Source: NERI macro-economic model.

Notes: A 'do nothing' benchmark was estimated on the basis of no discretionary fiscal adjustments in budget 2014 or 2015.
The current fiscal plan is as outlined in Table 4.2, above.
The alternative fiscal plan is as outlined in Table 4.6, above.

5 Conclusions

Fiscal consolidation remains a central concern and aim of public policy throughout Europe. Ireland is no exception. However, there is a strong case for changing the scale and composition of fiscal consolidation especially at times of economic stagnation or decline such as is evident in many States. In the Irish case the benefits of lower interest rates on borrowing on bond markets together with some continuing growth in exports are encouraging signs. On the downside the continuing high level of unemployment (at over 14% of the workforce) and under-employment (possibly as high as 25%) continues to weigh on domestic demand. The collapse in capital investment and the continuing retrenchment in public capital spending has been a major contributing factor in the current phase of stagnant employment and GDP.

There are a number of risks associated with the scale, timing and composition of the present fiscal austerity programme:

- continuing high levels of unemployment (forecasted to be at least 10% by 2018) and long-term unemployment, and associated personal, community, societal and fiscal costs;
- the scarring impact of youth unemployment in the case of those who will not emigrate;
- significant under-investment in key economic and social infrastructure where expenditure is now lower than it ever has been since the 1950s. Ireland is forecast to remain last out of all EU member states in terms of capital formation as a percent of GDP; and
- further contractions in the quality and scope of public services and income support as the fiscal adjustment (as a percentage of GDP out to 2015 falls entirely on expenditure leaving Ireland as both a low-spend and a low-tax economy).

There is an urgent need to use fiscal policy to:

- protect the vulnerable including the long-term unemployed who have taken a heavy hit since 2008;
- avoid causing further damage to domestic demand through a €5.1 billion fiscal adjustment as currently planned; and
- stimulate growth and job creation through a mix of policies focussing especially on investment in key infrastructure.

In short, what is needed is a more jobs-friendly, growth-friendly and equality-friendly fiscal adjustment. Any fiscal consolidation will involve some pain and some loss in domestic demand. Positive measures to stimulate growth through investment and to protect the incomes of those in those who are vulnerable can help to ease the transition to a smaller government budget deficit.

'Supply-side' measures, alone, will not generate sufficient employment, particularly in the short-term, and could, in some respects, weaken workers' rights and conditions. A combination of supply-side measures emphasising training, work experience and income adequacy approaches along with demand-side measures involving carefully designed and targeted investment projects in key areas of economic and social infrastructure could make a significant difference to levels of unemployment, stimulate revenue buoyancy, and precipitate lower levels of expenditure on unemployment related costs in the medium-term as more people come off the live register.

Any significant slippage in GDP growth forecasts could, for example, be the basis for delaying the 3% target by an agreed period of time. Relaxing fiscal consolidation somewhat would allow marginally greater space for Government to boost domestic demand and generate greater revenue buoyancy particularly as exports are under pressure due to international trends. Relaxing fiscal consolidation would also mitigate some of the increases in inequality and poverty, as well as potential damage to domestic demand, arising from further cuts in social transfers and public sector pay.

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7 Appendix

Appendix 7.1. Overview of key economic trends – Republic of Ireland

	2008	2009	2010	2011	2012
Total Expenditure					
Consumption €m	94,153	83,155	82,060	81,308	81,984
Investment: private and public €m	39,324	25,601	18,745	16,112	16,463
Government current spending €m	30,482	29,213	26,170	25,410	24,679
Exports €m	150,181	146,369	157,810	166,791	177,134
Imports €m	133,877	120,352	128,326	131,875	137,635
Domestic Demand €m	163,628	136,479	126,422	123,056	123,047
Total Income					
GDP €m	178,882	161,275	156,487	158,993	163,595
GNP €m	153,565	132,911	130,202	127,016	133,403
Income from Agriculture €m	2,705	2,064	2,555	3,248	n/a
Income non-Agriculture: Wages €m	80,960	73,452	68,696	67,765	n/a
Income non-Agriculture: Other €m	56,000	50,768	54,443	58,056	n/a
Employment					
Labour Force	2,300,100	2,242,400	2,196,700	2,173,700	2,165,800
Labour Force Participation Rate %	64.2%	62.3%	61.0%	60.4%	60.2%
Employment	2,136,400	1,953,600	1,886,100	1,845,600	1,841,300
Employment full-time	1,735,300	1,530,800	1,459,700	1,411,300	1,395,000
Employment part-time	401,100	422,700	426,400	434,300	446,300
Underemployment	95,200	112,900	112,500	140,800	147,600
Unemployment	163,700	288,900	310,600	328,100	324,500
Unemployment %	7.1%	12.9%	14.1%	15.1%	15.0%
Long-term Unemployment	42,000	80,600	152,600	191,700	193,000
Long-term Unemployment %	1.8%	3.6%	6.9%	8.8%	8.9%
Migration					
Immigration	113,500	73,700	41,800	53,300	52,700
Emigration	49,200	72,000	69,200	80,600	87,100
Net Migration	64,300	1,600	-27,500	-2,7400	-34,400

	2008	2009	2010	2011	2012
Public Finances					
Total General Gov. spending €m	77,009	78,384	103,404	76,548	68,832
Total General Gov. revenue €m	63,853	56,020	55,120	55,415	56,593
General Gov. Balance €bn	-13.2	-22.4	-48.3	-21.1	-12.2
General Gov. Gross Debt €bn	79.6	104.5	144.2	169.2	192.5
General Gov. Gross Debt % GDP	44.5%	64.8%	92.1%	106.4%	117.6%
Earnings and Prices					
Average earnings € per week	696.72	699.1	693.7	687.67	691.93
Average earnings % change	n/a	0.3	-0.8	-0.9	0.6
Private sector av. earn. % change	n/a	3.6	-2.4	-2.5	1.0
Public sector av. earn. % change	n/a	-2.4	-0.8	0.7	1.2
Inflation CPI %	4.1	-4.5	-1.0	2.6	1.7
Inflation HICP %	3.1	-1.7	-1.6	1.1	2.0
Inequality and Poverty					
Gini coefficient	30.7	29.3	31.6	31.1	n/a
Quintile ratio	4.6	4.3	4.9	4.9	n/a
Relative poverty %	14.4	14.1	14.7	16	n/a
Consistent poverty %	4.2	5.5	6.3	6.9	n/a
Deprivation rate %	13.8	17.1	22.6	24.5	n/a

Sources: CSO Quarterly National Accounts; CSO National Income and Expenditure; CSO Quarterly National Household Survey; CSO Population and Migration Estimates; CSO Earnings and Labour Costs; CSO Consumer Price Index; CSO SILC Reports; and Eurostat online database.

Notes: Earnings and labour market data are for Q3 in all years.
Domestic Demand is Total Domestic Demand.
National accounts data reported at current market prices.
Underemployment calculation - new series from 2008.
Public Finance data for 2012 are preliminary figures.

Appendix 7.2 Overview of key economic trends – Northern Ireland

	2008	2009	2010	2011	2012
Total Expenditure					
Personal consumption £m	-	-	-	-	-
Investment: private and public £m	-	-	-	-	-
Government consumption £m	-	-	-	-	-
Exports £m	6,443	5,347	5,531	6,008	5,726
Imports £m	5,747	5,152	5,417	5,773	5,711
Domestic Demand £m	-	-	-	-	-
Total Income					
GVA £m	28,607	27,969	29,155	29,870	-
GNP £m	-	-	-	-	-
Income from Agriculture £m	306	323	330	-	-
Income non-Agriculture: Wages £m	16,477	16,766	17,291	-	-
Income non-Agriculture: Other £m	11,823	10,881	11,537	-	-
Employment					
Labour Force	821,000	810,000	835,000	862,000	871,000
Labour Force Participation Rate	59.9%	58.5%	59.9%	61.2%	61.4%
Employment	786,000	752,000	777,000	799,000	804,000
Employment full-time	610,000	575,000	597,000	609,000	596,000
Employment part-time	170,000	177,000	174,000	189,000	196,000
Underemployment	18,000	27,000	25,000	33,000	42,000
Unemployment	34,000	58,000	58,000	62,000	67,000
Unemployment rate %	4.2%	7.1%	7.0%	7.2%	7.6%
Long-term Unemployment	14,000	19,000	27,000	26,000	36,000
Long-term as % of Unemployed	41.2%	32.8%	46.6%	41.9%	53.7%
Migration					
Immigration	27,484	23,547	22,521	21,737	-
Emigration	21,741	21,427	22,541	24,945	-
Net Migration	5,743	2,120	-20	-3,208	-

	2008	2009	2010	2011	2012
Public Finances					
Total General Gov. spending £m	19,054	19,871	19,654	-	-
Total General Gov. revenue £m	-	-	-	-	-
General Gov. Balance £m	-	-	-	-	-
General Gov. Debt nominal £m	-	-	-	-	-
General Gov. Debt % GDP	-	-	-	-	-
Nominal earnings and Prices					
Average earnings £ per week	345.0	354.6	354.7	354.2	360.2
Average earnings % change	4.4	2.7	0.0	-0.1	1.7
Private sector av. earn. % change	-	-	-	-	0.2
Public sector av. earn. % change	-	-	-	-	3.8
Inflation CPI %	-	-	-	-	-
Inflation HCPI %	-	-	-	-	-
Inequality and Poverty					
Gini coefficient	-	-	-	-	-
Quintile ratio	-	-	-	-	-
Relative poverty %	-	-	-	-	-
Consistent poverty %	-	-	-	-	-
Deprivation rate %	-	-	-	-	-

Sources: Her Majesty's Treasury: Public Expenditure Analysis (2012a); Her Majesty's Revenue RTS; Office for National Statistics (2012) Gross Value Added (Income Approach); LFS Quarterly Supplement; Northern Ireland Statistical and Research Agency: Northern Ireland Migration Flows; Northern Ireland Statistical and Research Agency: Annual Survey of Hours and Earnings (2012).

Note: Where cells are blank the data are unavailable.

Notes

Nevin Economic Research Institute (NERI)

31/32 Parnell Square
Dublin 1
Phone + 353 1 8897722

Carlin House
4-6 Donegall Street Place
Belfast
BT1 2FN,
Northern Ireland
Phone +44 28 902 46214

Email: info@NERInstitute.net
Web: www.NERInstitute.net