TASC

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Open letter from 28 economists, social scientists and economic analysts

The Government's economic strategy is failing. The Irish recession has been deeper and longer than almost any other in the industrialised world. Consumer spending has collapsed while at the same time unemployment and emigration have soared. Crucially, investment has plummeted off the chart. Not only have Government policies failed to stem this haemorrhage, they have actively contributed to this collapse.

The Government has pursued deflationary policies, in particular public expenditure cuts. The most damaging are cuts in transfers to low-income groups which, along with general tax increases on low and average pay in 2009, have reduced spending power in the economy at a time when it was most needed. Equally damaging have been the cuts in public investment at a time when private investment has plummeted. This has laid the foundations for a low-growth, high-debt future where unemployment will remain high and inequality endemic. All the wrong options have been pursued.

Budgetary policies have been short-termist and reactive. Instead of cutting real waste in the public sector by increasing productivity and efficiency, the Government has cut public services and the living standards of those who can least afford it, further reducing domestic demand and, thus, employment.

These policies are weakening the economy's ability to cope with growing debt levels. Without a strong recovery, tax revenues will fail to rise and future budgets will simply embed that deficit into the economy. This will depress economic activity even further. This explains why the Government's own forecasts for the deficit keep rising, not despite, but because of, its own deflationary measures. We are heading into a joyless, jobless recovery.

We require fundamentally different policies, a twin track strategy, which will maximise environmental and sustainable progress and restore employment while addressing the deficit. We urgently need measures to tackle five key areas which require fundamental reforms:

- our substantial physical infrastructure deficits;
- our poor social infrastructure – early childhood education is poorly developed, primary and community health care lag behind European norms, housing lists continue to lengthen, while Irish public transport remains inadequate and under-funded;

- our high levels of relative poverty and income inequality;
- our under-performing indigenous business sector - which needs appropriate support to contribute to our export base, R&D and innovation capacity; and
- our unsustainable reliance on carbon-heavy resources and activities.

It may seem astonishing that we face such economic and social deficits after fifteen years of boom but these are the consequences of pursuing a failed low-tax, low-spend model which sought short-term gains from the speculative activity of a small but powerful golden circle.

Only the modernisation of our economic and social base through a sustained investment programme and a transformation of our corporate governance practices can overcome past mistakes. This will need substantial back-up in the form of re-training and return to education to ensure people – whether managers or employees - have the skills to fully exploit the opportunities that investment in innovative enterprise generates. Educational investment, in particular, will be key to strengthening our export base. Driving competitiveness and productivity in the medium-term, while increasing employment in the short-term, is a win-win scenario.

We must mobilise all the resources available to accomplish this transformation. We still maintain a relatively low-debt status in the Euro zone, buttressed by the vast accumulated borrowings in our Exchequer cash balances (over €20 billion). We can employ the strength of our combined public enterprises – their off-balance sheet borrowing and investment capacity – to invest in our infrastructure and create new indigenous enterprises, both public and private.

We can further employ new funding vehicles – enterprise development bonds (e.g. Green Bonds), municipal bonds and the new National Solidarity Bonds - which can leverage our current high savings ratio and international investment. All this becomes even more necessary given the potential capacity of NAMA to pile up considerable debt; at the same time there is little evidence of credit being freed up for investment purposes. The resources and labour to finance this modernisation drive are there. We just need the political vision and will to make it happen.

Addressing the deficit needs a long-term vision of what kind of taxation system we want. In the short-term we need to target the least deflationary sources of revenue so as not to weaken our recovery prospects. A comprehensive property tax – encompassing both housing *and* financial assets – should be introduced starting with high income groups and eventually extended to all incomes. Reform of regressive tax expenditures (i.e. tax breaks that disproportionately benefit high income groups), shown by TASC to be in the billions of euro, should be urgently undertaken to increase the income tax take. Extension of environmental taxes and incentives should be accelerated. An additional tax band at the higher level is needed.

In the medium term, we should explore the potential of social insurance and local taxation to broaden the tax base while providing real benefits in return. PRSI can be expanded to incorporate a comprehensive free healthcare system (in particular, primary care) as well as earnings-related pensions.

Stronger local taxation powers have the potential to be more accountable while providing investment in services responsive to local needs.

On the expenditure side, it is time to make public sector workers partners in the process to increase productivity and efficiencies. As other countries have shown, employee-driven innovation (in both public and private sectors) has the capacity to reduce costs and increase output – much more so than crude, top-down employment and wage-slashing measures. We can afford neither wasteful policies nor wasteful practices. But elevating the ethos of public service and personal responsibility will require harnessing the collective resources of employees through an open and honest engagement by all stakeholders - one that is not afraid to find and, then, repair fault.

What is absolutely crucial is that these twin approaches – investing in sustainable growth and full employment while addressing the deficit – complement each other. This will require a level of fiscal management we have as yet not experienced. But it is do-able. Embedding investment, rather than debt, into the economy while restructuring taxation and expenditure in a progressive and expansionary manner to ensure a job-rich recovery – this, and not the current deflationary strategy, is the road to success.

Signed:

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