

# Days of fiscal delinquency deemed over

Aidan Kane \*

Sunday Business Post 12th May 2002

Call them arid or boring, but the fact that public finance issues have been so prominent in the election campaign should be welcomed.

It partly reflects a recognition that our previous economic failures were characterised by fiscal delinquency, and the insistence that there will be no return to those days.

The importance of these concerns was underlined when the most recent exchequer returns showed continued deterioration in the government's finances, and with the realisation that the greater than expected take up on the special incentive savings accounts scheme will add to the headaches for the next minister for finance.

To their credit, the political parties have attempted—to an unprecedented extent—to frame their broader policy agendas within coherent budgetary frameworks and brought considerable expertise to these exercises.

The table above shows the broad patterns by summing up some of the key figures over the 2002–2007 period, although there are some caveats. These four parties differ marginally in their underlying assumptions about growth and inflation (Labour, for example is slightly more optimistic about growth).

They also tend to interpret the relevant baseline from which one measures changes in revenue or expenditure differently. Most of the numbers are comparable, though it is only fair to point out that Fine Gael adopted an approach which, while reasonable, made it difficult to derive some numbers for

---

\*Department of Economics, NUI Galway.

this table in a truly comparable way. The numbers here are not adjusted for inflation, which is something we can leave to the honours class.

On the expenditure side, Fianna Fáil and Fine Gael are virtually the same, taking both current and capital together, although there's clear blue water between the PDs and Labour over five years at €32 billion.

Table 1: Governing by numbers: the parties' budgetary projections

	FF	FG	PDs	Lab
<b>Totals 2002–2007</b>				
	€billions			
Current expenditure	247.9	246.4	242.2	261.6
Capital expenditure	46.0	49.4	41.8	54.5
Payments to National Pensions Fund	7.5	7.5	7.3	2.7
<b>Total expenditure</b>	<b>301.3</b>	<b>303.3</b>	<b>291.3</b>	<b>318.8</b>
<i>which is financed by . . .</i>				
Current taxes	222.6	226.3	216.0	230.8
Non-tax current receipts	49.7	49.9	52.7	57.1
Capital resources	17.5	10.5	12.9	12.4
Exchequer borrowing	11.5	16.6	9.8	18.5

*Notes:* FG provided year-by-year numbers only to 2006: some extrapolation is involved in their totals above. Non-tax current receipts include departmental receipts, called 'appropriations-in-aid', as well as non-tax revenue.

Labour make up some this gap by their proposal to contribute less temporarily to the National Pensions Reserve Fund. Part of the argument here revolves around the equity of averting tax increases on future, presumably richer, taxpayers, as opposed to providing services for those in need now. That's a legitimate concern here, but so is the reality that such future tax rises will be politically difficult, and might well lead to pressure on the pension entitlements that Labour is also anxious to defend.

There is more variation in the financing of these expenditure plans. The tax

take number in the accompanying table exaggerates Labour's distance from the other parties, given the lack of inflation adjustment here and their slightly more optimistic view of growth. Where the parties really differ is on how they make up the numbers through straightforward Exchequer borrowing as opposed to other forms of capital receipts, some of which have proved controversial. Both Labour and Fine Gael appear to have higher upfront exchequer borrowing numbers (though not necessarily on other measures) since they reject elements of the capital financing of the other two parties.

For example, the Capital Resources line in the table not only includes EU receipts and money from public private partnerships but also in Fianna Fáil's case, receipts from the new National Development Finance Agency.

In addition to coordinating the delivery of infrastructure, this will sell bonds which will be repaid by revenues flowing from the projects when up and running.

The state, on this theory, acts as guarantor of the debt, so the full amount doesn't count as borrowing. This financing arrangement might enable a more efficiently-priced infrastructure. However, if revenues do not flow as expected, the state will pick up the tab, so that this device would be merely postponed borrowing.

The PDs aim to keep exchequer borrowing under control by including in capital receipts Central Bank of Ireland reserves no longer required to be held now that we're in the euro area, as well as privatisation receipts, channelled through a National Transformation Fund.

Because the Central Bank reserves could, in principle, be realised whenever appropriate, the PDs envisage the rational timing of privatisations, rather than the rushed transfer of public monopolies to the private sector.

It seems the economic debate can move forward within the projections offered, on two fronts. First, at a macro level, how would the parties prioritise their plans if circumstances change, for better or worse? Would tax increases or expenditure cuts follow any further deterioration in the starting point for the finances, and if so, where?

The second front is on the micro level. There is much of interest in the detailed proposals of these and the smaller parties relating to micro-efficiency, such as how we ensure public expenditure, which is ultimately a question of inputs, translates into outputs in terms of the services which citizens expect.

Similarly, there has been an unexamined revolution in regulatory policy, which the parties do address, but has received little attention in the media. Most broadly, much policy effort and money has been directed towards managing Ireland's transformation from a resource-based to a 'knowledge-based' economy (even the socialists have spreadsheets now) and yet that debate has not made the headlines in this campaign.

What is missing here is not the illusory objectivity of experts outside the political parties, but an engagement with the economic logic underlying the numbers. They think it's all over. It isn't.

[http://www.aidankane.net/writingsetc/2002\\_kane\\_election.html](http://www.aidankane.net/writingsetc/2002_kane_election.html)