

A New Fiscal Framework For a Progressive Government



Trade Unions

*Finding the resources to drive investment,
prosperity and a shared recovery*



June 2015

Introduction

When a new progressive government takes office after the next election it will face considerable challenges – in particular, the need to drive investment in our economic and social infrastructure. Years of recession, stagnation and austerity have produced a debilitated economy and a society riven with deprivation and lost opportunities.

On June 13th the Right2Water trade unions will host a major and unique event. Representatives of trade unions, civil society organisations, Right2Water groups and progressive political parties and independents will debate the policy principles that will inform the new government: decent work, debt justice, public services and social protection, natural resources, indigenous enterprise, political reform to name just a few topics.

In this document – *‘A New Fiscal Framework for a Progressive Government’* – we outline how we can maximise the resources that will enable the necessary investment to transform these policy principles into reality. We publish this analysis as a contribution to a continuing debate – as a guideline and an invitation to others to participate, to bring forward their own analysis, estimates and priorities.

Most of all, it shows what a new government committed to democracy, economic justice and an inclusive-recovery can do.

We look forward to the coming debate.

And we look forward to the prospect of electing the first left-led government in the history of the state – a government that will take us down a better pathway.

Yours sincerely

John Douglas

Stevie Fitzpatrick

Jimmy Kelly

Eoin Ronayne

Billy Wall

Summary of Proposals

1. A progressive government will **phase out the structural deficit – the main fiscal benchmark – by 2020**, consistent with the EU’s Stability and Growth Pact. This will provide additional revenue in order to implement fiscal adjustments.
2. Ireland is a low-spending economy. In 2015, spending on public services, income supports and investment would have to increase by €11 billion to reach the EU average (after allowing for demographic factors, multi-national accountancy practices and defence spending). A progressive government will **prioritise social and economic investment** – first, through the extra resources provided under the EU rules, and second, through discretionary taxation revenues.
3. A progressive government will nearly **double public investment**, research and development and our national innovative capacity by 2020 and **increase spending on public services and income supports by over €6 billion**, or over 10 percent.
4. A progressive government will **introduce discretionary revenue raising measures targeted at wealth and capital, in addition to increasing the social wage (employers’ social insurance)**. This will raise €4.1 billion over the four-year period 2017 – 2020.
5. A progressive government will launch a major diplomatic and economic initiative to assert that the **EU measurement is unsatisfactory and inapplicable to Ireland’s small open economy** and that Ireland has already met its Medium Term Objective. If this succeeds, the progressive government would have a further €4 billion for fiscal adjustments.
6. A progressive government will pursue **investment initiatives** through the European Fund for Structural Investments and the **exemption of investment from the excessive deficit calculations**. In the first year, a progressive government will negotiate a **€2 billion special once-off investment package** paid for the by redemption of bank bonds.
7. To **promote expand growth and economic efficiency** and to provide further resources for social and economic investment, a progressive government will seek to re-orientate enterprise policy towards the indigenous sector, pursue a decent work/Living Wage strategy, create special purpose vehicles for social investment, pursue policies to write-down household debt and launch public sector employee-driven innovation initiatives.
8. Crucially this Fiscal Framework fulfils the Right2Water policy of **abolition of domestic water charges** and funding water provision, sanitation and investment from **progressive general taxation**. In addition to the elimination of regressive domestic water charges where, during the programme (2017 to 2020) further scope arises for tax cuts, a progressive government would enact policies that **benefit those in most need** by addressing such tax measures as **VAT, refundable tax credits and other progressive tax measures**.

A New Fiscal Framework

The intention of this paper is to estimate the fiscal space available to a progressive government to drive economic and social investment and create a modern European social state. We provide guidelines as to the distribution of that fiscal space (i.e. spending increases and tax cuts) but do not propose specific measures. It is based on the Government's no-policy change baseline projections contained in the Spring Statement and focuses on the years 2017 to 2020.¹ We will first examine the non-discretionary space available under Ireland's Medium Term Objective (MTO) as prescribed under the preventative arm of the Stability and Growth Pact. We will then move on to estimate the fiscal space available under discretionary measures.

1. Non-Discretionary Fiscal Space

1.1 Non-discretionary fiscal space refers to the amount of additional resources available without recourse to fiscal adjustments (e.g. taxation and spending measures). Under this heading the two guiding fiscal benchmarks are the structural deficit and Debt/GDP rule (the latter is discussed in section 4.3 below). The Government's 2015 Stability Programme Update contains a no-policy change base-line projection; that is, the trajectory of the structural deficit without tax increases or spending cuts. On this basis, the structural deficit will be eliminated by 2018. However, under Ireland's MTO, this is unnecessary. The structural deficit need only be reduced by 0.5 percent each year until a target of -0.5 percent is achieved.² It is proposed to exercise the maximum space allowable under the MTO as shown in Table 1.

Table 1: Structural Deficit Elimination (% of GDP)

	2016	2017	2018	2019	2020
Government Baseline	-2.3	-1.3	-0.3	0.8	2.1
Progressive Alternative	-2.3	-1.8	-1.3	-0.8	-0.5

¹ It is assumed the next general election will be held in early 2016. Therefore, the first budget presented by a new progressive government will be Budget 2017. However, we discuss the prospect of an emergency budget in 2016 below in section 7.3.

² EU Commission Staff Working Document Country Report Ireland 2015: *'After the correction of the excessive deficit, pursue a structural adjustment towards the medium-term objective of at least 0,5 % of GDP each year . . .'* http://ec.europa.eu/europe2020/pdf/csr2015/cr2015_ireland_en.pdf

1.2 While there are a number of ways to estimate the fiscal space in nominal terms, the following uses a simple linear measurement based on structural deficit as a % of GDP and uses this as a proxy.

Table 2: Potential Fiscal Adjustments: € million³

	2017	2018	2019	2020	Total 2017 – 2020
Fiscal Space	1,100	1,200	1,500	2,600	6,400

Table 2 shows that in 2017, a progressive government will be able to increase adjustments (spending increases, tax cuts) by €1.1 billion from maximising the MTO's fiscal space.⁴ This will rise to €2.6 billion by 2020. In total, over this four year period a new government will an additional €6.4 billion in new resources without fiscal adjustments.

1.3 The above focuses on the structural deficit. While using estimates based on the Expenditure Benchmark might give different results – in particular, 2020 – the expenditure benchmark is not a rule:

*'While this expenditure benchmark tries to cater for some of the policy mistakes occurred in the 2000s, it cannot be considered stricto sensu a spending rule at EU level but rather a policy instrument providing guidelines to ensure consistency between expenditure developments and GDP growth prospect . . . Specifically, Member States will have to monitor and control public spending developments in line with a realistic potential GDP growth over the medium-term in order to ensure the achievement of the MTOs.'*⁵

This fiscal framework adheres to this formulation – controlling public spending developments (which include tax reductions) in line with a realistic potential GDP to achieve the MTO; that is, the effective elimination of the structural deficit.

→ **PROPOSAL: Move to MTO compliance by 2020**

2. Discretionary Adjustments: Public Services, Income Supports and Investment

2.1 Beyond maximising the fiscal space under the MTO, fiscal adjustments will have to be sourced from compensating measures - discretionary revenue measures (DRM). Example: an

³ Nominal figures in this and subsequent tables are rounded to the nearest €100 million.

⁴ The reason this is less than in 2016 is because recent Government negotiations won a derogation from the EU fiscal rules for 2016, with the structural deficit falling only 0.3 percent of GDP – or 60 percent of what is prescribed in the EU rules.

⁵ EU Commission, National Expenditure Rules: Why, How and When', Economic Papers 473 | December 2012: http://ec.europa.eu/economy_finance/publications/economic_paper/2012/pdf/ecp473_en.pdf

increase in €500 million in public expenditure will have to be paid for by an increase of €500 million in revenue.

2.2. Public services, social protection and income supports to be prioritised.

Ireland is a low-spending economy. Using the traditional measurement – public spending as a proportion of GDP – we need to account for a number of factors: inflated GDP levels due to multi-national accounting, the elderly and youth demographic and defence spending⁶.

Table 3: EU and Ireland Primary Spending: as a % of GDP 2015 Estimate⁷

EU Primary Expenditure	Ireland Primary Expenditure	Ireland (excluding multi-national accounting)	Ireland (excluding MNC/elderly demographic)	Ireland (excluding MNC, elderly/youth demographic)	Ireland (excluding all previous and defence spending)
45.0	33.2	36.4	39.7	37.6	38.6

When multi-national accounting, elderly and youth demographic and defence budgets are factored in, Ireland remains a low-spending economy. In 2015, primary spending (i.e. total government spending excluding interest payments) would have to increase by approximately €12.7 billion – or 19 percent in 2015.

2.3 This lack of investment in our social infrastructure and income supports results in two deficits: first, in an under-performing economy - under-investment reduces productivity and inefficiency in the economic infrastructure. Second, in high living costs; this includes paying market rates for healthcare, inflated public transport fares, lack of affordable childcare, reduced family supports, and the lack of pay-related benefits for workers in the event of sickness, temporary unemployment, occupational injury and retirement.

⁶ It is not wholly satisfactory to factor in defence spending as this is a policy choice by governments, unlike elderly and youth expenditure which is driven by demographics. However, we include it as many commentators refer to this in measuring Irish expenditure.

⁷ Sources: EU Ameco database http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm and Department of Finance Budget 2015. Age and defence expenditure is from Eurostat 2013 data (the latest year available) http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=gov_10a_exp&lang=en Differences in age and defence spending as a percentage of GDP between 2013 and 2015 will be fractional. The table aligns Irish expenditure with EU spending. For instance, if Ireland had the same proportion of elderly, the demographic demand on spending would increase by 3.3 percentage points of GDP factoring in pensions, medical/nursing care and community care. However, if we had the same number of young people (below 16 years), the demographic demand on spending would fall by 2.1 percentage points of GDP. If Ireland spent as much on defence as the EU, spending would rise by 1 percentage points of GDP. All GDP ratios use the Irish Fiscal Advisory Council's hybrid GDP benchmark which measures fiscal capacity.

Given the social repair tasks facing a new progressive government – improving public services, reducing poverty and deprivation– and the aspiration to European-level of public services and incomes supports resources will have to be maximised.

→ **PROPOSAL: Public services, investment and income supports to be prioritised to increase economic productivity and reduce high living costs.**

To reduce these high living costs and increase economic productivity will require discretionary taxation measures.

3. Discretionary Adjustments: *Funding productivity and reduced living costs.*

3.1 As a consequence of a low-spending regime, Ireland has a low-tax economy compared to the average European benchmark but just as in the case of public spending, this low-tax status also requires explanation as it is not evenly spread across the economy.

Implicit or effective⁸ Irish personal taxation is below the EU average. However, given the net demographic/defence spending dividend, this level is approximately appropriate. Indirect taxes are certainly higher than is necessary.

Table 4: Implicit Tax Rates 2012 (%)

	Implicit Personal Tax Rate <i>(Employees)</i>	Implicit VAT Rate <i>(Impact on Households)</i>	Implicit Social Wage <i>(Employer's Social Insurance)</i>
EU	26.3	7.5	20.5
Ireland	22.7	7.4	7.7

It should also be noted that the implicit tax rate for Irish personal taxation increased substantially since the beginning of the crisis. It rose by over 20 percent at a time of falling real wages, reduced hours and cuts in income supports (e.g. Child Benefit). Since 2012, there is some evidence that the effective tax rate has increased further, mainly due to wage increases and the lack of indexation.

→ **PROPOSAL: A progressive government will not introduce discretionary measures to raise the overall effective tax rate on personal taxation**

While it is proposed that the overall effective tax rate remain broadly the same, there may be changes within the 'envelope'. For example, a higher tax rate on high incomes could be introduced to fund an extension of the standard tax rate band, introduce new intermediate tax rates or reduce regressive taxation and charges (e.g. VAT).

⁸ Implicit tax rates measure revenue as a percentage of their appropriate activity. For instance, implicit personal tax rates and the social wage measure revenue as a proportion of gross wages and salaries; implicit VAT rates measure VAT revenue as a percentage of private consumption. Implicit tax rates are less distorted by output volatility than measurements that use GDP/hybrid GDP as the denominator. Data from Eurostat Trends in Taxation 2014: <http://ec.europa.eu/eurostat/documents/3217494/5786841/KS-DU-14-001-EN.PDF/7bec4a16-f111-4386-a4b4-8f1087be1063?version=1.0>

3.2 *The Social Wage and Capital Taxation*

The main driver in Ireland's low-tax status is the very low level of the social wage, or employers' social insurance as seen in Table 4. To reach the EU-average, revenue from employers' social insurance would have to increase by over €8 billion. This is the primary reason for the spending gap between Ireland and the EU. In other EU countries the social wage is a significant contributor to public services and income supports. Our low level of public spending and, so, our low levels of public services and income supports derives from the low Irish level of employers' social insurance.

→ **PROPOSAL: to increase the social wage, or employers' social insurance' incrementally and over the long-term to reach the appropriate benchmark with the EU average.**

This will provide the majority resources for expanding public services and income supports – for both those in work and out of employment.

3.3 The Government's projections provide space for increases in the social wage. The Government projects wages to rise annually, on average, by 2.7 percent up to 2020. A long-term phasing-in need not result in a loss of enterprise performance. Indeed, the reduction in living costs (e.g. introduction of affordable childcare, reduced public transport fares, demand side impact of pay-related sickness benefits, etc.) can boost consumer demand and, so, enterprise turnover.

3.4 Further reductions in living costs and, so, improvements in living standards can be achieved through discretionary increases in capital and wealth taxes and taxation on financial activity without undermining economic efficiency.

- The Nevin Economic Research Institute estimates that extending the current property tax to financial property and large real properties (i.e. a wealth tax) can boost revenue by up to €300 million annually. However, the Minister for Finance projected wealth tax revenue at between €400 and €500 million.⁹
- Historically, inheritance taxation revenue was much higher in the 1960s and 1970s with revenue averaging 0.5 percent of GDP.¹⁰ Moving towards this average would boost revenue considerably.
- The OECD estimated that Ireland had a much higher level of income tax expenditures which undermined the progressivity of the tax system. In 2005, Irish income tax expenditures were €6.6 billion higher than the EU average. Additional tax expenditures were introduced in 2006 and 2007 but since then, there has been a reduction of such expenditures. Nonetheless, it is likely that Ireland is still an outlier.¹¹

⁹ NERI: Wealth Tax: Options for its Implementation in the Republic of Ireland: http://www.nerinstitute.net/download/pdf/neri_wp_no_6_2013_mcdonnell_wealth_tax.pdf (and personal communication). Ministerial estimate: Parliamentary Question June 7th 2011:

<https://www.kildarestreet.com/debates/?id=2011-06-07.107.0&s=%22wealth+tax%22+section%3Adebates#109.4>

¹⁰ OECD: Revenue Database

¹¹ OECD Ireland Economic Survey 2009:

http://www.finfacts.ie/biz10/OECD_Economic_survey_Ireland_2009.pdf

3.5 As a guideline, we assume increases discretionary revenue measures (increased taxation on capital, wealth, financial activity, reduction of regressive tax expenditures in the personal and corporate sectors, along with increases in the social wage) amounting to 0.4 percent of GDP.¹² If this were to be realised it would raise revenue by €4.1 billion over the four years 2017-2020.

→ **PROPOSAL: Increase taxation on wealth, capital and financial activity, along with reduction in regressive tax expenditures consistent with maximising economic efficiency.**

4. Summary of a New Fiscal Framework

4.1 The following is a summary of a new fiscal framework that a progressive government can be guided by. We produce this as a guideline. Events and priorities will change over the years; however, this provides one example of the resources available for economic and social investment.

Table 5: Summary of Fiscal Adjustments: 2017 – 2020

	2017	2018	2019	2020	Total 2016 – 2020
Revenue					
Discretionary Measures (wealth, capital, social wage)	1,000	1,000	1,000	1,100	4,100
Primary Public Expenditure					
<i>Investment</i>	600	700	800	1,100	3,200
<i>Public Services & Income Supports</i>	1,200	1,300	1,500	2,300	6,300
Total Spending	1,800	2,000	2,300	3,300	9,400
Fiscal Buffer	200	200	300	400	1,100
Total may be affected by rounding.					

A small fiscal buffer has been included to accommodate spending overruns or underperforming tax revenue.

In this summary:

- Discretionary tax measures raise €4.1 billion over the four years 2017-2020
- Investment rises by €3.2 billion over the four years
- Expenditure on public services and social protection rises by €6.3 billion over the four years
- Total primary spending increases by €9.5 billion over the four years

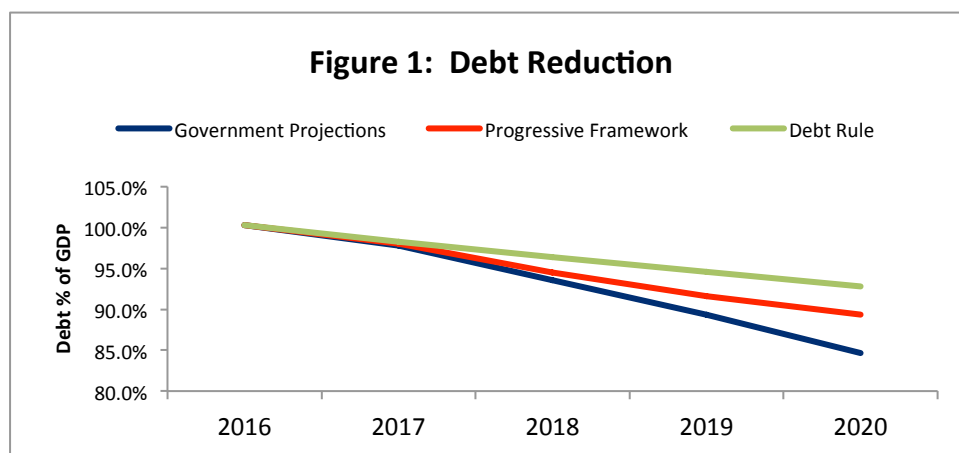
¹² A progressive government will systematically review corporate tax relief to ensure that they support wealth generating activities rather than be used as tax avoidance. It would be premature to state that such a review would result in additional revenue.

- A progressive Government implementing this fiscal strategy will abolish domestic water charges within these parameters

As we stated previously, this is a guideline, the parameters a new progressive government could operate within. Priorities may change so as to reshape the distribution of fiscal space between different tax and spending categories.

4.2 The guideline summary shows a tight fiscal space in the first years of a progressive government, due to the requirement to reduce the structural deficit. However, this space starts to widen by 2019 and after 2020. Once our Medium Term Objective has been reached, there will be more scope to increase investment in the economic and social infrastructure.

4.3 This framework also ensures that Ireland meets the debt/GDP rule.¹³



Despite nominal debt rising, the growth in GDP from additional investment ensures that the debt/GDP burden falls well within the scope the fiscal rules.

4.4 In all probability, a progressive government will be able to increase economic and social investment above the levels outlined in Table 5. This is due not only to the conscious omission of multipliers (e.g. the additional investment) in order to create upside risks but the fiscal buffer which allows for unseen expenditure or taxation under-performance. Expenditure on public services and income supports show higher multipliers than tax increases, which would boost growth and put further downward pressure on the structural deficit.¹⁴ A final note should be made of the government's estimate of the underlying taxation growth out to 2020. While appropriately cautious, the eventual tax revenue outturn could exceed targets. This can be seen from the tax revenue growth in 2015 to date – exceeding profile by 4 percent and last year's outturn by 11 percent.¹⁵

5. Need to Reform EU Fiscal Rules

5.1 There is a need to radically reform the EU fiscal rules and not just because they are inappropriately applied to Ireland's small open economy.

¹³ This rule requires that the debt-to-GDP ratio reduces by 1/20th of the difference with 60 percent of GDP.

¹⁴ The Nevin Economic Research Institute: The effects of various fiscal measures

http://www.nerinstitute.net/download/pdf/neri_wp_201310_effects_of_various_fiscal_measures_rory_ofarr_ell.pdf

¹⁵ Department of Finance, Exchequer Statement end-May:

<http://www.finance.gov.ie/sites/default/files/Appendix%20I%20-%20End-May%202015%20Tax%20Receipts%20%282%29.pdf>

5.2 The structural deficit – ‘*The actual budget balance net of the cyclical component and one-off and other temporary measures*’ – is a hypothetical measurement which, in turn, is based on other hypothetical measurements such as the potential GDP and the natural rate of unemployment or ‘Non Accelerating Inflation Rate of Unemployment’. None of these can be observed in the real economy. Different international organisations such as the EU, the IMF and the OECD come to significant differences when measuring the structural deficit in a particular country. And the structural deficit measurement can be subject to considerable revisions in a very short period. Basing fiscal policy on hypothetical and non-observable measurements is hardly robust or designed to instil confidence.

5.3 The rules imply that structural deficits can only be addressed through deflationary fiscal adjustments – either tax increases and/or spending cuts. But as the Government shows in the Spring Statement, and as presented in Table 1, the structural deficit is reduced by growth itself, without any resort to fiscal adjustments. Between 2016 and 2020, growth alone will reduce the structural deficit by 4.4 percent. Using the structural deficit as a means of coercing governments into deflationary fiscal policies is ideological.

5.4 Probably the most damning indictment of the EU fiscal rules is that they cannot accomplish what they were designed to do – that is, ‘prevent’ a fiscal crisis that most EU countries suffered recently, or provide an ‘early warning’ system. If the EU methodology could achieve this, then it would have been evident early in the last decade when Ireland was cutting taxation, increasing public spending and relying on the revenue/growth from an asset bubble.

Table 6: Cyclically adjusted deficit, percentage of potential GDP

2000	2001	2002	2003	2004	2005	2006	2007	2008
3.6	(-0.2)	(-1.2)	0.9	1.5	0.7	1.4	(-2.2)	(-7.5)

However the EU methodology didn’t catch this¹⁶. Prior to 2007, Ireland was compliant with the current fiscal rules. In fact, between 2000 and 2006 the EU rules ranked Ireland’s public finances as the healthiest and most sustainable of any Eurozone country apart from Finland. It wasn’t until the recession hit Ireland that the EU methodology identified a problem in the public finances. As a preventative or early-warning measurement, the structural deficit and the EU methodology is not fit for purpose.

→ **PROPOSAL: A progressive government will declare the structural deficit unworkable and work with other Eurozone countries to radically reform the EU fiscal rules in order to base it on observable and robust measurements.**

The projections contained in the new fiscal framework within the current EU fiscal rules regime and application and are not premised on any reform.

6. An Alternative View of the Structural Deficit

¹⁶ Cyclical Adjustment of Budget Balances Spring 2015:
http://ec.europa.eu/economy_finance/db_indicators/gen_gov_data/documents/2015/ccab_spring_en.pdf

6.1 It has been argued, in particular by the ESRI, that Ireland has effectively eliminated the structural deficit and, so, we are in MTO compliance.¹⁷ NERI has also stated that the structural deficit is well below the Government estimate.¹⁸ This conclusion is based on the unsatisfactory measurements used by the EU in assessing a small open economy like Ireland. The EU's one-size-fits-all measurement is more suitable to large, closed economies like Germany and France. Similarly, the Department of Finance has described the results of the EU's methodology as not 'plausible'.¹⁹

If this is the case, the constraints on spending ease even more. In this scenario, Ireland is bound by the Reference Rate.²⁰ Ireland would have approximately €4 billion more available for social and economic investment over the four years.

→ **PROPOSAL: A progressive government to mount a strong initiative with the EU Commission and other relevant bodies to have our economy measured by appropriate tools by declaring our MTO to have been reached.**

7. Additional Investment Resources

7.1 In addition to intensifying the current Government's engagement with the new European Fund for Strategic Investments, a progressive government will consider two further initiatives to increase investment in our economic infrastructure.

7.2 A progressive government will utilise the recent flexibility introduced by the EU Commission which allows investment of up to 0.5 percent of GDP to be undertaken without being included in the Excessive Deficit. In 2017 this would equal €1.1 billion. An example of such investment could be a further roll-out of Next Generation Broadband, similar to the joint ESB-Vodafone initiative.²¹

7.3 The Government estimates that capital resources will benefit from the redemption of €2 billion of contingent convertible capital notes (CoCos) in AIB and PTSB in 2016. While this will not impact on the general government balance as they are considered an investment, a progressive government can use this money to introduce an emergency investment budget in 2016. Examples of this investment could be social housing and water/waste infrastructure. There would need to be negotiation with the EU Commission over the use of this money but as it would be a once-off temporary measure, it would not impact on the structural deficit (in fact, it would help improve the structural balance as the investment would increase economic productivity). This could be negotiated as part of a new agreement on the appropriate fiscal methodology for Ireland (see sections 5 and 6 above).

¹⁷ ESRI Special Article The Structural Balance for Ireland: http://www.esri.ie/UserFiles/publications/QEC2014SPR_SA_Bergin.pdf. This analysis was produced prior to Budget 2015 and was based on assumptions that were not realised in the budget. Therefore, the structural deficit is, using the ESRI analysis, probably between 1 and 1.5 percent. However, this would still leave considerable extra resources for a progressive government over the four year period.

¹⁸ Personal communication. NERI will be providing further information in their upcoming Summer 2015 Quarterly Economic Observer.

¹⁹ Stability Programme Update 2011: <http://www.finance.gov.ie/sites/default/files/spuirelandapr2011.pdf>

²⁰ Reference rate is the 10-year average of potential GDP. Fiscal adjustments cannot exceed this threshold without compensating discretionary revenue measures.

²¹ ESB and Vodafone to invest €450 million in 100% fibre broadband network: <https://www.esb.ie/main/press/pressreleaseWS.jsp?id=4074>

→ **PROPOSAL: A progressive government will intensify engagement over the European Fund for Strategic Investments, utilise flexibility under the EU fiscal rules regarding investment and introduce an emergency budget to use the €2 billion revenue from redemption of contingent convertible capital notes**

8. Non-Fiscal Policies That Can Create More Resources

8.1 It is a mistake to confine fiscal policy to budgetary adjustments. Nominal or structural balances reflect the relative health or otherwise of an economy. Therefore, economic, social, labour market and credit policies can have a positive impact on a country's budget – creating new and additional revenue from sustainable and shared growth. We highlight some of these areas that can make a positive fiscal contribution.

8.2 Enterprise policy that gives renewed emphasis on **indigenous enterprise** can promote growth; in particular, through stronger organic links to the economy (e.g. sourcing, skill development, etc.). This requires a substantial public intervention as Ireland's indigenous enterprise base is the weakest among small open European economies.

8.3 **Wage-led growth** can ensure that future private consumption is sustainable. And where this wage-led growth privileges the low-paid, labour market policy can maximise consumption gains and business turnover.

8.4 To maximise **social housing investment** and to promote a **modernisation of the private rental sector**, off-balance sheet options should be explored. Special purpose vehicles can ensure substantial investment without impacting on the general government balance. Such vehicles need not be confined to traditional local authority housing; they can promote cooperative housing and a new public enterprise initiative to provide quality accommodation at cost-rental price in the private rental sector. Excessive rent acts as a brake on the productive sector.

8.5 **Reducing personal debt** – primarily mortgage debt – has the potential to maximise sustainable private consumption and improve living standards. Different mechanisms need to be explored but the most economically efficient is to align mortgage prices and house values. This can involve write-downs and restructuring under protocols overseen by an accountable public debt agency.

8.6 Innovation – both product and process – has the capacity to drive efficiencies and productivity. However, for the benefits to be maximised, innovation must be a democratic process. **Employee-driven innovation** has that capacity. Innovation driven by the actual front-line producers of goods and services is more likely to be sustainable and broad-based. A first step would be to introduce employee-driven innovation in the public sector which can then act as a demonstration effect throughout the economy.

8.7 One of the major lessons to be learned from the crisis is that credit is too important to be confined to private shareholder value-driven institutions. A progressive government will examine the options of establishing a large scale **public banking system both in retail and specialist sectors**. Such institutions, while operating under commercial criteria, would be led by different criteria than shareholder-value; namely, sustainable investment in the public, corporate and household sectors.

8.8 These and other policy reforms have the capacity to promote potential GDP which will open* up even more fiscal space for a progressive government to pursue economic and social investment strategies.

9. Risks

9.1 We have based our framework on the Government's projections. Therefore, our framework contains the same risks. These have been highlighted in the Stability Programme Update: household indebtedness, continued domestic and European deflation, vulnerability in Irish banks' asset books, etc. Most importantly, deviations from the Government's baseline scenario could arise from external or domestic sources, with differing implications for growth and public finances.

9.2 The Government has identified these risks: world output, savings ratio and interest rates (the latter having the most potential to undermine forecasts). It is also concerning that the Government's baseline projections are based on unchanged oil prices and the value of the Euro up to 2020, a state of affairs that is likely to change.

9.3 Within our own projections, we have sought to use formulations that create upside risks (e.g. we have not introduced a multiplier for additional investment expenditure). Further, we have provided a fiscal buffer which amounts to over €1 billion in the four years 2017-2020 in case of any slippage. However, the impact on growth and fiscal projections from negative domestic and external developments cannot be ignored.

9.4 That is why it is all the more vital that a new government move quickly to develop its investment profile – to drive productivity and efficiencies. Without substantial investment, we are at risk of losing competitiveness vis-à-vis other economies that maintain investment. A high investment economy is the best protection against any future downturns or unexpected developments.

END.