

NATIONAL ECONOMIC DIALOGUE

MANAGING COMPETING ECONOMIC AND SOCIAL PRIORITIES FOR A FAIR SOCIETY

16-17 JULY 2015



An Roinn Airgeadais
Department of Finance

Managing Competing Economic and Social Priorities for a Fair Society

This paper has been prepared as a contribution to the discussion in the breakout session at the National Economic Dialogue. It should not be seen as prescriptive but rather seeks to set out the current factual situation and to suggest some of the key questions which participants may wish to consider.

Key Guiding Questions:

- *How can we address economic and social goals while also maintaining sound public finances?*
- *How should decisions be made between competing priorities?*
- *How do we manage competing goals in different sectors, such as housing, education, social protection and health?*

BACKGROUND

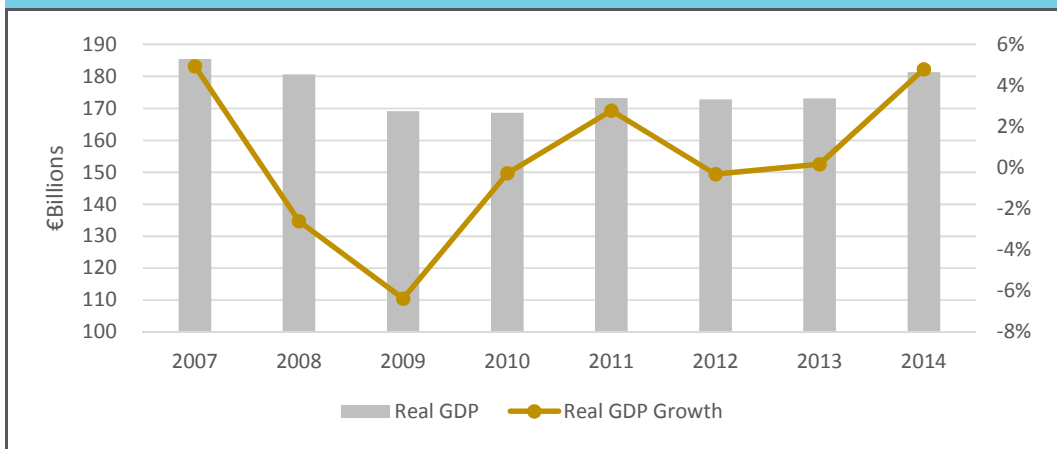
Economic growth helps society to achieve higher living standards and improve the lives of individuals, families and communities across the country. In accordance with the mandate given to Government by the people, two of the critical roles exercised by the State are to facilitate and encourage economic growth, and to help redistribute economic gains so as to support a fair society. These interventions by Government involve policy decisions about taxation and public spending.

Budget 2015 was the first time since 2009 that the Budget no longer involved a cut to the overall level of spending by Departments. For Budget 2016, the Spring Economic Statement (SES) projects that a budgetary package in the range of €1.2-€1.5bn will be possible. The Government has decided that the available fiscal space will be split 50:50 between taxation and spending.

ECONOMIC RECOVERY

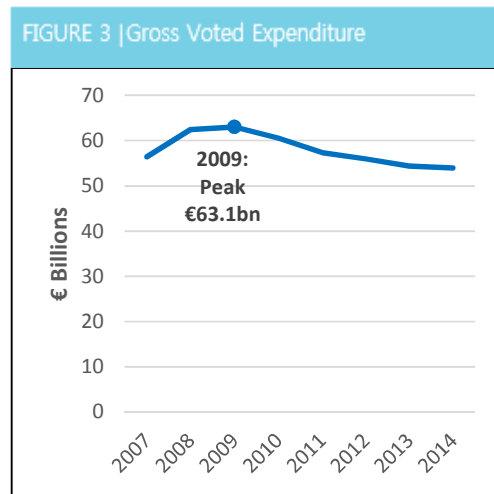
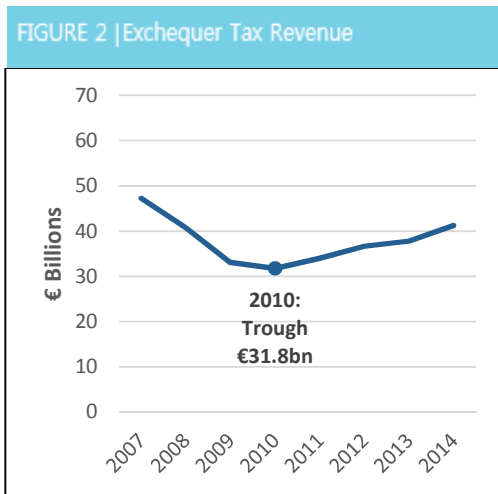
In recent years, Ireland has seen a return to growth after a sharp contraction in economic activity during the economic downturn, as illustrated below. Ireland experienced a 9% reduction in Real GDP from the peak in 2007 to the trough in 2010. The economy has emerged from this difficult period and is forecast to achieve healthy, sustainable growth rates over the medium-term. GDP, having outpaced all other European economies with growth of 4.8% in 2014, is set to expand by a further 4.0% this year and is forecast to remain robust over the coming years.

FIGURE 1 | Real GDP Change 2007 - 2014



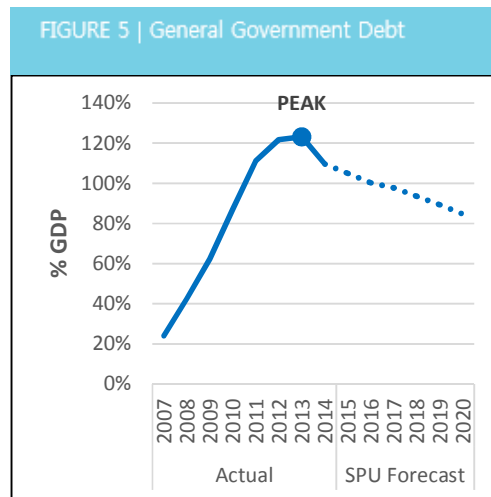
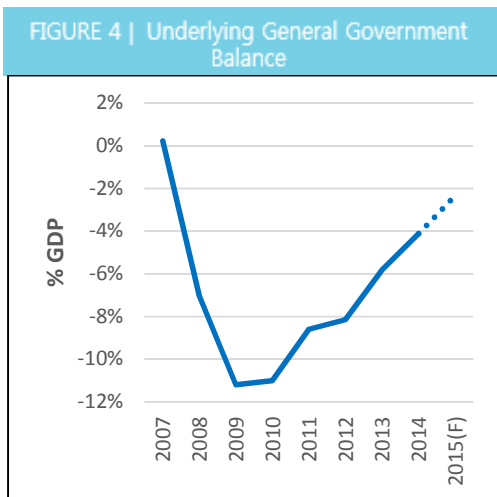
PUBLIC FINANCES

The graphs below show Exchequer taxes and spending by Departments from 2007 onwards.



There was a sharp fall in tax revenues from 2008 as the economy declined. Between 2008 and 2014, a range of revenue and expenditure measures were taken to reduce the fiscal deficit. In implementing expenditure reductions, the priority has been to adopt a targeted approach in order to protect key public services and social supports, including support for the unemployed, to the greatest extent possible at a time of increasing demand.

The general government deficit has reduced substantially in the last few years and Ireland is on track to exit the Excessive Deficit Procedure (EDP) in 2015 with a deficit of 2.3% of GDP.

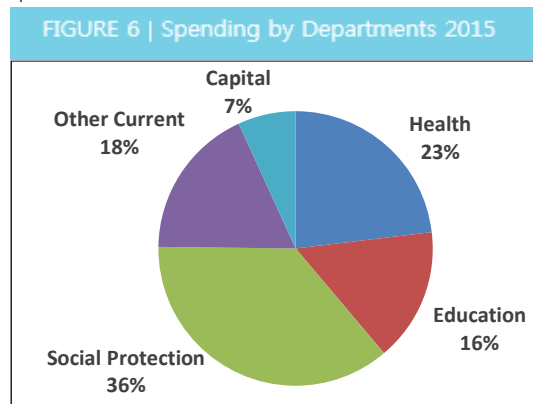


For 2015, the forecast ratio of gross general government debt to GDP is 105%, having peaked in 2013 at 123% from a low of 24% in 2007 (see figure 5). Despite the considerable economic progress made in recent years, continued high levels of debt mean that the fiscal position remains vulnerable to economic shocks, as well as requiring high levels of debt servicing, which are projected to be €7.1bn in 2015.

Ireland is well on track to bring the deficit below 3% of GDP by end-2015. Thereafter, in accordance with EU Fiscal Rules, we need to progress steadily towards achieving a balanced budget in structural terms (i.e. taking account of the economic cycle). This means that Ireland's spending will have to match its income over the medium-term. The rate of growth in spending will be regulated each year by the rate of economic growth and the requirement to make sufficient progress towards the structural balance.

PUBLIC EXPENDITURE

Approximately 75% of voted public expenditure (€53.2bn) in Ireland is allocated to the areas of Health, Education and Social Protection, set out below. This expenditure is divided between current (€49.6bn) and capital (€3.6bn)



Services delivered through current expenditure include:

- Over 1.73m medical cards provided; over 3 million visits to outpatient hospital facilities; and 68,000 babies born in hospitals;
- More than 56,000 teachers providing education for over 860,000 primary and post-primary pupils;
- More than 67,000 pre-school places in the Early Childhood Care and Education Programme;
- Social welfare and pension payments for almost 2.2 million people each week;
- 630,000 passports issued; and
- Over 130,000 applications processed under the Single Farm Payments scheme.

Major projects delivered through capital expenditure in recent years include:

- 50 schools projects completed annually on average over the period 2012 to 2014;
- Commencement of the Luas Cross City project;
- 700 projects to improve local and regional roads 2012-2014;
- Almost 2,800 social housing completions/acquisitions by Local Authorities and the Voluntary and Cooperative sectors; and
- 42 primary healthcare centres opened with a further 33 currently under construction since 2011.

CHALLENGES

Every economy and society faces a continuing fiscal debate: to find the optimal balance of overall Government revenue and expenditure, and the best mix of policies and interventions within that balance.

For the future, Ireland's public finances must be kept on a sustainable path, with revenues able to support the level of spending. The challenge will remain to prioritise and design Government interventions within this framework.

Ireland's economic recovery is underway and its fiscal position has strengthened. Fiscal choices are now increasing and there will be continued modest increases in resource levels over the coming period. However, there is a wide range of competing demands for those funds. It is, therefore, important that we make good choices about raising and allocating resources.

In considering overall demands for increased public services, within the context of fiscal sustainability, there are several options, each of which can contribute to the optimal approach:

- Increase the resources available: Decisions to raise taxation or service charges can help fund a higher overall level of service for the public;
- Reallocate resources: Within existing overall resource levels, funding allocations can be re-directed between different areas to reflect priorities. In some instances the provision of services or supports can be restructured; for example, introducing measures to restrict or target the services or supports to certain groups;
- Reduce the cost of providing the services: Measures to improve public service efficiency can reduce the cost base and release resources that can then be directed to addressing other priorities.

FURTHER GUIDING QUESTIONS

The following questions are suggested as a means of stimulating further discussion of the issues raised in this paper.

- In balancing various social and economic needs, what public services should be prioritised over the next few years, and why?
- How should public capital investment be prioritised?
- How best should the input of Irish society be captured regarding the prioritisation and use of public resources?
- What new major social and economic policy challenges will Ireland face over the next ten years? How should planning for these issues be addressed?

*Department of Finance / Department of Public Expenditure and Reform
July 2015*

Note: References to public spending are to gross voted expenditure by central government.