



Alternative Responses to the Economic Crisis

A synopsis of discussions from a TASC Round Table

Editorial

Those involved in anti-poverty work are well aware that economic issues are currently determining the boundaries placed on state responses to social exclusion. These same economic issues are restricting the possibilities and potential of community/NGO organisations in their work with marginalized groups.

Ireland is currently in a very precarious position, largely because of gross fiscal mismanagement at government, regulatory and financial institution level. This has brought about a huge contraction in economic activity, increased unemployment (now 14%) and a devastating public finance crisis. Combined, these factors are pushing us deeper into recession. The repercussions are clear - a property collapse, a capitalisation crisis in the banks, restrictions on credit to businesses, cuts in salaries and welfare payments, and emigration expected to reach 100,000 this year. The corrective measures adopted by government will most likely push many of those existing on the margins of society into a more adverse or precarious situation, and could seriously threaten the very viability of the community & voluntary sector.

Those of us in the community and anti-poverty sector need to begin to engage with and develop an understanding of these economic issues in order to understand that there are alternative policies - employment **can** be regenerated through a stimulus package, the tax system **can** be restructured to ensure the maintenance of essential services; a new model of banking **can** be constructed; and borrowing **can** be undertaken over a timeframe that won't result in economic and social collapse.

The notes that follow are a synopsis of discussions from a Round Table focused on the development of alternative responses to the economic crisis, organised by TASC. Hopefully, it will assist groups to engage with and benefit from the economic analysis, insights and options from a range of experts. There are alternatives to deflationary policies that will drive the economy into further recession and push marginalised people into even greater poverty. We hope that this analysis will assist anti-poverty groups to strengthen their arguments and align their objectives within the alternatives outlined in the discussion. **The views expressed do not necessarily represent the opinions of EAPN Ireland or its membership.**

Event Overview

This event was attended by about 25 people from academy, trade unions and business - they were mainly economists or those with a broad knowledge base of economics by virtue of their role. Paul Sweeney (ICTU) chaired. The programme was focused around 3 inputs: Ray Kinsella (UCD), Sinead Pentony (TASC) and Michael Burke (financial expert in the UK but with an interest in Ireland). The inputs were followed by an open discussion. The papers are available on the TASC website www.tascnet.ie so this short document is intended to convey a sense of the discussion, the insights and perhaps the possibilities.

Key Points from Roundtable

- The initial decision by government to focus on a short time frame correction to the deficit was a policy mistake and is likely to push the country into bankruptcy. **Bringing the deficit down to 3% in this short timeframe, against GDP projections of .5% – 1% growth up to 2014, will bring on an inevitable convulsion that will rupture the economy.** A longer term remedy, 2018 or 2020 would be sensible and doable.
- **Sovereign debt will eventually become a crisis situation** – the gap between Ireland and Greece will be narrowed over time if we continue on this path. The belief that we are winning the confidence of global investors is inaccurate as evidenced by analysis of bond yields where we are floating close to Greece and Portugal and above Spain.
- Existing policy is deflationary with intent to rebalance the public finances, restore international confidence and competitiveness. **This policy has already failed.** The deficit has doubled and based on GNP Ireland is already in a depression. Ireland has not regained credibility in the bond market – they look at cash flow i.e. quarterly tax receipts, which remain low. Competition is primarily based on productive investment, but there is no focus on this.

Key Points from Roundtable

- The private sector has no capacity to drive production at present. Lifting the economy needs investment in productive activity /jobs, which in turn generate a tax-take to remedy the deficit. **A depressed economy will yield nothing and we will rapidly descend into a Japanese type trough.**
- The problem of deficit is not a spending issue; it is a failure of taxation yield. This doesn't appear to be recognised. There is potential to increase corporate tax from 12.5% to 20% without effecting the location of MNCs (with concession claims this totals out at a smaller percentage take). Given the current economic crisis, calls to increase Corporation Tax in the immediate future is unlikely to yield results. **While Corporation Tax is 12.5%, the various tax reliefs, allowances and expenditures result in the effective tax rate for corporations being closer to 3-4% (best estimates).** Ireland has 7 times the number of corporation tax reliefs compared to other OECD countries. A good starting point would be to eliminate the various opportunities for reducing corporate tax bill and bring our use of tax reliefs, allowances and expenditure into line with other European countries, with the revenue from the corporate sector reflecting the marginal tax rate of 12.5%.
- Sign of growth are not evident, despite claims. **At best growth will be technical, based on exports from 'platform economy' (MNCs located here for tax reasons) with no follow on jobs growth.** Already the contraction of activity is producing an alarming rise in long-term unemployment - LTU is now 33% of the total unemployment figure.
- There is no attempt to build an evidence-based consensus to inform a national plan. **The entire strategy is being driven by Department of Finance and no wider view is sought other than a dependence on Europe.** Depending on Europe is ill advised as the Euro zone is likely to unravel as Germany, France and the Benelux countries move towards an inner circle, with a second grade group concentrated around the UK, and likely to include us.
- There is a desperate need to stimulate activity. Denmark invested 1% of GDP in early 1990's and turned their situation around. The current US stimulus was too little (.5%), necessitating a further stimulus. **The arguments against stimulus are facile – leakage because we are an open economy; multiplier factor too low – ESRI shows that multiplier from NDP investment was factor of 4, the stimulus can be focused on non-leaking part of economy i.e. indigenous industries.** We are in a position to gain from investment in healthcare science and technology because of the location here of so many pharmaceutical companies. We could also invest in education, regeneration of areas and the generation of green energy. All of these would provide jobs, social benefit and a tax return for the state.

Conclusions from Roundtable

- The stark deflationary policies being pursued by government makes no sense and is potentially ruinous. The evidence presented by experts illustrating the damage already being inflicted is utterly compelling. This policy is being driven in a dogged manner by the dept. finance and no wider view is sought.
- Correcting the deficit needs to be undertaken within a viable longer term timeframe.
- There needs to be a swift departure from deflationary policies by government. The existing recovery package is totally focused on financial infrastructure. It is not linked to people and default will mean misery for families.
- The private sector has no capacity to generate additional activity. **The economy needs to be state-driven for a period.** A new model of banking that is not PLC, nor shareholder driven, needs to be developed. In this model banking would be viewed as a utility. Credit is not flowing and is unlikely to do so, given the shock wave within the banking sector. A loan guarantee scheme could help to loosen up credit.
- Instability and likely divisions in the Eurozone means that we should develop our own strategies rather than relying primarily on the European Union to prescribe solution.

Further Information

- TASC: Conclusion of paper delivered by Professor Ray Kinsella to FEPS/TASC Seminar on 'Stimulating Recovery'
Link: http://www.tascnet.ie/upload/file/StimulusSeminarRayKinsella_100610.pdf
- TASC: 'Stimulating Recovery' by Sinead Pentony
Link: http://www.tascnet.ie/upload/file/Stimulusseminar_SP_final_100610.pdf
- TASC: 'A Genuine Economic Recovery: the Case for Fiscal Stimulus' by Michael Burke
Link: http://www.tascnet.ie/upload/file/Rapid%20GrowthIreland_MB.pdf

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