



Economic Research

Irish Election 2016: Economic Plans Compared 11 Feb 2016

We discussed the concept of Fiscal Space in a recent Blog ('Ireland's Fiscal Space', Feb 3rd) and pointed out that it would prove a recurring theme in the Election, given the constraints imposed on government expenditure. In the event all the major parties have set out clearly their projections for the respective Fiscal Space deemed available and how they each intend to use these resources. All take the €8.6bn quoted by the Department of Finance as the base, which, as the Irish Fiscal Advisory Council has pointed out, does not make any allowance for the impact of inflation on Government sector pay or social transfers i.e. in effect, real pay and transfers fall. Inflation is actually forecast by Finance to be very low, averaging 1.8% per year, but that still means prices will be 9.2% higher in 5 years.

Ireland is projected to run a structural fiscal deficit in 2016 (i.e. the actual deficit adjusted for the economic cycle) of 2.5% and as a result it has to keep any spending increases below the level of potential GDP growth until the deficit is eliminated. That Medium Term Objective (MTO) may be changed, to a 0.5% deficit, which would free up another €1.5bn according to Finance, and both Fine Gael and Labour have factored that in to their calculations. One can boost the fiscal Space by tax increases and Labour have projected an additional €1.1bn from that source, with Sinn Fein larger still, at €1.7bn. The net result is that Labour has assumed the largest Fiscal Space, at €11.2bn, followed by Sinn Fein at €10.7bn, then Fine Gael at €10.1bn, with Fianna Fail the most conservative at €8.6bn.

Of course these projections may not materialise as expected; potential growth estimates may change (note it is not actual growth that matters), inflation may not pan out as forecast and the rules themselves may alter, as per the mooted MTO adjustment or a relaxation of the capital expenditure currently exempt from the expenditure ceiling. With those caveats we have also looked at how each party plans to utilise their forecast Fiscal Space. Sinn Fein stands out in that regard, as all the available resources are used on the spending side (net taxes actually rise) including a €6.4bn increase in current spending. Labour also plan a significant increase in total spending, amounting to €8.3bn, although the split between current and capital is not spelled out. Fianna Fail plan to use €5.5bn of the Space to raise spending (with €4.8bn on the current side) and also have the largest resources devoted to tax cuts, at €2.9bn. Labour's gross tax figure is the same but the net figure is lower given the tax increases required to boost their Fiscal Space. Finally, Fine Gael plans €5.1bn in additional spending and €2.5bn in tax reductions, with a residual €2.5bn allocated to a contingency fund to be used if growth is weaker than forecast.

The first table sets out the Fiscal Space each party assumes will be available over the next five Budgets. All take as their base the €8.6bn figure produced by the Department of Finance, which takes account of demographic pressures on public services and known commitments from existing policies, including some public sector pay increases under the Lansdowne Road agreement. No allowance is made for higher government spending on pay or social transfers as a result of inflation.

Finance also assumed that Ireland's Medium term Objective (MTO) will be to eliminate the structural deficit, although it has been widely reported that the Commission may change that to a deficit of 0.5%. The outgoing Government parties have taken this as given, adding an additional €1.5bn. Labour also plan to boost available resources by raising taxes, by €1.1bn, so yielding a total of €11.2bn. Sinn Fein also plan higher taxes (€1.7bn) and have penciled in expenditure 'savings' raising their figure to €10.7bn.

(€bn)	Fine Gael	Fianna Fail	Sinn Fein	Labour
Fiscal Space base	8.6	8.6	8.6	8.6
MTO adjustment	1.5	No	No	1.5
Tax increases	No	No	1.7	1.1
Other	No	No	0.4	No
Total Fiscal Space	10.1	8.6	10.7	11.2

Turning to the use of that Fiscal Space, Fianna Fail plan the largest tax reductions, at €2.9bn, followed by Fine Gael at €2.5bn. Labour's gross tax figure is similar to Fianna Fail but drops to a net €1.8bn, given the tax increases to boost the Fiscal Space. Sinn Fein plans to spend €9.5bn, by far the highest, but with no gross tax reductions and a net increase. Fine Gael's plan also includes a €2.5bn contingency fund, to be utilised in the event of weaker than expected growth.

(€bn)	Fine Gael	Fianna Fail	Sinn Fein	Labour
Spending	5.1	5.5	9.5	8.3
Current	4.1	4.8	6.4	
Capital	1.0	0.7	3.1	
Tax reductions	2.5	2.9		2.9
Other	2.5		1.2	
Total	10.1	8.4	10.7	11.2