

Cantillon School, Tralee, September 9th. 2010

Improving Economic Governance

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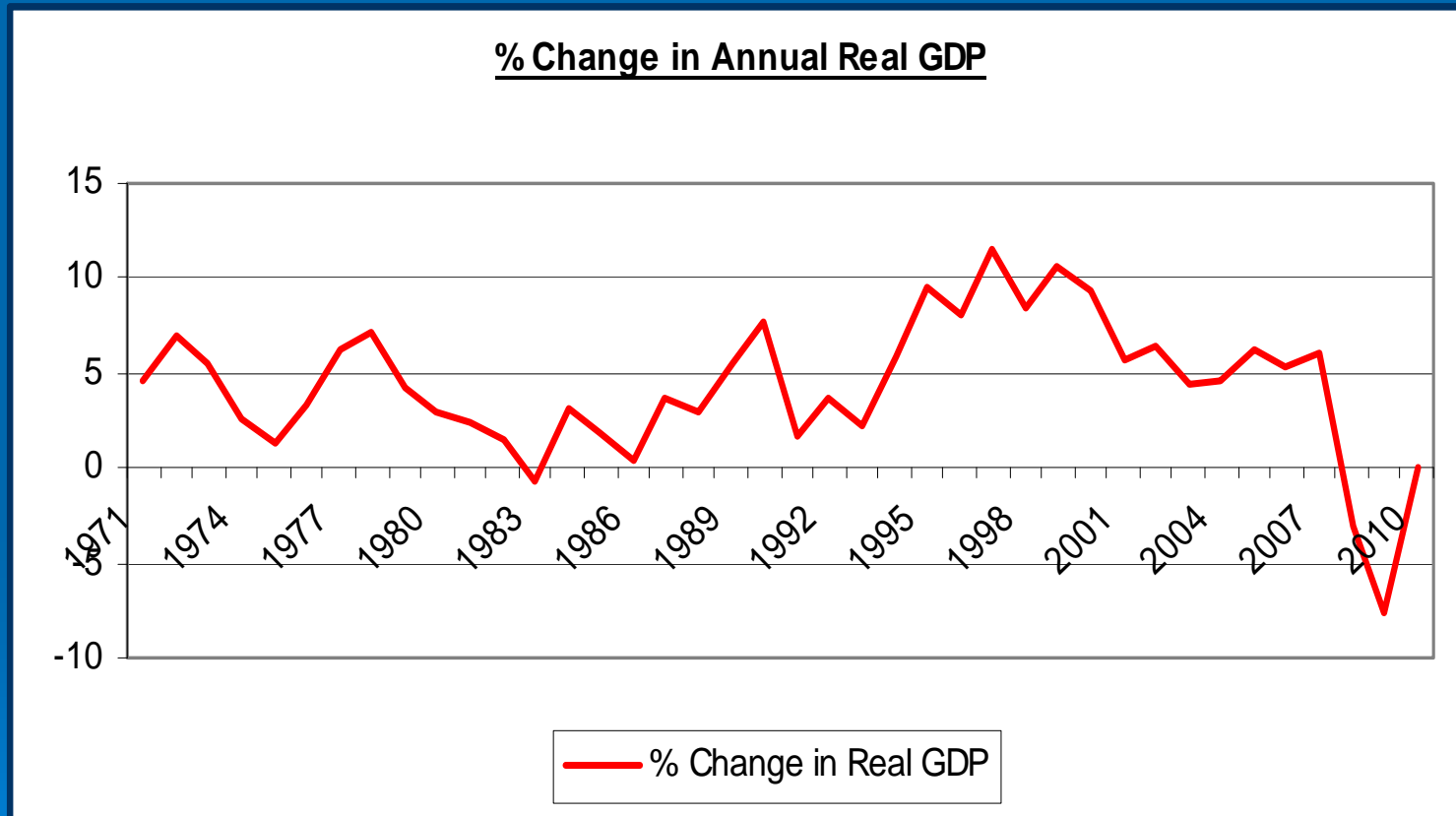
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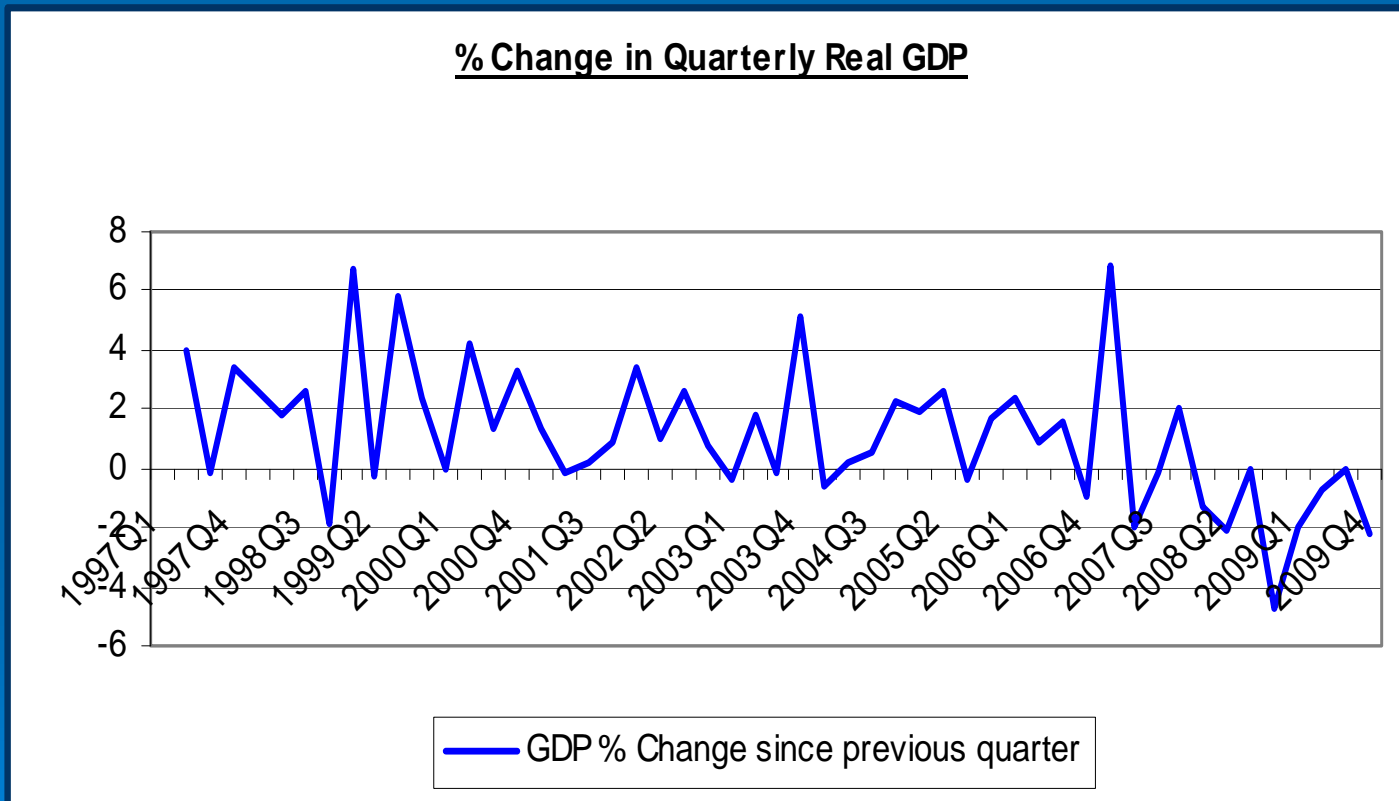
Why is the Irish Economy so Volatile?

- This is the second macroeconomic crisis in a generation.....
- ...and more difficult than the 1980s crisis
- There has been a record of boom and bust, and of pro-cyclical policies
- All countries face these risks, but it seems to be worse in Ireland.

GDP Volatility - Annual



GDP Volatility - Quarterly



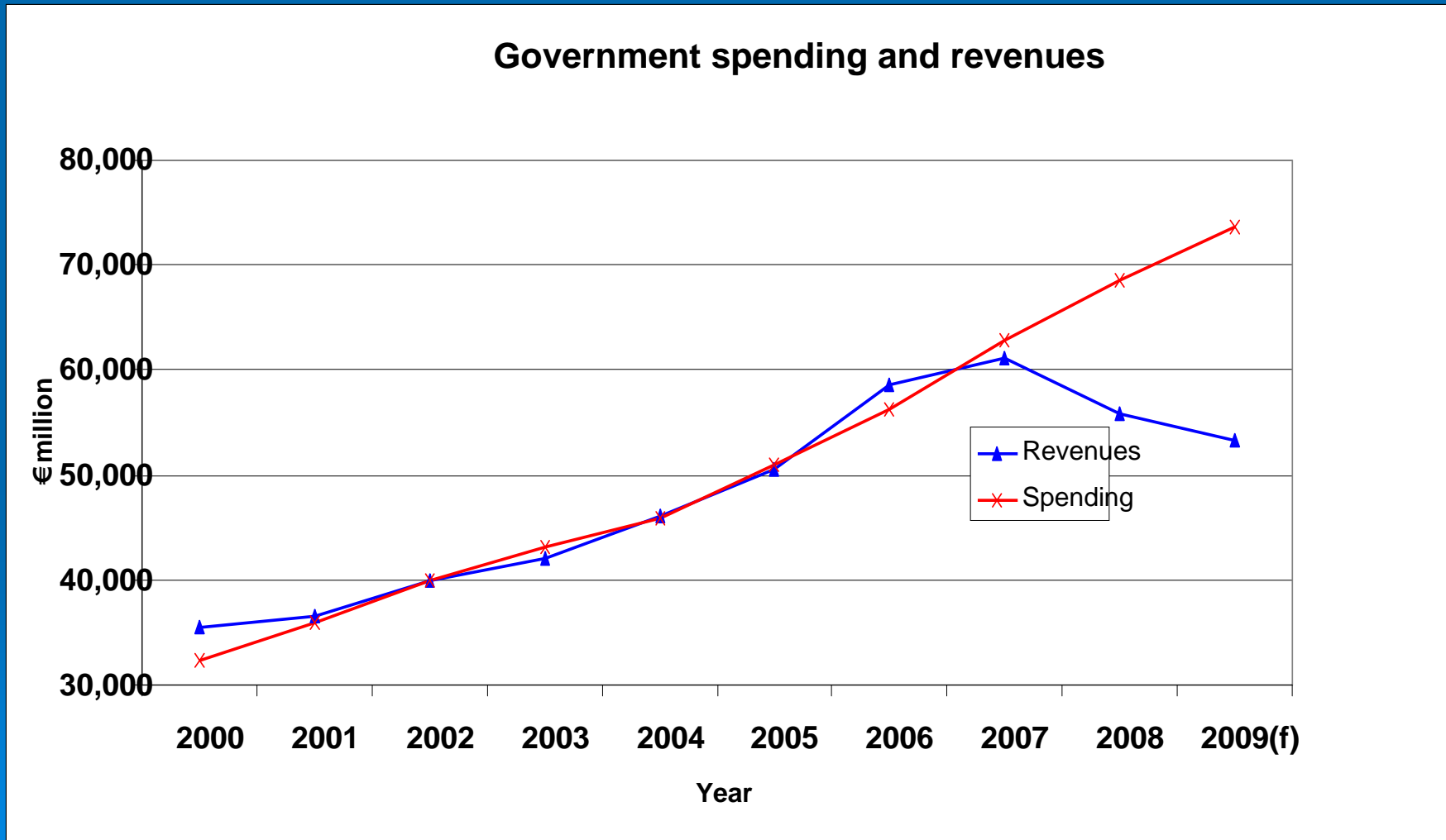
Policy Makes Things Worse

- Economy is volatile anyway
- The Regling/Watson report blames successive governments for pro-cyclical budgetary policy
- Lobby groups dominate, and never seem to favour contraction, even in a runaway bubble.

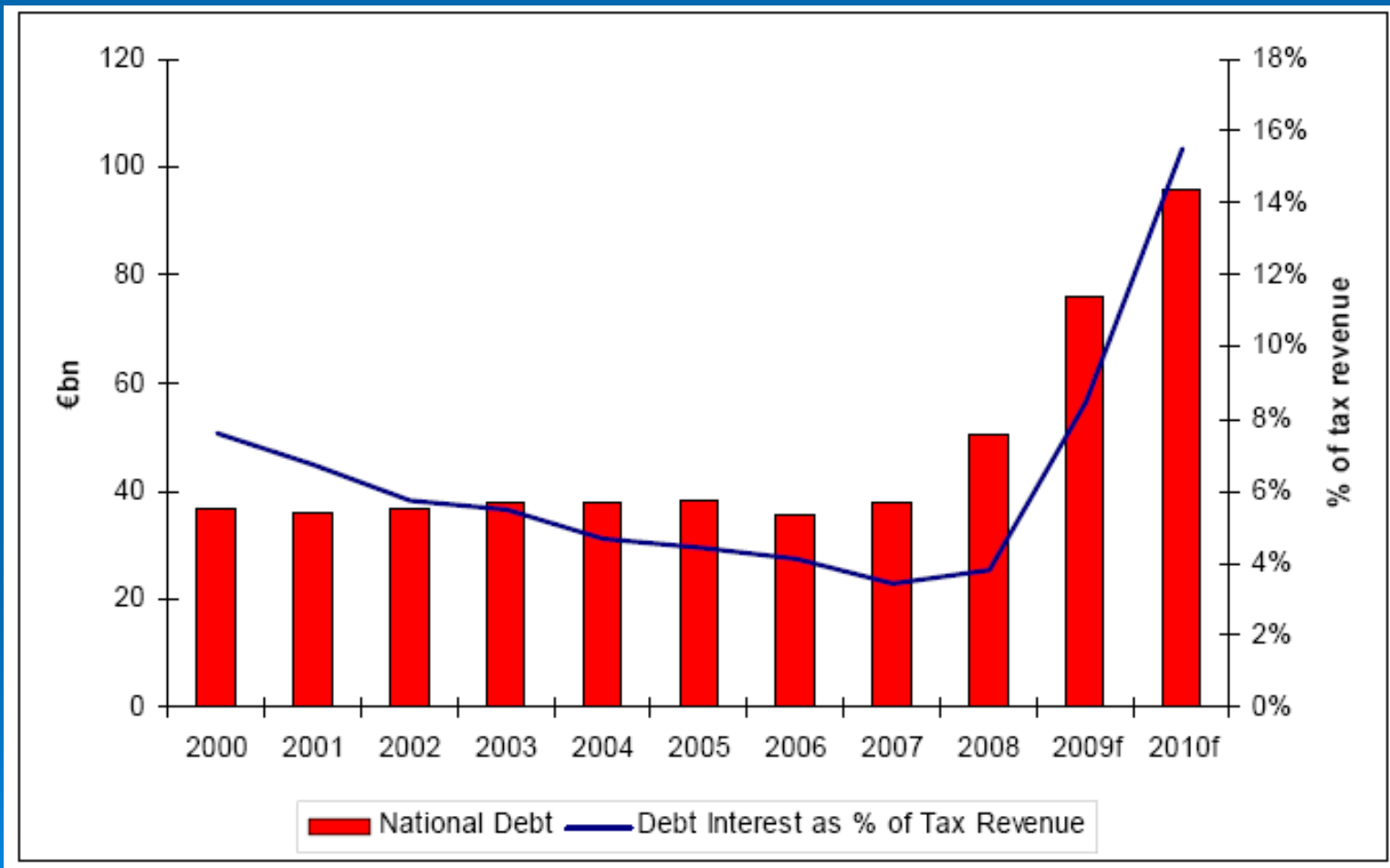
Crisis worse than the 1980s?

- Banking system rescue has enormous Exchequer costs...
- Competitiveness has been lost
- Must be restored without devaluation...
- International economy remains weak....
- Sovereign credit markets very difficult...

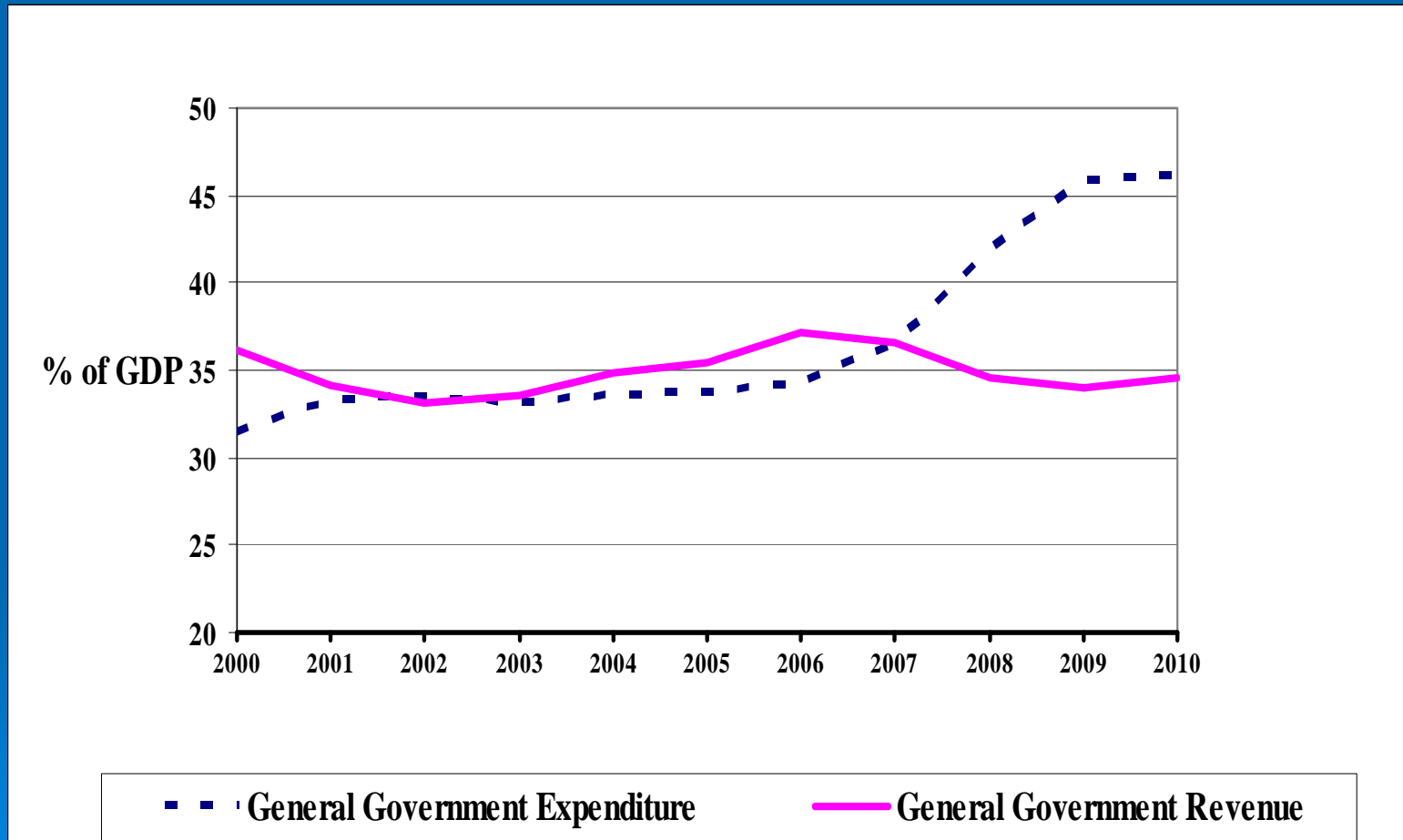
Revenue Collapse....



Debt Service Rising Rapidly...



Takes Time to Stop Expenditure Growth...



Re-Building a Viable Economy

- Will take 4 or 5 years.
- Most of the damage is self-inflicted and could have been avoided
- There were plenty of warnings! What is heard matters more than what is said.
- Institutional weaknesses made a big contribution to the crisis

Sources of Poor Macro Management

- Institutional failures, notably commercial banks, Central Bank/Financial Regulator
- Populist public spending bubbles 1974 to 1981 and 2000 to 2008. Twice in a generation!
- Political and administrative system dismissive of dissent. Weak broadsheet media
- Public debate dominated by lobbyists in both public and private sectors

Reform Politics and Administration....

- If we can't have two effective parliamentary chambers, try having one. Senate fails the 50-year test – if you have spent 50 years discussing reform, just scrap it.
- Time for single-tier local government and a Spring-cleaning of quangoes
- Open recruitment in the public administration at all levels: enhanced mobility, portable pensions

Media Reform....

- Public debate on economic policy susceptible to groupthink
- Broadsheet media gone down-market. There is particular obligation on tax-funded RTE
- Media willingly fed by lobbyists, vested interest groups and the PR industry
- Not enough think-tanks independent of government