

Reflections on Fiscal Policy for Small Open Economies in Uncertain Times

Professor Stephen Kinsella, Head of Department of Economics, University of Limerick

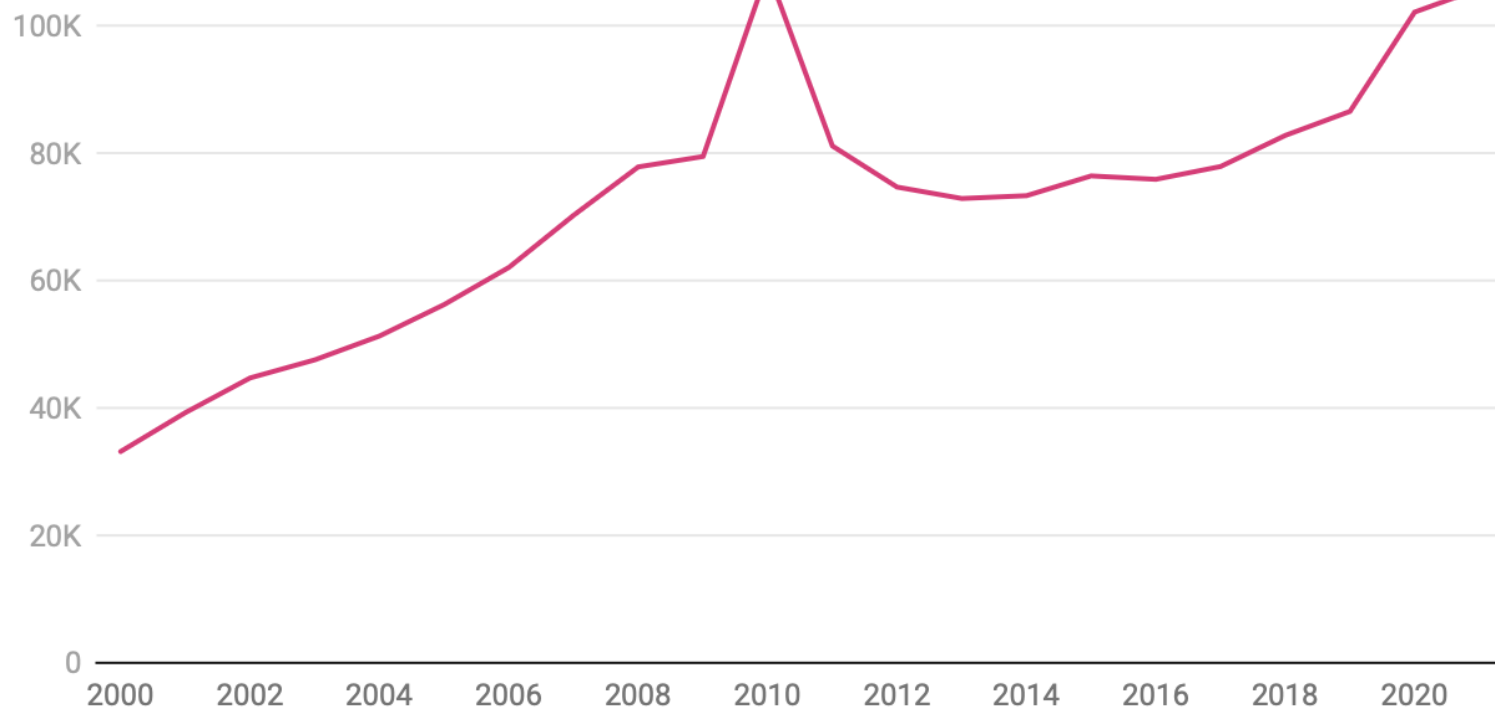


UNIVERSITY OF
LIMERICK
OLLSCOIL LUIMNIGH

Kemmy
Business
School

General Government Expenditure

€, Thousands of Millions



[Get the data](#) • Created with [Datawrapper](#)

Growth in modified domestic demand is forecast to slow down

Q4 2019 = 100

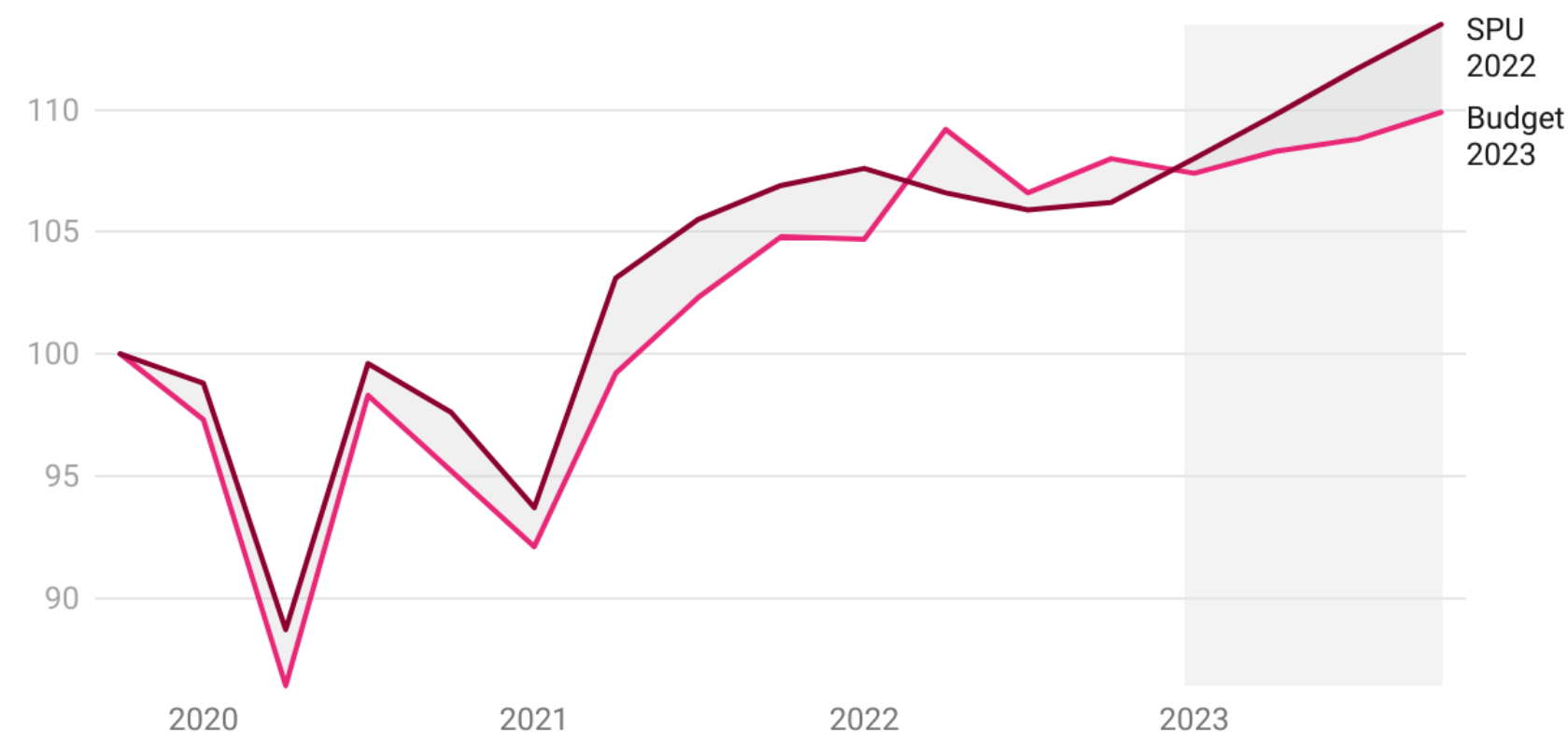


Chart: The Currency • Source: Dept. Finance • Created with Datawrapper

Slower growth, higher inflation

- Budget 2023 focused almost exclusively on mitigating today's cost of living challenges.
- Inflation is expected to be higher than anticipated and to remain at elevated levels until 2025.
- This will hurt economic activity as growth in the domestic economy is expected to slow from 7.7% this year to 1.2% next year.

Everyone is poorer in real terms

Nominal and Real Take Home Pay, after Income Tax and USC Changes

	2021-2023 Nominal % Change	2021-2023 Real % Change
National Minimum Wage Single	8.8	-6.4
National Minimum Wage Couple, 1 earner	9.4	-5.8
National Minimum Wage Single, child carer	9.4	-5.8
Average Weekly Earnings Single	10.5	-4.9
Average Weekly Earnings Couple, 1 earner	9.8	-5.5
Average Weekly Earnings Single, child carer	9.8	-5.5
Fixed (€49,000) Single	3.4	-11
Fixed (€49,000) Couple, 1 earner	3.4	-11
Fixed (€49,000) Single, child carer	3.2	-11.2

Nominal means without taking the effects of inflation into account. Real means taking the effects of inflation into account.

Chart: The Currency • Source: Parliamentary Budget Office • Created with Datawrapper

Budget 2023's forecasts show we are moving towards a larger state, with little public debate on how to pay for it



Income tax as a share of the national wage bill

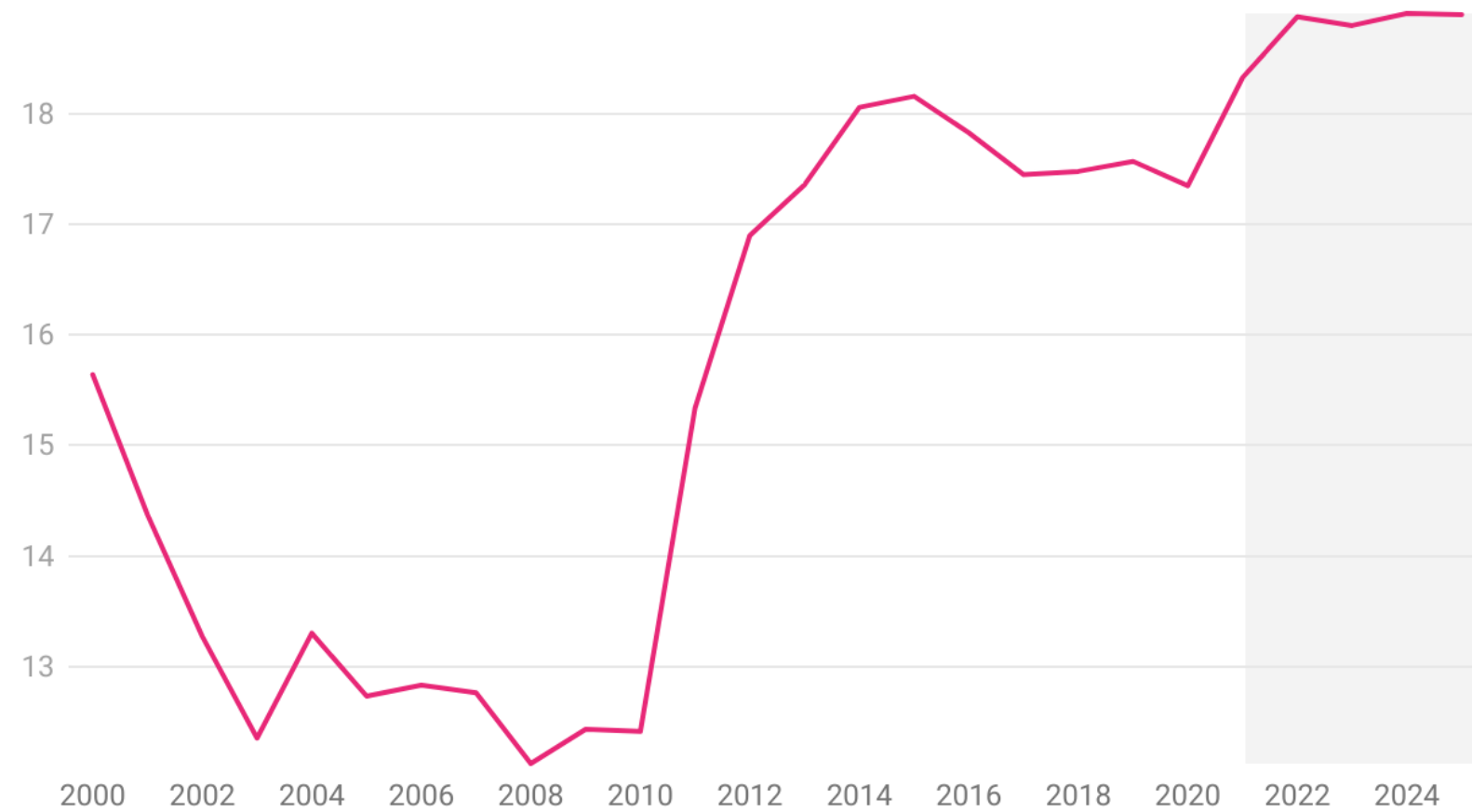


Chart: The Currency • Source: Dept. Finance • Created with Datawrapper

Total tax as a share of modified national income

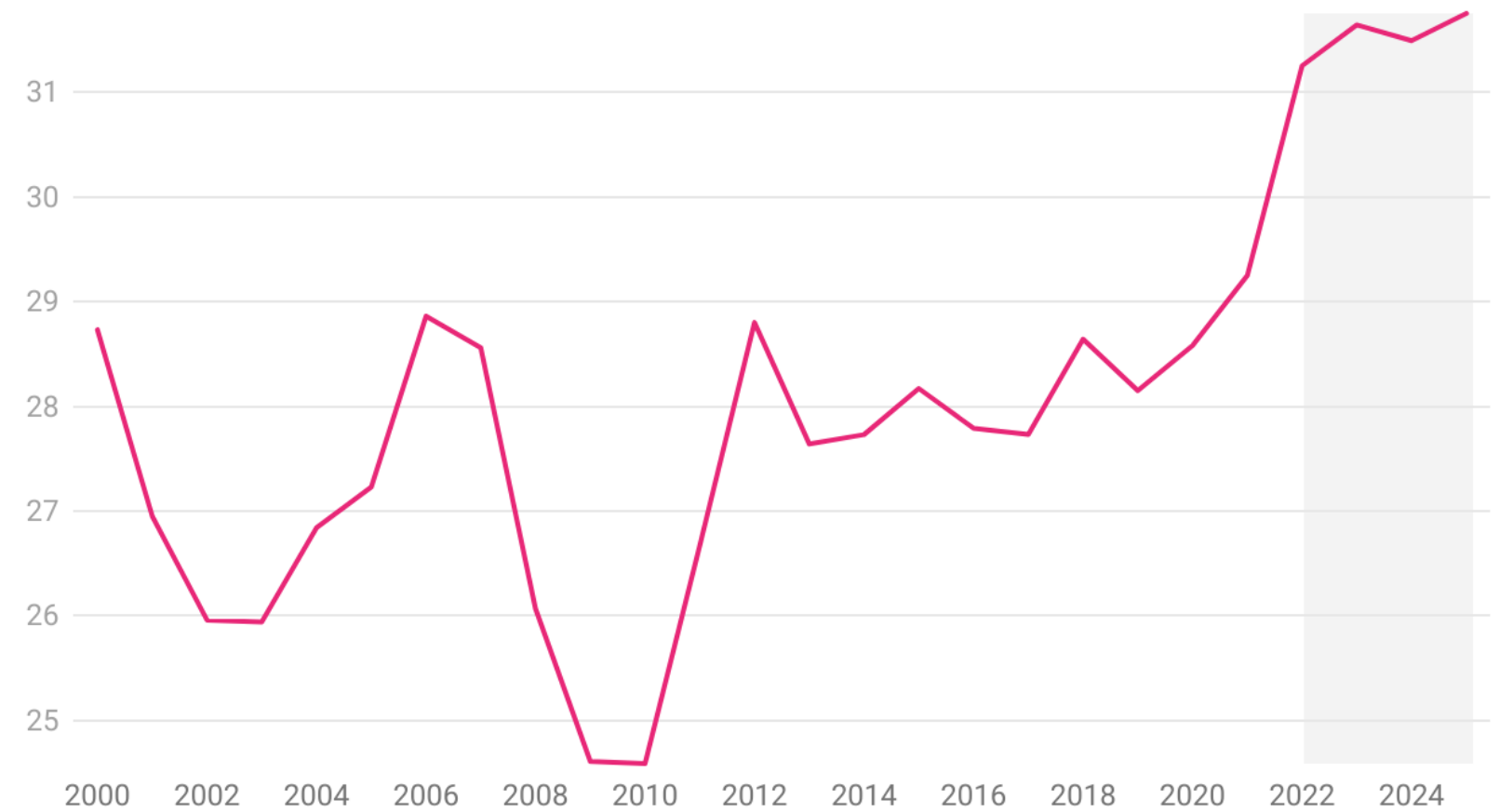
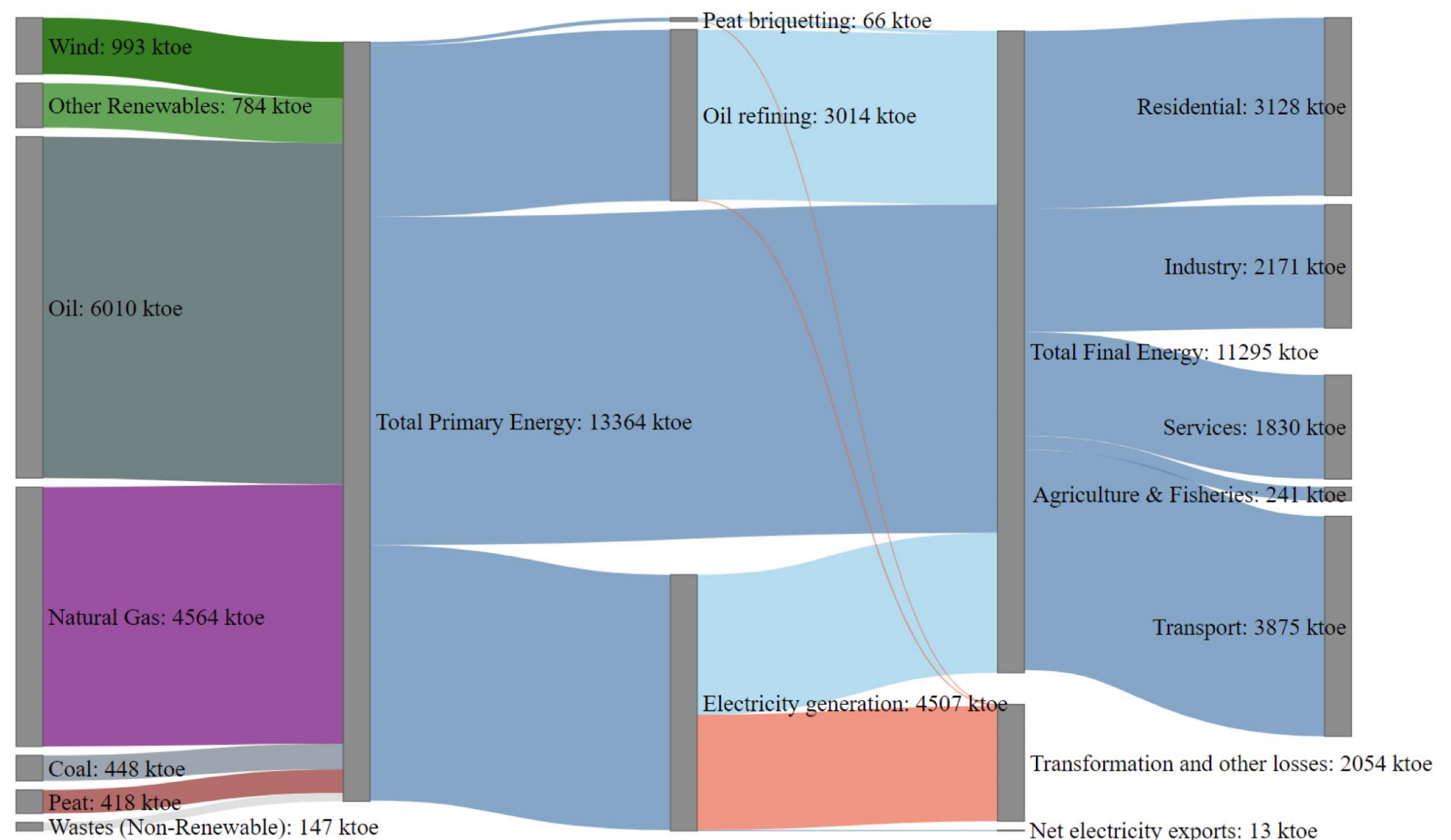


Chart: The Currency • Source: Dept. Finance • Created with Datawrapper



Our structural challenges remain unaddressed

- In structural terms Budget 2023 did not advance a suite of solutions to the problems Ireland will have in the coming years.
- Climate change/biodiversity, migration, and aging are all 'stitch in time saves nine' type problems we can address incrementally, but we do need to start.
- This budget, by largely continuing the same suites of policies, largely does not start.
- This leaves the problems to compound and becomes 2024's set of issues to solve.
- Some of the issue is with in the design of fiscal policy, and some with the delivery of policy.

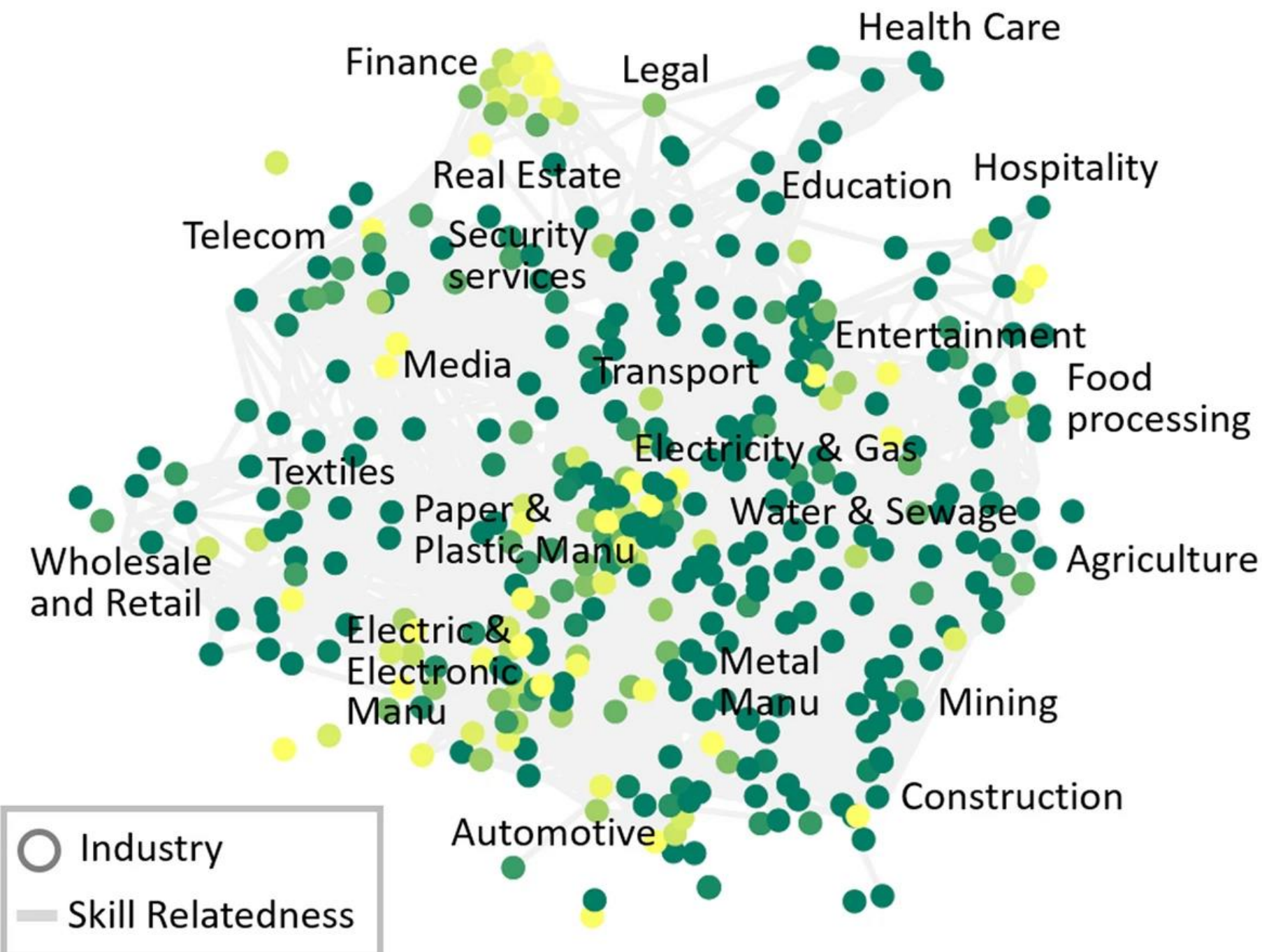


Source: SEAI

Moving to a larger state: Programme-level or performance budgeting is vital

- As the state grows, the public will need to be assured their monies are being well spent. Programme budgeting can help with this.
- Programme budgeting is a type of budget classification that groups expenditures with related policy objectives. See OECD (2019), OECD Good Practices for Performance Budgeting, OECD Publishing, Paris.
- Indicators track the performance of the pre-defined outcomes of budget programmes, strengthening accountability for results. This link, between budget programmes and key performance indicators, provides a framework for integrating performance and monitoring into the budget.
- Multi-annual spending ceilings are an important policy tool in combatting deficit-biased spending departments.
- Reviews of the fiscal rules at EU level may alter behaviour, this should be studied carefully.

Our key structural question beyond 2023: How to rebalance the contributions of multinationals and the domestic sector to economic growth?



Contribution to Gross Value Added

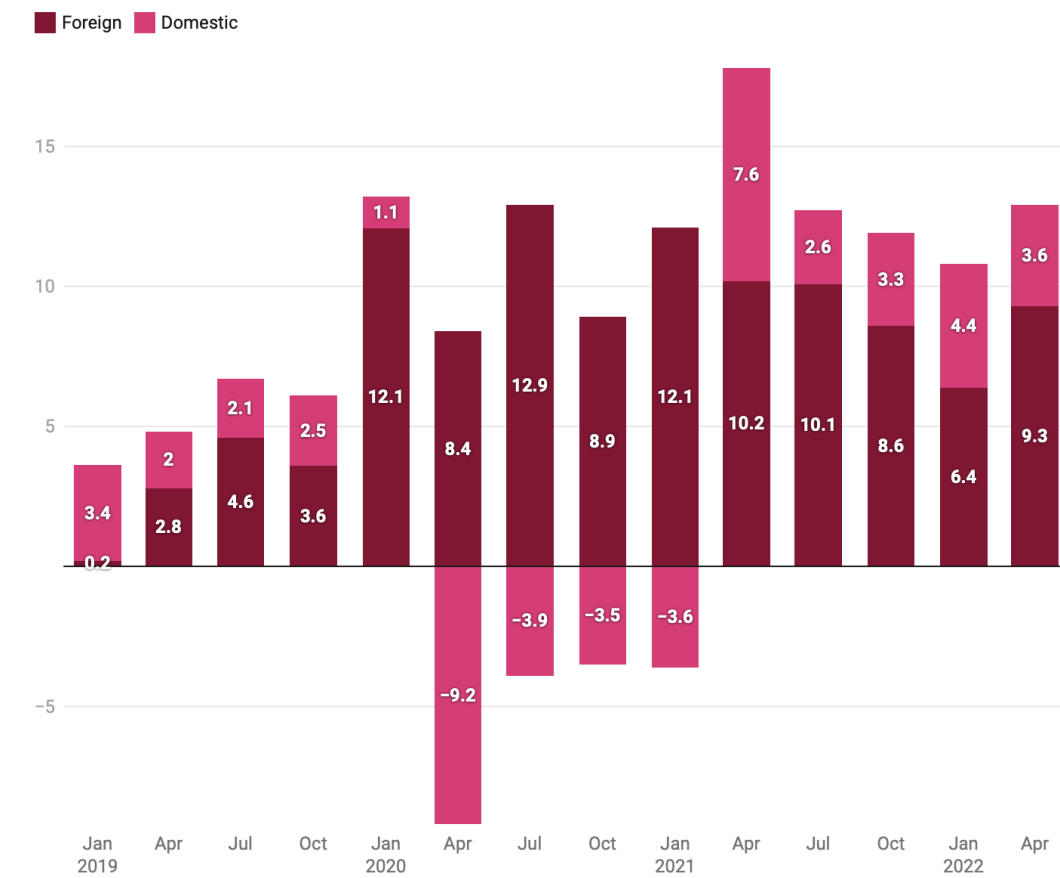


Chart: The Currency • Source: Dept. Finance • Get the data • Created with Datawrapper

Contribution of foreign-multinational companies across selected metrics (as a percentage of all companies in that sector and overall), 2020

	Overall sector by CT return filed	Sectoral CT Liability	Sectoral Employment	Sectoral Payroll Tax Receipts	VAT for Sector
Industry	10	95	52	72	31
Construction	4	19	9	15	42
Distribution	7	72	23	53	57
Services	9	89	29	53	30
Finance and Insurance	23	76	60	62	N/A
Agriculture, Forestry, Fishing	2	7	6	11	21
Other Sectors	4	36	17	23	23
Overall contribution of MNCs	9	83	33	53	46

Table: The Currency • Source: Commission on Taxation and Welfare, p. 178. • Created with Datawrapper

Thank you



**UNIVERSITY OF
LIMERICK**
OLLSCOIL LUIMNIGH

**Kemmy
Business
School**

University of Limerick,
Limerick, V94 T9PX,
Ireland.

Ollscoil Luimnigh,
Luimneach,
V94 T9PX, Éire.

+353 (0) 61 202020