DÁIL ÉIREANN

AN COMHCHOISTE UM AIRGEADAS, CAITEACHAS POIBLÍ AND ATHCHÓIRIÚ

JOINT COMMITTEE ON FINANCE, PUBLIC EXPENDITURE AND REFORM

Déardaoin, 26 Aibreán 2012

Thursday, 26 April 2012

The Joint Committee met at 2.10 p.m.

MEMBERS PRESENT:

Deputy Richard Boyd Barrett,	Senator Sean D. Barrett,
Deputy Stephen S. Donnelly,	Senator Aideen Hayden.
Deputy Timmy Dooley,	
Deputy Kevin Humphreys,	
Deputy Seán Kenny,*	
Deputy Peter Mathews,	
Deputy Mary Lou McDonald,	
Deputy Michael McGrath,	
Deputy Olivia Mitchell,	
Deputy Kieran O’Donnell,	

* In the absence of Deputy Michael McNamara.

DEPUTY ARTHUR SPRING IN THE CHAIR.

The joint committee met in private session until 2.30 p.m.

Second Fiscal Assessment Report: Discussion with Irish Fiscal Advisory Council

Acting Chairman (Deputy Arthur Spring): From the Irish Fiscal Advisory Council I welcome the following: Professor John McHale, chairman; Professor Alan Barrett, Mr. Sebastian Barnes and Dr. Donal Donovan council members; Mr. Diarmaid Smyth, chief economist; and Ms Eimear Leahy, economist. I understand Dr. Róisín O'Sullivan is unable to attend and has sent her apologies. The format of the meeting is that Professor McHale will make some opening remarks which will be followed with a question and answer session.

I remind members, witnesses and those in the public Gallery that all mobile telephones must be switched off. By virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. If witnesses are directed by the committee to cease giving evidence on a particular matter and they continue to do so, they are entitled thereafter only to a qualified privilege in respect of their evidence. Witnesses are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person or persons or entity by name or in such a way as to make him, her or it identifiable.

I remind members of the long-standing ruling of the Chair to the effect that they should not comment on, criticise or make charges against a person outside the House or an official by name in such a way as to make him or her identifiable. I invite Professor McHale to commence his remarks.

Professor John McHale: Good afternoon Chairman. I would like to thank the joint committee on behalf of the council for inviting us to appear again before the committee. I would like to introduce the other council members who are in attendance today, Mr. Sebastian Barnes, Professor Alan Barrett and Dr. Donal Donovan. Unfortunately due to a pre-existing commitment, Ms Roisin O'Sullivan cannot attend today. Two of the council's secretariat are present, Ms Eimear Leahy and our head of secretariat and chief economist, Mr. Diarmaid Smyth. I wish to point out that Mr. Sebastian Barnes must leave by 4 p.m. in order to return to Paris.

Today, I will cover our second fiscal assessment report. The council published its second fiscal assessment report on 3 April. The main purpose of this report was to assess the macroeconomic and budgetary projections set out by the Government in budget 2012, including the appropriateness of the overall fiscal stance over the period to 2015, in advance of the stability programme update, which will be published later this month.

The report first assessed macroeconomic developments since the budget. The economy returned to growth in 2011 following three years of contraction. The 2012 budget projected real GDP growth of 1.3% for this year with an average annual growth of 2.8% for the period 2013 to 2015. While the macroeconomic projections in the budget were broadly appropriate at the time of publication, recent developments suggest that the growth outlook underlying the budget, particularly for 2012, looks to be on the high side.

More broadly, a central theme to our report was the unusually high degree of uncertainty surrounding growth prospects over a two to three year period, in part reflecting possible external developments. In addition, from a domestic perspective, the behavioural dynamics of Irish households, investors and financial institutions are some way from being understood at this stage. The council believe that for future Government reports, it would be helpful if the presentation of the forecasts were to give greater prominence to uncertainty and to include a clear assessment of the balance of risks.

In terms of the budgetary outlook, last year's budget involved a consolidation package of €3.8 billion, which was higher than had been initially planned in the 2011 stability programme update. The need for larger fiscal adjustment to meet existing targets had been signalled by the council in its first assessment report. The main tax change in the budget was the increase in the standard rate of VAT. The analysis of the Irish Fiscal Advisory Council indicated that the projection for VAT in 2012 was broadly appropriate.

As mentioned, the macroeconomic outlook for the economy has weakened since the budget was published which pointed to some downside risks of attaining the general Government deficit target for this year. The simulations in the fiscal assessment report were based on the 2012 budget baseline. The latest information to hand, which was published by the Department of Finance on Monday of this week, points to significant revisions to the deficit and debt figures for Ireland in 2011 and 2012. The Maastricht returns information note estimates an overall general Government deficit of 13.1% of GDP in 2011 and 8.2% for 2112, as opposed to 10.1% and 8.6% respectively in the budget. I am happy to take questions on these revisions.

For 2013 to 2015, there appears to be a broad consensus among official agencies that the general Government deficit will steadily improve to 3% in 2015. These forecasts take account of a projected sharp rise in interest expenditures in part reflecting the ending of the promissory note interest rate holiday. Debt levels in the economy are projected to remain elevated with a gross debt to GDP ratio projected to peak at 119% of GDP in 2013 according to budget 2012.

In light of the uncertainty surrounding the growth outlook and also a suggestion from this committee at our last visit, the report also considered the sensitivity of the budgetary projections to changes in the macroeconomic outlook. These simulations highlighted the sensitivity of the budgetary forecasts to changes in the outlook. For example, one simulation showed that in the event that nominal GDP was 1% weaker per annum over the period 2012 to 2015 than envisaged in the budget, the debt to GDP ratio would not stabilise by 2015 without additional discretionary measures. In any event, debt levels will remain high over the medium term and vulnerable to negative growth shocks.

The council's view on the appropriate fiscal stance was again widely reported following the publication of the report. Clearly policy makers face an unenviable dilemma in this regard as, on the one hand, more ambitious fiscal adjustments slows the economy. On the other hand, slower fiscal adjustment reduces fiscal sustainability, leaving the economy on a higher debt to GDP path. Higher debt levels are unsafe in so far as they undermine credibility and jeopardise access to funding. Higher debt levels are also unfair in that the burden is shifted to young generations.

For 2012, the council is of the view that the general Government deficit target of 8.6% of GDP is adhered to. As regards 2013 to 2015, the headline budgetary targets set out in the budget of 2012 remain within the range of appropriate courses of action. Nevertheless, weighing up the various arguments, the council continues to believe in the need for more ambitious

consolidation than currently envisaged by the Government. This assessment was not arrived at lightly. The council factored in the deterioration in the growth outlook, the fragility of debt sustainability, the improvement in Irish creditworthiness, the short-term costs of additional austerity and the Government's own choice of a less ambitious budgetary target for 2012 than that underlying the council's October 2011 analysis. The council favours an alternative adjustment path with additional cumulative budgetary adjustments of €2.8 billion compared with those currently envisaged by the Government. Simulations indicate that such an adjustment path would yield a general Government deficit of 1.7% of GDP in 2015 - compared with the Government's target of 2.9% and the council's October 2011 proposal of 1% - and a primary surplus of 4% of GDP by 2015.

The report also argued for the need for policies that preserve credibility while retaining flexibility. To elaborate, provided existing programme commitments are not overridden, the council favours setting out fiscal adjustment paths in terms of discretional measures in absolute terms, rather than focusing on specific deficit to GDP targets. Such an approach could reduce the possible downward spiral effects of negative growth surprises and better facilitate the operation of automatic stabilisers.

I would like to conclude by thanking the committee for providing us with the opportunity to meet today. The Irish Fiscal Advisory Council has been up and running now for effectively nine months, in which time it has produced three reports. It believes that the council has already begun to have an impact on the budgetary architecture in Ireland. Our appearance before the committee today is part of the process. Above all, the council's main value will be for the long term. It is imperative that the budgetary mistakes of the past are not repeated and the costs and risks inherent in pursuing bad fiscal policy are highlighted. At all times the council will strive to be independent, objective and to provide a voice in the best interest of the public.

Acting Chairman (Deputy Arthur Spring): I thank Professor McHale for his presentation. I call Deputy Michael McGrath.

Deputy Michael McGrath: I welcome Professor McHale and his colleagues from the Irish Fiscal Advisory Council. I thank them for being willing to serve on the council because they are performing a very important function for the State. I think they should be thanked for serving the State. I know they are not getting any financial reward for doing so, and this should be acknowledged.

I wish to raise a number of issues. Let us look at the figures for 2012. Professor McHale is striking a slightly more pessimistic note than the Government. It is open to question as to whether the 8.6% target can be achieved without any additional fiscal measures during the current year, but when we look at the most up-to-date data - Professor McHale referred to the Maastricht returns information note - the Government believes that it can quite comfortably achieve the 8.6% and is now anticipating a deficit of 8.2% for 2012, without any additional fiscal measures. I would be interested to learn how that could be possible, and if Professor McHale can try to square the two apparently contradictory positions? Given that we are still looking at a reduction of growth, how can the Government anticipate that it will exceed the performance target for 2012 based on that? I suspect the starting position was better than the anticipated outturn for 2011.

I see the key issue as economic growth. Over the next number of days, it appears the Government will again revise downwards the growth forecast for 2012 when the stability programme update is published. The indications are that it will probably go from 1.3% down to

between 0.5% and 0.75%. The Minister's logic in setting out his belief that the budget numbers can still be achieved is that the budget is based on nominal growth. Even if we only get real growth of approximately 0.7%, inflation will do the rest for us and we will achieve our targets. Does the professor concur with that? For the real economy, the measure is real GDP growth, because that is what can lead to additional economic activity. Taking the value of money and price inflation into account and allowing that as the tool for achieving budget targets, strikes me as not the best way forward. What is the council's view on that?

On growth, the council set out a stark analysis in its sensitivity analysis of what the impact would be of growth being 1% less or 1% more in nominal terms than has been budgeted. It seems to me that the growth forecasts for 2013 and beyond are optimistic. The forecast is approximately 2.5% real growth next year and 3% in 2014-15. If those growth levels are not achieved, we are in real trouble on the fiscal front and the council's analysis bears this out. If nominal growth is 1% less than budgeted for those years, the council predicts the debt to GDP ratio will reach 125% by 2015 and will not have peaked, but will continue on an upward trajectory. I am very concerned that our medium-term fiscal projections are still based on growth forecasts that are excessively optimistic.

This brings me to the question of debt sustainability. At what point would the council advise it would no longer be sustainable to carry the burden of debt we have? If nominal growth is just 1% and the debt to GDP ratio is 125% and continues upwards, surely we are in the territory where the debt is utterly unsustainable. It is already quite fragile as things stand.

On the management of the public finances and planning our way out of the EU-IMF programme, which is due to end next year, when would Professor McHale recommend to the Government and the NTMA that we go back to the international markets? How far ahead do we need to have a secure plan for the public finances? Is it around now or the middle of next year that we would have to have certainty about the funding position of the State going into 2014 and beyond? I am very interested in hearing the professor's views on that issue.

On the issue of stimulus, various proposals have been put forward by Fianna Fáil, other parties and the social partners about off balance sheet financing of a stimulus package, which could lead to significant capital investment in the economy. Is that something the professor believes is worth considering and would it be beneficial for the economy?

Acting Chairman (Deputy Arthur Spring): Would Professor McHale like to respond or would he like to designate other speakers?

Professor John McHale: I may allocate some of the questions as we go along, the harder ones. I thank Deputy McGrath for his important questions. With regard to the budgetary projections, I will give the Deputy some idea of how we came to our particular projections and how things have changed as a result of the recent Maastricht returns. The projected deficit for 2011 in budget 2012 was 10.1% of GDP. When writing our report, there was already information available that things had turned out somewhat better than that and our projection at that point for the deficit for 2011 was 9.9% of GDP. We made the assumption, based on the information we had, that this improvement would carry forward to future years. However, then we had to factor in the clear evidence of lower growth. We used the most recent growth projections at the time, which came from the IMF. The combination of the somewhat better starting point and the deterioration of the growth projections led us to project that everything else being equal, the deficit for 2012 would be 8.8% of GDP. We believed there were likely to be buffers built into the Government's projections and even though on the day the report was launched we were

saying Government's projections would be missed, we recognised the buffers were likely to be there. Therefore, we would not have been calling for a mini budget as an immediate reaction to missing the 8.6% target. We believe that meeting the programme targets is very important to the Government's credibility, but it was going to be later in the year before we had a good sense of whether additional actions needed to be taken to meet the target of 8.6%.

There is both good news and bad news in the Maastricht returns. The bad news is not any great surprise as we knew that at least a portion of the injections into the banking system that took place in 2011 - €16.5 billion had to go into the banks - would be reclassified as a deficit creating capital injection. That led to the headline deficit for 2011 rising to 13.1% of GDP. The good news is that as a result of some other revisions, particularly relating to dividends from the National Pensions Reserve Fund and revenues from the banking guarantees, the projection for the underlying deficit for 2011 was reduced to 9.4% of GDP. Therefore, there was a better starting point. Based on the nature of those revisions, we do not see a strong reason to carry them forward to future years so that when we then make our growth revision - I note the Maastricht returns are still based on the old growth numbers - we project the deficit for 2012 coming out at approximately 8.6% of GDP. This shows the buffers were there, but we can now be a bit more explicit about what the buffers were. Essentially, our revisions in terms of the bank guarantee related revenues and the dividends are offset by the changed growth outlook. That is the finishing point of our analysis.

It is true that nominal growth is very important for the budgetary projections, but real growth and employment is what matters for people's lives. One of the key points we make in the report - this is theme running through the different chapters - is the importance of the uncertainty around the growth outlook. There is always uncertainty around the growth outlook, but in the post bubble Irish economy that uncertainty is particularly heightened. We discuss the various elements of that uncertainty in our report. Based on that uncertainty, it is prudent to look at different scenarios for how the budgetary projections would unfold under the different macroeconomic outcomes. We see quite a range of possible budgetary outcomes, depending on how things work out on the macroeconomic side. As the Deputy mentioned, one of the scenarios we look at is that the nominal growth rate is one percentage point less per annum out to 2015. In that scenario, the debt to GDP ratio reaches approximately 125% of GDP by 2015 and, more important, has not stabilised and is still on an upward trajectory. This shows the fragility of the situation we face currently and the difficult balancing act involved in setting fiscal policy in the current environment. In an economy in deep recession and having a shockingly high unemployment rate, the last thing we want to do is to put a further drag on the economy through additional fiscal adjustment.

On the other hand, the debt situation is very fragile. Ireland's underlying debt sustainability is very fragile. Although its credit worthiness has improved substantially since last July, longer term bond yields, even though they are now below 7%, are still too high to return to the market on any sustainable basis. Given that Europe's crisis regulation mechanisms are still somewhat in flux there is also uncertainty in terms of access to official funding. In terms of our market creditworthiness and official funding creditworthiness there are vulnerabilities.

We can help to improve both with a somewhat more ambitious fiscal adjustment. Longer term, there are issues related to how a heavy debt overhang affects growth. There is growing international evidence from a number of papers that show debt-to-GDP ratios of over 90% of GDP have a noticeable drag on growth. There are also issues of intergenerational fairness, in that the more we allow the debt to build now the greater the burden were are putting on future

generations.

One thing we did not mention in the report but is important to note is that the more we allow the debt to build now the larger the interest burden that will exist in the future and the harder it will be to fund non-interest related government expenditure in the future. It is another factor which needs to be taken into account. It is a difficult dilemma in terms of setting the appropriate fiscal stance.

Based on that and given the vulnerabilities related to debt sustainability and credit worthiness, some moderate amount of additional fiscal adjustment to 2015 would give us a little insurance against some negative shocks and we could still remain on a sustainable debt path. It is a difficult decision. We can understand how other people could weigh that dilemma and come to a different outcome.

In the report we said the Government's strategy of targeting a deficit of 3% of GDP by 2015 is within the range of appropriate actions but our judgment is that some additional insurance, through some additional adjustment, would bring down the debt-to-GDP ratio to 1.7% of GDP and, probably more importantly, run a primary surplus of about 4% of GDP which puts the debt ratio on a reasonably firm downward path. It would probably decline at a rate of about three percentage points of GDP per year if we were to achieve that, as opposed to the current plan which would leave the debt to GDP ratio on a much shallower reduction path. It is clearly a balancing act to get that right.

A Deputy also asked about stimulus. We have to be careful. If one is engaging in fiscal adjustment and reducing the deficit, one is not engaged in a stimulative fiscal policy. It is worth considering what could be done to lessen the growth reducing effect of any fiscal adjustment. I am a bit sceptical about whether innovative financing mechanisms can achieve very much but I am not saying they are not worth careful consideration.

Taking money from the National Pensions Reserve Fund is not very different to allowing gross debt to accumulate. In terms of the real measure of the debt burden of the country, the net debt subtracts from the value of the financial assets in the fund from the gross debt which is the real measure of the debt burden. One does not achieve much by moving such figures around. Measures such as using commercial semi-State bodies can be examined but it is difficult to make substantial breakthroughs by using alternative funding mechanisms.

Something which may have more scope and was recently emphasised by the Nevin Economic Research Institute is the mix of spending. For instance, one could sustain capital spending beyond what one might have otherwise have done by using revenues from privatisation while at the same time making a strong commitment to permanent fiscal adjustments on the tax and other expenditure side.

On the one hand one is retaining credibility because one is showing that one is on a path to debt sustainability well on the other providing immediate, if temporary, spending power to the economy through increased capital spending. It is worth thinking hard about innovative things which can be done that retain credibility and support growth in the economy. Essentially, it involves looking for ways to try to improve the trade-off I mentioned which, unfortunately, is there. We cannot wish it away. It will be a difficult balancing act. We would strongly support anything we can do to support that trade-off. We are examining those issues.

Deputy Michael McGrath: How likely is it that we will return to the markets and when

would we need to finalise that?

Professor John McHale: We do not have a crystal ball. It will undoubtedly be challenging. We have the best chance of returning to the markets if we have back-up sources of funding. The best chance of not needing official funding support is to have it available if it is needed. Potential private investors will see that-----

Deputy Mary Lou McDonald: We are on the page.

Deputy Richard Boyd Barrett: It sounds like something we heard earlier.

Acting Chairman (Deputy Arthur Spring): If the markets know one has to source funding they will decide on a price at that point in time. The rate has stagnated at about 7%. Will there be more impetus when the time for funding draws closer?

Dr. Donal Donovan: It is quite early to speculate on whether Irish efforts will be successful or what the rates might be. A lot is happening domestically and in the euro area as a whole. We do not know what will happen in Spain and Italy. What happens will have an overriding effect on the general appetite of the markets for the euro area as a whole and Ireland. One hears the NTMA is starting to prepare to put some toes in the water. There are reports that some initial transactions are being thought of. My view is that one would have to wait quite a bit longer before-----

Deputy Michael McGrath: When would we need to have certainty about the funding of the State for 2014 and beyond? Obviously, we need to plan very far in advance.

Dr. Donal Donovan: I do not imagine the Government would be in a position to prepare its budget for 2014 in the middle of 2013 unless it had a pretty good idea about how it could finance the prospective deficit. This could, presumably, in theory involves a combination of likely access to markets. There would be enough indications at the time that would tell one that. Alternatively, there could be some possible extension, addition or use of funds not already used under the current bailout arrangements. That would have to be fairly well-known to the Government by mid-2013.

Deputy Mary Lou McDonald: I thank Professor McHale for his comments and for appearing before the committee today. I refer to the employment and unemployment forecasts. They make fairly depressing reading, do they not?

We had a discussion with Professor McHale on the last occasion around his weddedness to austerity, or "consolidation" or "adjustments". He does not use the term "cutbacks" but in common parlance that is what they are. When he was asked about the notion of stimulus he stated that when one is in the business of consolidation one cannot really be in the business of stimulus. Will he tease out that issue? Clearly, it is not a straight choice between fiscal adjustments, or cutbacks, and growth. There are no hundred per cents in it. Surely, however, there is a point at which, if the adjustments are so drastic and deep, one will damage any prospect one might harbour in respect of growth. That would seem to me to be a fairly commonsense proposition.

Professor McHale stated he is looking at ideas, models or possible innovative ways of funding stimulus. Will he tell us what that work comprises? Does he propose to bring forward some paper or proposition in that regard? It would be very helpful if he did, with no disrespect to the very valuable work he does. At this stage I associate him with the group which tells us we are not cutting enough and I suspect that is a fairly widespread perception. He would be very well

equipped to offer a commentary and some guidance to policy makers in respect of stimulus.

I have a very direct question for Professor McHale which relates to our structural deficit, in which I take considerable interest at this time. I refer to the key aggregates extending to 2015, listed on page 16. In 2011, there was a structural deficit of 8.6%. By 2015, according to this, we will arrive at a structural deficit of 3.7%. I appreciate these are projections. As we plot that course, year on year, from 2011 until 2015, that drop in the structural deficit is, of course, associated with consolidation and adjustment measures. Has Professor McHale forecast, or been asked to forecast, figures from 2015 onwards that would give us an estimate of the consolidation measures, the net sum of money required to get us from 3.7% to 0.5% in structural deficit? I ask this in the context of the proposed austerity - or stability - treaty which is in the mix. I would appreciate if he would help us in that regard and put an actual figure on what would be required in order to hit the magic 0.5%.

I have a question for Dr. Donovan and others, in respect of the argument they make around security of funding. It goes without saying that the State, namely, the Government, has to know how it is funding itself. We can take that as read; it is obvious. I detect, from what the witnesses stated, a suggestion of a scenario in which a bailout mechanism, or funding, whether it be the current arrangement under the EFSF, including the IMF's involvement, or the mooted ESM, would be denied. Certainly in respect of the ESM, that would go against the very grain of the actual proposal which is all about retaining stability in the eurozone, rescuing the euro and saving everybody's collective bacon. To be very direct, it lacks credibility to suggest that a potential European bailout mechanism would turn away a member of the eurozone.

Acting Chairman (Deputy Arthur Spring): That is not for discussion on the agenda today, with all respect.

Deputy Mary Lou McDonald: It was mooted by the-----

Deputy Richard Boyd Barrett: It has to do with the macroeconomic outlook.

Acting Chairman (Deputy Arthur Spring): It is an independent body.

Deputy Mary Lou McDonald: I understand. I ask for an answer; I do not invite a partisan response. Given the delegates have a macro view of this, will they tease this out? Were that to happen, leaving Ireland aside, what would be the consequences for the eurozone? It strikes me they would be catastrophic. We will not go into the politics of why that will simply not be countenanced, because it is self-evident, but it would be helpful if Professor McHale and his team were to tease out the question. I would like a specific answer, however, in respect of the structural deficit adjustment going from the projected 3.7% for 2015 down to the magic 0.5%. What are we talking about in euro? There are independent analyses that pitch the sum at approximately €6 billion.

Professor John McHale: I have also let my-----

Acting Chairman (Deputy Arthur Spring): Professor McHale might answer that, within the range of his responsibility.

Deputy Mary Lou McDonald: I ask him to answer as openly and accurately as he can.

Professor John McHale: I will certainly try to do so. I am sure my colleagues will also wish to contribute.

On the first point, the cost of austerity, I absolutely agree that what has been happening on the unemployment front is horrendous. The austerity measures are a contributing factor, though I do not believe they are the only one slowing growth in the economy. There is a weak situation in terms of European growth and there are burdens of debt right across the economy, as Deputy Mathews has emphasised on many occasions. There are a number of factors slowing growth, therefore, but austerity is certainly one of them.

Following good Keynesian principles, this is a time when one would like to apply stimulus rather than contraction, or austerity measures, to the economy. Unfortunately, however, we have a very large deficit, as Deputy McDonald knows, and we are not creditworthy, either in terms of the markets or in our access to official funding, where there is a certain fragility. I shall return to that shortly.

Unfortunately, therefore, I am sorry to repeat myself, it comes back to that balancing act. If it was only the one side, namely, focusing on growth, I believe we would be in absolute agreement about what is the right policy. If we were to lose all access to our funding of the debt, it would go on an unsustainable path and begin spiralling upwards, as could happen if we were hit with further negative shocks. If we were to lose access to funding it would put us in a position where we might even have to make more substantial adjustments, essentially closing the deficit cold turkey.

In a way, the policy we advocate is to have a phased adjustment. A phased adjustment cannot be taken for granted; it requires funding. It is about balancing the desire to go as slowly as we can against the need to ensure we have funding in place so that we can actually go slowly. Unfortunately, however, those things can often pull against each other. We are doing a balancing act in terms of what is the best fiscal course to follow at present in order to ensure that funding stays in place and we do not go on an unsustainable debt path while, at the same time, doing as little damage to the economy as is absolutely possible. It is very difficult.

I refer to what may be my reticence about using the language of stimulus. When there is an overall policy that involves cutting the deficit, even if there is a subset of policies that involves cutting taxes or erasing spending, it does not make a lot of sense to me to say there is a stimulus. It is not that I am against trying to stimulate the economy - I wish we could do much more - but this explains my reticence about the word “stimulus”, given that the overall stance is not stimulative but contractionary. Within that, however - this covers some of the ground I spoke about earlier in response to Deputy McGrath’s question - we may find a mix of adjustments that allows us to build our credibility, retain our creditworthiness and, at the same time, go a little bit slower in terms of the adjustment. That may be possible by focussing on temporary capital spending measures while still making more permanent adjustments. We are very interested in those policies. We did some preliminary work but we did not think we were ready to go for this report. We had a long meeting this morning on our work programme for the summer and it is an item on the work programme. We hope it will be a significant part of the upcoming report.

On the structural deficit, we have not looked beyond 2015. Our mandate is to assess the Government’s budgetary projections, which currently go to 2015. The stability programme update, which will come out later this month, will extend that to 2016. I cannot make an absolute commitment but we can examine it to see if we can competently extend our projections to provide that information. At this point, I would be hazarding a guess at the additional discretionary adjustments to get from 3.7% to 0.5%. I will not throw that guess into the mix, if the members do not mind.

Mr. Sebastian Barnes: A major issue is measuring the structural position. We have tried to set out the issue in terms of alternative fiscal scenarios. Reference was made to these showing growth being 1% lower or higher. These can be considered different medium-term growth plans. We are not just talking about them being different for one year but over a number of years. The level of GDP we get to at the end could be quite different. In table 3.6 on page 32, we show the different impacts.

Deputy Richard Boyd Barrett: Where is that?

Mr. Sebastian Barnes: It is on page 32 of the report. The three scenarios are cumulative so we can think about it as a medium-term number. If nominal GDP growth turned out to be weaker than allowed for in the budget, we can question whether the fact that the level of GDP in 2015 will be 3% lower is telling us something about potential GDP or that demand will be very weak and the output gap will be very large. This expresses some of the uncertainty about the structural position. As time goes by, we get a clearer picture of how much is structural. Looking to 2015, which is a long time in normal forecasting, is important in terms of getting information about whether the balances will be structural or a permanent factor. If we accumulated slow growth over a number of years, it might tell us something about the underlying potential. The underlying structural position would be weaker than we think.

Deputy Kevin Humphreys: Can I interrupt? Is everyone using the same methodology to define the structural deficit? Does the EU and the IMF use the same methodology?

Professor John McHale: No, the European Commission uses a production function method and tries to measure the resources in the economy and the efficiency with which the resources are used. It is a supply-side measure. The IMF uses a time series approach looking for underlying trends in the potential of the economy. Different methods come to different answers and it is a difficult area. The effort to measure the structural deficit is very important. In a recession, it is very unlikely that the structural deficit will be higher than the actual deficit. In terms of having structural deficit targets, it allows more scope for countercyclical fiscal measures. If one uses the actual deficit target, the deficit rises when the economy goes into recession because of automatic stabilisers. One is forced to do extra fiscal adjustment to hit the target. If one focuses on the structural deficit, it allows more scope for the automatic stabilisers to operate because one does not have to respond to the cyclical component of the increase in the deficit. People who say it is difficult to measure the structural deficit are correct and one can see the differences across institutions as they try to do so. From the point of pursuing good countercyclical Keynesian fiscal policy, having a set of rules that focuses on the structural deficit is a major step forward. It is important not to lose sight of it.

Dr. Donal Donovan: Deputy McDonald raised questions about the prospects for official financing. This is not a matter the Irish Fiscal Advisory Council has treated in its report but if the Acting Chairman is agreeable I am happy to offer my personal view on it.

Acting Chairman (Deputy Arthur Spring): I am conscious that we are working within the remit of the agenda. There are many speakers and I ask Dr. Donovan to keep it brief. We will bear in mind that it is Dr. Donovan's independent view.

Dr. Donal Donovan: One can consider various scenarios for official financing and we cannot definitively rule in or rule out any scenario. The arrangements and rules underlying existing facilities have been changed by Europe over the past two years and could conceivably change again by the time the issue arises. The change might be favourable or unfavourable to Ireland.

At the moment, the ESM requires that users have adhered to the fiscal compact. The principle is presumably that this is an insurance mechanism for members of the club and those that wish to use it should be signed up to the aspects of the club. There is a provision that the overwhelming interests of systemic stability could be invoked to allow countries to use it regardless, but that is ultimately a political question. We have no idea what could happen. There may be conditions and charges or higher interest rates. It is very uncertain and it would be a political decision.

There has been some suggestion that the IMF might be happy to provide official financing to Ireland even in the absence of ESM usage by Ireland. It would be an IMF decision but, until now, it has insisted on its financing being accompanied *pari passu* by European financing because of burden sharing considerations. When the size of the Greek bailout fund was increased sharply a few months ago, the IMF did not increase its contribution. The increase had to come from Europe. Personally, I regard the idea of an IMF loan financing scenario for Ireland as rather improbable.

Deputy Kieran O'Donnell: Looking forensically at the Irish domestic economy, exports are performing yet there are major problems with it. In light of Professor McHale's comments on measures to introduce, can the council give a broad overview of where it sees that sector of the economy? There is nominal growth but the SME sector is concerned with real growth.

I refer to Deputy McDonald's comments. On the proposed fiscal compact, what is the advisory council's view on its impact between now and 2018 on how the Government will govern the country? What financial impact will the treaty have over these years and how will that feed into the structural deficit? Will the delegates elaborate on that?

Acting Chairman (Deputy Arthur Spring): The council said it had projections until 2015, but the Deputy is looking for information on up to 2018.

Deputy Kieran O'Donnell: I wish to get a general overview. My view is simple. We are in a funding programme until 2013 and in an adjustment programme until 2015 in order to meet the debt-to-GDP ratio of below 3%. Normally, any country in a rescue programme would have three years once it comes out of the correction mechanism before starting with the terms of the fiscal compact. There has been a lot of abstract talk and I want to hear the views on the practical implications of the compact and how government policy will transfer into people's lives.

Acting Chairman (Deputy Arthur Spring): I do not want this meeting to focus solely on the treaty but has the council taken a stance on the treaty to date?

Professor John McHale: We concluded that it was not consistent with our mandate to take a position on the referendum.

Acting Chairman (Deputy Arthur Spring): Thank you for clearing that up.

Professor John McHale: However, we have personal views.

Acting Chairman (Deputy Arthur Spring): The council members can highlight those views if they are going to speak on the treaty. I will allow a brief mention of them.

Deputy Richard Boyd Barrett: On a point of order, it is reasonable for us to ask people who are economists about the treaty, without them necessarily giving us their view, although I do not see why they should not give us their view. It is also reasonable, based on the figures they are setting out up to 2015, to ask what the likely impact would be of specific measures on

the figures they project for the year 2015. They could reasonably give us an expert opinion on that.

Acting Chairman (Deputy Arthur Spring): With due respect, there is an agenda for the meeting and I intend to adhere to it. Also, as Professor McHale said, the council's remit is very prescriptive, it has been provided to us and the Deputy has it before of him. I will allow the council members make an independent observation, but that is not to be seen as a fiscal council view.

Professor John McHale: Professor Barrett will take the first question.

Professor Alan Barrett: The Deputy asked a question that is very much about the real economy and about what is happening to exports. When I was in the ESRI - technically I am still in it but on temporary release or whatever the term is - the way we always thought -----

Deputy Peter Mathews: On parole.

Professor Alan Barrett: I do not know how Deputy Mathews knows that language, but we can go into that later. When we thought about the Irish economy and how it works and about the engine of growth, there was always the notion that we required foreign direct investment. Typically, foreign direct investment was quite export oriented and that was the engine that led to employment creation and that then spawned consumption growth and there were positive feedbacks and so on. The great frustration as we look at the Irish economy currently is that a number of the links we always understood in our modelling of it seem to have broken down. The Deputy is right. Exports still seem to be doing okay. However, while there is no sense that foreign direct investment has fallen off the cliff, relative to 20 years ago the problem is that the employment intensity of foreign direct investment and of our export sector is not as high as it was. Therefore, we do not have - I do not need to spell this out for someone from Limerick - the sort of investment that happened a number of years ago that was employment intensive. This part of things has broken down to a certain extent and while it may recover, we do not know that.

The other great frustration in the Irish economy is consumption. Previously, if foreign direct investment and exports were doing well, that would have a knock-on effect on consumption. What will get employment moving again in our economy is domestic spending, which is, primarily, consumption spending. Exports are great and previously they would have had the desired effect, but that does not seem to be happening. Until consumption takes off in our economy, SMEs will not do very well and employment will not take off. This is one of the great difficulties with the economy currently. Consumption spending is depressed for a number of reasons, but one of those reasons is because people are saving more than they did previously. Therefore, there is a lock-down on consumption relative to previous occasions.

Deputy Kieran O'Donnell: Also, apart from that, people's disposable income is down, outside of savings.

Professor Alan Barrett: It is well down, but if we look at what has happened with savings relative to that, something more has happened.

Deputy Kieran O'Donnell: Correct.

Professor Alan Barrett: The Deputy asked about medium term projections. In the normal run of events, we would expect the economy to grow by approximately 1%, then 2% and then

3%. We would expect this normal adjustment back to the medium term growth rate and all the projections have had that built into them. However, the problem is that until consumption starts moving, we are not going to get back to that sort of trajectory. We do not know as yet how we will get over the events of the past few years. In terms of people's reactions, we do not know whether we will get over them quickly or whether the debt overhang will remain for such a long time that it will keep us depressed as an economy.

One of the things mentioned in our report is that there are many unanswered questions. We simply do not know how many issues will pan out. We talk about them and part of our reaction, given all the uncertainties, is that we need the additional fiscal adjustment to buy us some degree of insurance. If growth remains very flat, which could happen, the unsustainability issues touched on by others will be there. This is, perhaps, a rambling answer, but in the context of people's lives it is one of the great frustrations that we really do not know how matters will unfold. We can identify the core issues, but it is very difficult to say how they will develop.

Professor John McHale: On Deputy O'Donnell's question on the fiscal compact, in terms of the constraining effect the compact has on Irish fiscal policy, it must be looked at in the context of the existing set of rules on the Stability and Growth Pact. All the rules already exist, including the structural budget balance under what is called the MTO, medium-term objective, and the debt reduction rule. Therefore, it is not as if the compact means there is a new set of rules being imposed. The rules were already there. The EDP, excessive deficit procedure, will be in play until at least 2015, when we reach the deficit of 3%, and possibly longer given that it may not be the case that we reduce the debt-to-GDP ratio according to the one-twentieth rule at that point. That could prolong the EDP for longer.

The requirement to be on an adjustment path towards what is called the medium term budgetary objective, which is essentially a structural budget balance, is already there. Under current rules, this particular adjustment path would be set out by the European Commission, with or without the fiscal compact. It is important to recognise that what the fiscal compact is about is improving enforceability of the rules, not the rules themselves. In the past, countries flouted the rules of the Stability and Growth Pact, mainly the bigger countries. Now, under the revised Stability and Growth Pact, the European level enforcement mechanisms are significantly strengthened. This was part of the six-pack reforms. Fines at European level are now more automatic than they would have been. However, because of what happened in the past, there is a concern that European level enforcement by itself is not enough. Certainly it does not encourage domestic ownership of the rules. There is a move to complement the European level of enforcement with domestic level of enforcement. The key article of the treaty is Article 3.2 which is about bringing into domestic legislation a correction mechanism that will be automatically triggered once there is a deviation from the adjustment path to the structural budget balance. Rather than the enforcement mechanisms just coming from Europe, they will now be domestic mechanisms as well.

Having a greater ability to enforce rules does not mean that the content of the rules can be ignored as they are important. However, it is a mistake, in my view, to think of the compact as being this new set of rules, a new set of restrictions on fiscal policy, because I do not believe that is the case. It is increasing the ability to enforce the rules by means of these domestic enforcement mechanisms of the existing set of rules.

Deputy Kieran O'Donnell: We are currently in a rescue programme and we are required to bring the public finances down to a certain level of debt-to-GDP by 2015. The fiscal compact will have no real impact on how we will be required to run our economy up to 2015. I refer

to the ability to enforce the existing rules. It provides guaranteed access to a fund, the ESM fund, which is an insurance policy. In simple layman's terms is this a reasonable synopsis of the terms of the fiscal compact?

Professor John McHale: The Deputy stated that it would not really affect us up to 2015 given that we are in a programme and that is true. Given that the rules are largely in place anyway, it is important not to exaggerate the provisions of the fiscal compact as it just makes those rules somewhat more enforceable. It is true that access to the ESM is conditional on being part of the fiscal compact. Dr. Donal Donovan discussed what might happen and there is a lot of uncertainty about what other potential sources of funding might be available but there is a certain risk involved in this regard.

It is very important that we do not focus solely on the risks of rejection of the fiscal compact and what people have termed the fear side of things and rather to make a positive case for the compact itself which has not been made as strongly as it could have been. This comes back to making an argument for fiscal rules, given that what the compact does is to increase the ability to enforce those rules. The underlying positive case must be about the rules themselves.

Sometimes when people criticise fiscal rules they have a world in mind which is, unfortunately, not the world we live in. It is as if we lived in a world where there was no bias under democratic politics - please excuse me for saying this, given that the members are all democratic politicians. This is not specific to Ireland but under any democratic system we see evidence of a bias towards debt and a bias towards pro-cyclical policy. If fiscal policy was working well what we would like to see is that it would be counter-cyclical, that the economy would be slowed down during unsustainable boom periods and then be in a position to stimulate the economy during recessions. What we see, in fact, is often runaway fiscal policy during boom times - we saw a particular version in the Irish context - and then countries are often not sufficiently credit-worthy to stimulate their economies when they need to be stimulated during recessions. This is because of underlying debt bias. In the case of Ireland this took a particular form where there was a hidden structural deficit because of the revenues coming from the property boom.

Deputy Kieran O'Donnell: Our debt levels are too high anyway.

Professor John McHale: Yes. However, the long term argument for the fiscal rules is that it can avoid these debt biases and give a country a better chance of using Keynesian policies, using counter-cyclical policies, rather than having to use pro-cyclical policies which seems to be what happened when there is unconstrained fiscal policies. This is the longer term argument for rules. Taking into account our situation at the moment, the biggest enforcer of austerity is not fiscal rules. The biggest enforcer of austerity in Ireland at the moment is the fact that we have a very large deficit and we are not credit-worthy. The only reason that the austerity is not substantially worse is that we have been able to source official funding over this period where we attempt to get back into the markets. The world we live in is not a world where the rules are not the main constraint because the main constraint is the lack of credit-worthiness.

Dr. Donovan went over some of this ground in his contribution. When we look at it from more of a European rationale we have seen that under monetary union, countries are not robustly credit-worthy. This applies not just to Ireland as it can be applied to bigger countries such as Italy and Spain and even some doubts are arising recently with regard to the Netherlands. Monetary union and credit-worthiness, unfortunately, seem to pull somewhat in opposite directions. To make monetary union work, there has to be mutual support mechanisms where the stronger countries are willing to act as lender of last resort to the weaker countries or else

credit-worthiness can disappear very quickly as we saw late last year in the case of Italy and Spain. Countries will not be willing to take on those large liabilities and associated potential moral hazard problems unless they have some assurance that their partner countries within the monetary union will follow reasonably disciplined policies. This would also apply to Ireland and it is hoped that in the not too distant future we will be one of the stronger countries providing one of the insurance mechanisms for other countries. We would then want some assurance that they will not take a lot of our money in order to bail themselves out. It is in everybody's interest that these mutual support mechanisms are in place and this requires fiscal rules to give the different countries assurance that they will not be taken to the cleaners if they provide that mutual support.

Deputy Kevin Humphreys: I thank Professor McHale for his attendance. I will be brief because I am aware it is frustrating for others who are waiting to ask questions. What is the delegation's view on what should be the balance between tax and expenditure cuts and where those cuts should be made? There is much concern about mortgage distress. Should creditors and debtors be compelled to come to an agreement?

Acting Chairman (Deputy Arthur Spring): Professor McHale is the middle man.

Professor John McHale: As regards a balance between tax and expenditure cuts the fiscal council has been grappling with this issue. We have taken the view that we should focus on the overall stance of fiscal policy, the size of the deficit and the particular path of fiscal adjustment. What we do not want to do is intrude on the politicians' space which is where decisions are made as to where the benefits and burdens fall. This would be the case if we began advocating specific tax increases and specific expenditure cuts as a means.

Acting Chairman (Deputy Arthur Spring): I understand the Deputy's question was about a precise figure or percentage of a balance. What would be the preferred option in the view of the council?

Professor John McHale: We are really not in a position to give that figure. We spoke about this matter this morning. It is part of the same work programme to which I referred earlier, to look at this mix. At this point we are not in a position to provide this figure.

Professor Alan Barrett: Just to add a point, the discussion is often teed up as to whether the figure should be 50-50 or 75-25. In my view, this is the wrong approach. What is needed is an examination of individual items of taxation and individual items of expenditure. To the extent that there is a tax that can be raised as efficiently as possible while doing the least economic damage as possible, one wants to do that. If there are blindingly obvious areas of expenditure that could be cut with minimal impact, and I am sure Senator Barrett has a few to suggest, those are the sorts of measures we need to consider. It is more fruitful to think of this in terms of it being piecemeal rather than to think there is some magic overall number that will be optimal. That is the one point I would add on this.

Deputy Kevin Humphreys: Does that work?

Acting Chairman (Deputy Arthur Spring): That relates to the second question on mortgages.

Dr. Donal Donovan: The fiscal council does not have a view on the merits of different mortgage schemes. That is far outside our territory. However, I would make just one point, which I believe we, as a council, are entitled to make, namely, that to the extent that schemes

that might be agreed would imply higher costs for most of the banks than are currently envisaged in their plans, capital needs and perspective financial situation looking forward - I have no idea whether this would be the case - that could be said, in one form or another, to have an indirect fiscal impact since most of the banks are owned by the Irish Government and the Irish taxpayer. I am not saying this would be the case but any discussions on this issue should not neglect the implicit, explicit or possible fiscal impact down the road of measures such as these.

Deputy Kevin Humphreys: Does that tie in to the earlier point about consumer demand and consumer confidence? There has to be a balance within that.

Professor Alan Barrett: In public finances it is always about ratios. It is about debt or deficits above the line and GDP below the line. There is no doubt that to the extent that there is this debt overhang and to the extent that it is preventing people from moving on with their lives, there is a difficulty and a case can be made that accelerated resolution, if I can call it that, could ultimately have a positive impact on GDP. We are all probably overly influenced by our most recent conversations and we had a delegation from Iceland over to the fiscal council recently. They came over partly to hear what our experience has been so far but the discussion moved on to how they had been dealing with their crisis. One of the notable points was the extent to which they had dealt with household debt in an accelerated manner. It seems to be having a positive effect at least in terms of consumption and gross domestic product but that is not to say it was not without its cost because there was a significant cost.

Acting Chairman (Deputy Arthur Spring): I must interrupt proceedings as a vote has been called in the Dáil. Following the vote the next three speakers will be Deputies Boyd Barrett and Donnelly and Senator Barrett.

Deputy Peter Mathews: Will I get to speak today or tomorrow?

Acting Chairman (Deputy Arthur Spring): Apologies, the Deputy will have an opportunity to speak after Senator Donnelly to be followed by Senator Barrett. I propose the suspension of the meeting for the duration of the vote and we will resume following it.

Sitting suspended at 3.45 p.m. and resumed at 4 p.m.

Acting Chairman (Deputy Arthur Spring): We will resume the meeting and begin with questions from Deputy Boyd Barrett.

Deputy Richard Boyd Barrett: Whatever I may think of the analysis of the Irish Fiscal Advisory Council it certainly helps to clarify some of the issues and I appreciate the work it has done. Where do I start? On the question of growth, is it fair to say there is a good cop bad cop routine going on between the witnesses and the Government in that the Government gives the optimistic scenarios and the witnesses give the more pessimistic scenarios and argue for heavier consolidation, that is more austerity, which makes the Government look good as if it is going a bit easier on us? I want to question all of this.

The witnesses' more pessimistic projections for growth are closer to reality. I would not draw the same conclusions as they do on what comes out of this and I want to ask about growth projections. I asked the witnesses about this on the previous occasion they came before the committee. They are saying the growth outlook is uncertain and I certainly agree with this. What is the basis for their outlook on growth? I find it mysterious that we are downgrading our growth projections at present; the witnesses say the Government is too optimistic but everyone is downgrading the growth projections. The witnesses were asked to what extent this has to do

with austerity and they answered it is partly to do with austerity but it is also partly to do with external factors. Are these external factors not to do with austerity also? There is the austerity being imposed on the domestic economy, which is contracting growth here, and there is the austerity being imposed on the rest of European economy, which is contracting growth in Europe and consequently choking off the one area where we might hope to see growth which is through exports into our main trading partners in the eurozone.

Will the witnesses comment specifically on the further dip in the British economy and what this means? In the past week we have been told the British economy, our major trading partner, is dipping further into recession and that the contraction which started in the periphery of Europe is now spreading to the core. What meaning is there to the resurgent growth projections we have for further down the line? Against a background where growth is contracting and looks set to contract further, and growth projections in the short term are being downgraded, how mysterious are the witnesses' projections that growth will begin to pick up as we get a little bit further down the line towards 2013, 2014 and 2015? If I am correct they have nominal GDP growth at 3.4% for 2013, 4.3% for 2014 and 4.5% for 2015. How on earth can this happen against a background of a suffocated domestic economy here and a European economy that is contracting? I just do not understand how they can make these projections. This has big implications for all of the other debt and deficit issues.

On the previous occasion I asked this question the witnesses said they base their projections on historical models. What historical models? To me it seems the historical model which applies to our current situation is the Great Depression of the 1920s and 1930s. This did not have a textbook cycle; it was a long period of stagnation and contraction with a couple of blips upwards during it. Effectively it was a crisis of more than 20 years. Is this not the model that we are looking at and therefore are these projections indicating a significant pick-up in growth from 2013 onwards nothing more than fantasy? I put this as a serious question.

Acting Chairman (Deputy Arthur Spring): Does the Deputy want to leave that and follow up with a question?

Deputy Richard Boyd Barrett: I will carry on if I may. On the question of consolidation, the witnesses are saying, particularly on foot of the fact they believe things are not as optimistic as they might be, that what we must do to get ourselves back to health is to cut the deficit and debt burden more sharply because debt is a drag on growth and we need to get back to balanced books, I presume to be ready to move forward at some stage. Essentially it seems to me what they are really saying is that the Irish economy is just a little cork bobbing on the ocean of the European and global economy and somehow if we design the cork right we might lift with the tide at some point. As I stated, I do not see from where the tide is coming. Given they acknowledge the cuts and austerity have at least partially had an impact on the domestic economy, how can the sharper consolidation they propose have anything other than a seriously detrimental effect on the economy?

I found Professor Barrett's comments extremely interesting, particularly that employment - which is a really meaningful index for ordinary people - will not pick up significantly unless there is a pick-up in the domestic economy. Put another way, if we took the witnesses' advice and went for an even harsher consolidation then unemployment would be set to get worse. The only thing that might counteract this are the projections about growth which, as I said, seem incredible. If the witnesses' projections are wrong - and they say they are uncertain while I say they are incredible - then the net effect of taking their advice would be to decimate the sector of the economy which is capable of producing jobs. This seems to be pretty awful advice.

On the question of stimulus as the alternative to all of this, the witnesses state consolidation - that is austerity - and talk of stimulus in the same breath does not really add up except perhaps a little bit of targeted stimulus. I agree with them and they are being more honest than the Government. Their more general proposition that the two do not fit together is correct. If that is true, does that not mean there is really no chance of any type of significant growth? Growth can only be driven by investment. Is not the background to the collapse of the Irish economy more meaningfully to do with the collapse of investment rather than deficit problems? I will ask about the debt shortly. In fact, are not the deficit and the debt problems to a large extent a result or consequence, not a cause, of the collapse in investment? Is getting investment back into the economy not the key issue? We have recapitalised the banks but banks, both here and in Europe, are not investing and there is not much private sector investment. The only answer to that is to force the banks, who are holding the money, to invest in the economy and for the State to intervene directly and put in the investment that is necessary to move the economy forward.

Finally, I take the point that the council cannot directly take a position on the fiscal treaty. However, the members have presented themselves, if I am correct, as the debt and deficit guys. Debt and deficits are basically what they analyse, as well as GDP figures and so forth. They would, therefore, be fairly expert in this area, given that deficits and debt to GDP ratios are the two main issues raised in the treaty. What is their expert opinion, based on the figures they have for the period up to and including 2015, of what will be the effect on our economy of reaching the targets? I expect they could give those figures off the top of their heads, if they do not already have them. If we must move from 3%, which is the Government's projection for 2015, to 0.5% based on a projected GDP of €170 billion at that stage, how many cuts does that mean? One estimate is that €5 billion to €6 billion will be needed. After we finish the EU-IMF programme, is it not the case that to meet those targets we will have to make another €5 billion to €6 billion in cuts or, as the witnesses call it, in consolidation? If that is the case, that information must be put in the public domain. Whether the witnesses like it or not, can we just get the figures from the experts on whether that is the case? If the figures are slightly different, the witnesses should enlighten us.

Similarly, on the debt to GDP ratio, the treaty requires that we reach a debt to GDP ratio of 60%. The council's projections are that we will have a debt to GDP ratio of around 120%, possibly higher if growth projections do not pan out, in 2015. Under the treaty, we will have to cut that by one-twentieth annually until we reach 60%. If our debt to GDP ratio is the projected 120%, with a GDP of approximately €170 billion, it means we need approximately €100 billion or more of cuts over a 20 year period to meet the targets. Is that not correct, roughly speaking? It would amount to approximately €5 billion in adjustments and austerity cuts annually for 20 years so we can meet the targets. Please correct me if I am wrong, but under the figures that have been set out that appears to be what would be required. Would that not absolutely crucify the economy? Perhaps the witnesses will spell out the position.

We have just come from a vote in the House on a consolidation measure involving a cutback in lone parents' payments. We need to know what quantum of adjustments, cuts, austerity or whatever the witnesses wish to call them will be required to meet these targets based on the figures and projections they have. I would appreciate if they could provide that.

Acting Chairman (Deputy Arthur Spring): Professor McHale can decide who will answer the various questions. Perhaps you would keep them in isolation rather than giving a general answer.

Professor McHale: I will ask for volunteers to answer the different components. I do not

wish to put anybody on the spot.

Mr. Sebastian Barnes: I will take the last question. The projections in the submission are mainly the budget projections. We have done some simulations around them, but we are basically taking the budget numbers as our baseline and then we offer commentary or scenarios around them. They are not entirely our forecast since we have emphasised there is a great deal of uncertainty, and I will come back to that shortly. In terms of the EU rules in a general sense - I am not just talking about the treaty but the six pack that has been in force since the end of last year - by 2015 the budget forecasts show the deficit at 3% of GDP. That is the limit of the EDP. At that point the debt to GDP ratio is falling by approximately the one-twentieth restriction. Obviously if there are small errors around that one might be subject, in principle, to the one-twentieth rule but, as was evoked earlier, there is a three year grace period after the end of the EDP so one would not have to comply with the one-twentieth requirement until 2018.

Acting Chairman (Deputy Arthur Spring): Will you elaborate a little on the relationship between debt, cuts and growth, and how growth kicks into that one-twentieth?

Mr. Sebastian Barnes: Obviously, stronger growth would help in lowering the debt to GDP ratio.

Acting Chairman (Deputy Arthur Spring): There is a relationship with growth if one is trying to meet that stipulation, as the deficit obviously would not be as great. Perhaps you would put that in context, ever so tenuously.

Mr. Sebastian Barnes: Stronger growth would make it easier to meet these objectives. However, I was trying to focus on the rules. There is the 3% and the three years before the one-twentieth requirement would kick in. The point I was trying to make is that in a central case the one-twentieth rule would be already met if one had met the 3% target under these hypotheses, so it would not really be a restriction and it would not be an addition. It would be a rule, but it would not be binding in this particular circumstance. The main rule from then, and this would be true of most European countries, would be meeting the medium term objective. That would be the crucial thing. That is the requirement expressed in terms of structural budget balance.

As I tried to point out earlier, knowing the structural balance today is very difficult. Knowing it in 2015 is, in some ways, even more difficult. It is very early to be able to say how these rules will work. The range of things that might happen between today and 2015 is very large. It may be that these rules require further consolidation after 2015 because in 2015 the 3% would have some element of structural deficit to it. There is a range of scenarios and the size of that will depend very much on what happens to the economy.

Deputy Richard Boyd Barrett: I do not quite follow what Mr. Barnes is saying about the debt to GDP ratio. The figures, depending on the growth, are that the debt to GDP ratio is around 115% or 124% if growth is weaker and 106% if growth is stronger. Is that correct? Let us call it in the region of 120%. That is double the requirement of the treaty.

Acting Chairman (Deputy Arthur Spring): Are you looking at a specific graph?

Deputy Richard Boyd Barrett: It is on page 32.

Mr. Sebastian Barnes: Perhaps it would be helpful to refer to table 3.1 on page 16. Half way down that table one can see the gross debt to GDP ratio, which peaks in 2013. It is 118% in 2014 and 115% in 2015. The debt convergence rule is complicated but, roughly, it requires

one-twentieth of the gap between the actual level and 160. That is 60 times-----

Deputy Richard Boyd Barrett: It is the gap.

Mr. Sebastian Barnes: Yes, it is the gap.

Deputy Richard Boyd Barrett: It is the gap between the actual debt-to-GDP ratio and the target. The reason I refer to page 32 is because three other scenarios are included thereon. I presume the figure of 115% is the Government estimate, while the figures of 124% and 106% reflect what would be the outcomes were growth to be 1% weaker or stronger, respectively, than projected. If one takes a figure of approximately 120%, which is roughly in the middle although I tend to think the outcome will be worse, that is double what is required under the treaty. Is this not correct? Moreover, is it not correct that we would be obliged to move to the 60% target within 20 years?

Mr. Sebastian Barnes: No, my understanding is that is not exactly the way it works. To be clear, the debt rule basically states one must take one's current level of debt, if it is above 60%. If one has a debt level of 120%, one takes the difference with 60%, which is the number written in the treaty, and that gives one a difference of 60%. Roughly speaking, each year one must reduce it by one-twentieth of that gap.

Deputy Peter Mathews: It pertains to the amount of debt.

Deputy Richard Boyd Barrett: No, it is the gap.

Deputy Peter Mathews: No, it is not. I have read the treaty carefully and the English contained in the treaty is extraordinary.

Acting Chairman (Deputy Arthur Spring): The Deputy will wait until it is his turn for questioning.

Deputy Richard Boyd Barrett: Even on bridging the gap from 120% to 60%, at one-twentieth per year, that comes to 5% of the gap. Moreover, the gap is approximately €100 billion.

Acting Chairman (Deputy Arthur Spring): I believe the point is the gap gets smaller every year.

Professor Alan Barrett: It will not all be cuts. The Deputy must remember one must throw in growth over the next 20 years, which could well average 2% to 3%.

Deputy Richard Boyd Barrett: If growth fell-----

Professor Alan Barrett: Whatever about blips here and there, I refer to a 20-year horizon. Based on a reasonable historic experience, if one throws in real growth and a dose of inflation, a certain amount of the heavy lifting will be done by the growth in nominal GDP. To do what the Deputy is doing, which is to state the economy will remain static as it currently is, in nominal and real terms, and that all this must be achieved through cuts, is really to miss the point.

Professor John McHale: To put it slightly differently, there is a key equation we use in this regard. If one takes the scenario the fiscal council outlined for the somewhat more ambitious adjustment, as I stated earlier it would get us to a primary surplus of 4% of GDP. If the difference between the interest rate and the growth rate is 1%, that gap between the interest rate and the growth rate would have the debt-to-GDP ratio declining at a rate of three percentage

points per year, even if we did nothing else. Consequently, were one to do exactly what we outlined until 2015 and were one to stop the fiscal adjustment at that point, one's debt-to-GDP ratio would be falling, largely because of the growth to which Professor Barrett and Mr. Barnes referred, at a rate of three percentage points per year, which would be consistent with the debt rule.

It is true the structural balance rule probably would force one to go even further in terms of the adjustments one makes, even though that would be spread out over time according to the path that will be laid out by the European Commission and one would be reducing one's debt-to-GDP ratio at an even faster rate. However, once that adjustment stopped, the debt-to-GDP ratio would still continue to decline at that faster rate of perhaps four or five percentage points per year. Thankfully, it is not as bad as the scenario outlined by the Deputy in respect of this endless austerity. Even though it will be difficult to carry out the additional adjustment, within a reasonable timeframe we could get on a path on which the debt-to-GDP ratio was declining at quite a rapid rate.

Deputy Richard Boyd Barrett: All that is predicated on the growth the fiscal council has projected. I reiterate my question on whether this is credible. Is it not possible, given the current trajectory of growth, which is towards contraction, that between now and 2015, the economies of Ireland and Europe will flat-line?

Professor John McHale: There is risk.

Deputy Richard Boyd Barrett: That is putting it mildly.

Professor John McHale: This is something that we emphasise in the report. I will finish on this point and will then hand over to Mr. Barnes. The other point we really emphasise is there also is major risk on the other side in respect of being able to sustain the funding to the State, which is of critical importance to avoiding an even sharper forced adjustment, were we to lose funding. I am pessimistic in the sense that I am very worried about growth but I also am very worried about funding. It is about balancing the two to try to get fiscal policy right and to avoid the rocks on both sides and this is a very difficult balancing act. We echo the Deputy's point about uncertainty in respect of growth in the report. We appear to be in something that some economists have referred to as a balance sheet recession, in which impaired balance sheets across the economy, that is, in the banks, in enterprises and in households, hold back spending. On the other hand, we have something quite positive that is lacked by other economies, in that we have an extremely vibrant export sector. At present, these two forces appear to be balancing each other out and overall, growth is fairly flat.

There is much uncertainty and people who state they are very confident about the answer are deluding themselves a little but the big question is how will these forces work out over the next few years. One can imagine a scenario in which one truly has export-led growth, that is, in which strong growth in exports leads to confidence returning as people begin to repair the balance sheets and as more opportunities arise for banks to make loans they think are likely to be to creditworthy borrowers. One can experience a virtuous cycle in which growth can return and consequently, I think there is upside. However, as we are in a quite uncertain world in the post-bubble economy, there is down-side as well. We absolutely recognise the risks to which the Deputy referred and how one balances it against the funding risk is a key question for fiscal policy.

Mr. Sebastian Barnes: On the rules, the point made by Professor McHale is absolutely

central in the sense that were one to reach the kind of primary balance we discuss in our stronger case, debt would be falling at a fast rate as a share of GDP under the assumptions we make. This would be an important way for the economy to get back on the right path and is one reason we talk about that. In that context, I refer to a point made by Professor McHale, which is what is important is the difference between interest rates and growth. Even when it returns to the market, Ireland may not face a very favourable interest rate situation. However, what is true in the broader context, for example in Europe where a lot of consolidation is under way, one must remember that monetary policy settings are very easy by historical standards and interest rates have reached extremely low levels. For example, the risk-free benchmark German long-term interest rate is close to 1.5%, which is an amazing rate and presumably, if the consolidation in the euro area as a whole has more impact than people think, interest rates will stay weaker than has been the case. Consequently, one will get some compensation in terms of the stability of debt because interest rates may adjust in tandem with growth.

To return to the debt convergence rule, the Deputy must remember the formula specifies a reduction of one-twentieth each period. This means that when debt is very high and the gap is very large, one must reduce debt by a lot. However, when one's debt-to-GDP ratio is down at, say, 80%, the gap with 60% is only 20% and consequently, one need only improve it by one percentage point a year. In that sense, it is not a linear process and that also is important to bear in mind in respect of the manner in which that rule operates.

Deputy Richard Boyd Barrett: Briefly, on the basis of the projections provided by the fiscal advisory council, an adjustment of approximately €5 billion will be required in 2015 at least which, in addition to the deficit targets, could do such damage to the economy that all other bets would be off. Conceivably, it could kill off growth altogether. Is it not conceivable that even the council's most optimistic growth projections are off, given the current trajectory?

Acting Chairman (Deputy Arthur Spring): The witnesses might answer the Deputy's second question regarding growth and on where they get the projections in the future up to 2015. That probably would answer a lot of questions. I am conscious of time constraints and note the witnesses have been present for more than two hours.

Deputy Richard Boyd Barrett: Okay.

Deputy Peter Mathews: On a point of definition, there is a misunderstanding in this regard. As for the adjustment, the treaty defines that if the debt-to-GDP ratio exceeds 60%, it is the actual percentage that is higher than 60% that must be adjusted over a 20-year period. It says that in plain English. It is not the difference rather it is the actual amount, which makes sense if we are at 120% and 60% is the optimum balancing position. One-twentieth of 120% is a 6% per annum adjustment. One-twentieth of 60% is only 1.5%. The difference in terms of a 70% debt to GDP is only 10%. The adjustment of 0.5% per year is almost irrelevant. I am convinced this has not been properly understood.

Acting Chairman (Deputy Arthur Spring): I will call Deputy Mathews when Deputy Boyd Barrett has concluded.

Professor Alan Barrett: Deputy Boyd Barrett has continually made reference to our projections. We do not make projections. Our role and mandate is to assess the projections provided by the Department of Finance. This time round, we took its projections and critically appraised them. We have a huge amount of sympathy with what the Deputy is saying. There is much uncertainty.

Acting Chairman (Deputy Arthur Spring): I apologise for interrupting but I must ask Deputy Mathews to return to his seat. The proceedings of this meeting are being televised. There can be no side bar conversations between Deputy Mathews and Professor McHale while Professor Barrett is speaking. I ask Deputy Mathews to resume his seat and await his turn to speak.

Professor Alan Barrett: We are assessing the projections that have been produced by others. There was, to an extent, a general downgrading of growth projections following the budget announcement in 2011, which has fed into what we are doing. We then looked at the medium term growth forecast and in a sense injected the considerations to which Deputy Boyd Barrett referred. There are huge risks involved, some of which we have already mentioned. I have great sympathy with the Deputy in that regard. The question then is how do we react to the negative. Our leaning is that if things are more fragile we need more insurance buffers in place. The Deputy appears to take a different perspective.

Deputy Boyd Barrett stated that some of the difficulties which Ireland is facing are related to contraction in the eurozone, which is correct, and that some of that contraction is, in turn, related to austerity in the eurozone, which is also correct.

Deputy Richard Boyd Barrett: And debt.

Professor Alan Barrett: Some people appear to be of the view that we are austerity junkies and that we only see scope for cutbacks. If I were a member of a fiscal council in a variety of other countries I would be calling for slower austerity. There are a number of countries where the case for austerity is not as strong as is often put forward. Again, I have sympathy with the point the Deputy makes, namely, that parts of Europe that could be more of an engine for growth are constraining their capacity in that regard. There are many points of agreement between the council and Deputy Boyd Barrett.

Deputy Richard Boyd Barrett: On the insurance question, what would be the impact - I am asking for an economic rather than political assessment in this regard - on the European economy if we refuse to pay our debts? If Europe kicked us out, what would happen?

Acting Chairman (Deputy Arthur Spring): That is a lofty question. I would like to stick as much as possible to the agenda. I am not sure the question is within the remit of the council. With due respect to other members, we will move on. I call Deputy Donnelly.

Deputy Stephen S. Donnelly: I would like to add my-----

Acting Chairman (Deputy Arthur Spring): I thank Mr. Barnes, who must leave now to catch a 4 o'clock flight to Paris, for attending.

Deputy Stephen S. Donnelly: I thank the council representatives for attending before us today for many hours and for their preparatory work in that regard. I am sure they are required to attend many meetings. We appreciate their being here. I have a range of questions for them.

On the structural deficit target, I am not sure if the witnesses have read the analysis of Mr. Karl Whelan or Mr. Seamus Coffey on compliance with the target. Their conclusion, based on the dynamics involved, is that we would need to bring our debt to GDP ratio down to 20%-25% and that the 60% mark would become irrelevant and we would have to be fully compliant with the structural deficit of 0.5% to 1%. The nature of a structural deficit is such that equilibrium is reached at 20%-25%. Mr. Karl Whelan has published his analysis on a website, in respect

of which Mr. Seamus Coffey has been cited. This is an important issue for the country in the medium to long term. What is the council's view on that analysis?

With regard to the council's mandate for assessing other people's growth forecasts, the council states at page 10 of its report that while it reviews growth forecasts for everybody - while I would have some respect for the projections of some of these groups I would not lose any sleep at the projections of others - quarter after quarter they are revised downwards. That is not surprising. It supports the philosophy of Paul Krugman, Joseph Stiglitz and many others have towards this, namely, the austerity only approach is a spiral. The economic evidence over the past two centuries indicates that if we are to keep inflation targets low and are not to engage in any serious seigniorage and so on we are in a downward spiral. The graphs on page 10 of the council's report indicate that all of these groups believe that things will worsen quarter after quarter. This backs up the view, which some credible economists believe, that we are in a negative spiral. My question for the witnesses is, do they agree with this and, if not why do so many smart economists working in the organisations concerned continually get it wrong? If they know what Paul Krugman, Joseph Stiglitz and Nouriel Rubini and others know, namely, that we are in this downward spiral, how come it is not factored in here? I would welcome the witnesses views on what is going on that they keep getting it wrong, and in the same and, sadly, wrong, direction.

The Department of Finance view is consistently at the most optimistic level. A debt-to-GDP ratio of 120%, compounded by a private debt-to-GDP ratio of approximately 405% and so on means we have an unsustainable level of debt. The more optimistic GDP forecasts weaken our case for returning to the powers in Germany and saying our debts are unsustainable and must be addressed. I would like to hear whether at this stage the council believes the debt, be it the public debt or a combination of public-private debt, has surpassed sustainability.

As regards the proposed €2.8 billion in cuts, as stated by Deputy Boyd Barrett the Opposition recently lost a vote to Government on the introduction of new provisions which will destroy lone parents in this country. There is nasty stuff going on in our communities right now. There are currently 1.6 million people living in households with less than €100 per month. This will continue to increase. Almost half our population is at this stage on the edge. The vote we just lost will accelerate that and will literally push some of the most vulnerable people in our society over the edge. I do not mind the council members suggesting a further €2.8 billion. I might disagree with them but if they are going to suggest things like that, it would be very useful - I take Professor Barrett's point and he can go through the line items - for us to have a little more colour and a little more on what is behind it. Given the kinds of things we have to contemplate and the implications we see on the ground each day, we cannot take it lightly, and I know they do not say it lightly.

The fifth is on the redistribution effects, which is linked to this. The council may have seen the SILC report on living standards. The year 2010 shows a massive redistribution. Some 90% of income deciles one to nine all had household income drops in a perfect correlation between poverty and the amount of pain one had to take. The richest 10% had an 8% increase. I have no doubt that in 2011, based on the policy decisions taken, it will accelerate and will further accelerate this year, based on the vote we just had and the budget we passed in December. Can I get the council's view on whether from an economic perspective and a growth perspective - putting aside all the social considerations - that sort of redistribution from 90% to 10% on an ongoing year-by-year basis has any implications for economic growth and for getting out of this?

I would like the council's opinion on one other matter. In 2014, we will have a primary sur-

plus and in 2015, if the IMF report from April 2012 is reasonably accurate, our primary balance will go up to approximately €5 billion. Is it the case - I may be misunderstanding this, so this is a genuine question I am struggling to answer - that if we are running a primary balance, we are paying approximately €10 billion in interest, will have a debt of approximately €200 billion and, let us say, there is about a 5% weighted average interest rate on that - the interest payments will be about €5 billion - and, therefore, once we hit 2014-2015, we are not borrowing money anymore to run the country? I know I am splitting hairs slightly and that money is fungible but the primary balance means we can pay all of the workers and the pensions and keep the lights on and that we are borrowing to pay the interest rate and that by 2015, with a primary balance of €5 billion, we are getting very close to a situation where the only money we are borrowing is to pay the interest rate on the banking debt. I asked a lot of questions but I would really appreciate the council members' thoughts on them.

Dr. Donal Donovan: I would like to comment on three of Deputy Donnelly's questions. I am sure other members and the chairman will have more to say. He was right to point out that the macroeconomic forecasts for growth have been consistently more optimistic than turned out to be the case. This is not just a problem when one has a recession but it is also a problem when one has a boom. With respect to Professor Alan Barrett, macroeconomic forecasters are not terribly good at short-term forecasting.

Deputy Stephen S. Donnelly: Or long-term forecasting.

Professor Alan Barrett: It is actually easier to do it in the long term than the short term.

Dr. Donal Donovan: The problem is we saw exactly the same thing in the boom. The macroeconomic forecasters underestimated the extent of the growth every year and people were complaining for similar reasons to those which Deputy Donnelly is that the Government had underestimated growth, the budget was too tight, we should have planned to spend more and so on. It is a technical problem to a significant extent. It is not just that people are bad on the downside, that they do not underestimate that. That is an observation I would make.

Deputy Donnelly asked for our thoughts on the sustainability issue. Sustainability is a subjective concept. The reason one's debt may become sustainable is because one is borrowing and, as a result of the borrowing, the deficit borrowing is added to the debt each year. If one believes the debt is, or will become, unsustainable, one way to do that, oddly enough, is to have a tighter budget deficit, so that one is not adding to the debt each year. A significant reason Ireland's debt is projected to rise to approximately €120 billion is partly due to the banking debt already acquired but quite a large part of it is because it consists of debt contracted from the troika and the EU to finance last year's and this year's deficits and the next two deficits to come. If we do not like that number, a logical technical implication - indeed, some economists have pointed this out - would be to go for a larger adjustment, unpalatable as it might be.

Ireland's debt is projected to come down to approximately 90% or so by the end of this programme. It will peak at €110 billion but then it will come down. Who knows whether that is sustainable. Countries have managed with a debt of that ratio for many years and Italy is a good example. Some countries manage while some do not. I agree much of it has to do with what one thinks about growth prospects because one can manage a high enough debt ratio if there is growth in prospect which is likely to reduce the debt. However, a debt ratio which is even lower that than could be considered unsustainable if there are underlining reasons such as in some European countries where even though their debt ratio is low, their growth prospects for other reasons are considered to be very negative. Portugal would be a classic example of

that. Those are the elements that I would put into looking at sustainability but I would point out this essential link which many people do not seem to quite realise. Every year's deficit is what causes the debt to rise.

The third observation is to say that Deputy Donnelly was absolutely right to point out the concept of the primary balance. A country that has a primary balance or surplus is, in effect, borrowing to pay the interest. One could draw different conclusions from that. I am not saying any of us would say this but one could conclude that we could keep the country running and keep the lights on, as the Deputy put it, by telling all of our creditors to take a hike, to put it a little bit crudely, because we do not need their money. They will not get paid their interest. We will not borrow from them in order to pay the interest, so it does not matter. Some countries have done that and we could look at the history of those countries. We could keep the lights on but one has a very serious reputational problem. It might be that two or three years later, one's primary balance does not stay a primary balance because of something bad that might happen - an oil price increase or a fall in the price of exports - and in which case one is now unfortunately in a situation in which one needs somebody to keep the lights on. To put it directly, if one has been stiffing them for the past three years, their willingness to give one some help to turn on the lights may be lessened.

Deputy Stephen S. Donnelly: The IMF believes that in 2014, we will be at a €1.5 billion primary surplus. In 2015, it will go up to €5.1 billion. At €5.1 billion, it is interesting to note that one's surplus is close enough to honour what I would consider the debts we owe. The only debts on which one would stop paying the interest would be debts which were never our debts in the first place. It is something of an academic point but it is interesting to note that from 2015 onwards, we are basically borrowing money only to pay back banking debt which was never ours in the first place as opposed to not paying interest on debt which we borrowed for our own budget deficit.

In regard to my somewhat wandering question on the fall in the growth rates, do the council members believe it validates an argument that the austerity-only approach is a vicious cycle, that it goes to a bad place and that the forecasts downwards are a manifestation of that position?

Dr. Donal Donovan: I will provide a brief response. I would not necessarily put it the way the Deputy has. Rather, it validates the proposition that the economics and political professions and so on underestimated the extent to which the recession was having a severe effect, particularly on the balance sheet. In past decades, other recessions have typically not had this feature, namely, households and, to some extent, firms with a considerable amount of debt and a high degree of leverage. Ireland is a classic case, but the situation is the same elsewhere. This is a new phenomenon, the magnitude of which was underestimated and not well understood by economists. It is probably still not well understood. This plays a substantial role. The question of whether the implication of this is to do something else from a policy point of view, for example, a stimulus or lowering of deficits, is a different issue. I would conceptually divide the two issues.

It is not completely gloom and doom. Economists have a tendency to go in straight lines. If something is going down, they believe it will go down further. In the same way, when everything was going up, everyone believed it would continue to go up. This is human nature and people are not good at this. Turning points are difficult to predict. For example, the balance sheet effect in the US economy was particularly severe and the recession started there. I will stand corrected by my colleagues if I am wrong, but there is substantial evidence to suggest that the balance sheet effect in the US has not only started to flatten out but to turn around. House-

holds have reduced their debts, brought their mortgages, credit cards, car loans and so on into a place where they feel more comfortable and are now spending.

The situation can turn around but economists are appallingly bad at knowing when they turn around. We cannot take today's story as existing forever.

Professor John McHale: Dr. Donovan has answered most of the Deputy's questions. I am sure the Deputy would correct us otherwise.

Deputy Stephen S. Donnelly: I am interested in Professor McHale's thoughts on the structural deficit.

Professor John McHale: As the Deputy pointed out, Professors Karl Whelan and Colm McCarthy, as well as Mr. Seamus Coffey, have done some useful analyses of this and have examined what they call the steady State debt-to-GDP ratio. If one achieved a structural balance, at what point would one converge? It will take decades to reach those levels. Under the treaty, the largest structural deficit that a country can run is 1% of GDP. Once below a 60% debt-to-GDP ratio, one is allowed a higher deficit. If one ended up in that position and had a nominal growth rate of 5%, one would converge at a 20% debt to GDP ratio. If one's growth rate was 4%, one would converge at a 25% debt to GDP ratio. This will take a long time and these ratios are arguably unnecessarily low.

During this crisis, we have learned about the problem with the eurozone. When one does not have one's own central bank, one's credit worthiness is fragile. This does not just apply to the countries that are in trouble. It could apply to countries that consider themselves to be in relatively strong positions. If the eurozone is to survive, it must decrease to substantially lower debt-to-GDP ratios. How much below 60% they must fall is not clear, but it is not so great a flaw that we are on a path to reducing to lower debt-to-GDP ratios.

I will revert to Deputy Boyd Barrett's question on whether this would mean continuing austerity. Once we reach the point of having a primary surplus of approximately 4% of GDP, which we believe the Government will reach by 2015, we will already have been on a steep path and this will increase by a bit as we move towards a structural balance. Provided that we return to having reasonable growth in the economy, a structural balance would occur automatically over time. It would not be endless austerity. Although the debt-to-GDP ratios are low, we may need to attain even lower ratios if the eurozone is to survive.

Deputy Stephen S. Donnelly: I thank Professor McHale, who is broadly in agreement with the analysis by Mr. Seamus Coffey and Professor Whelan of the steady State debt to GDP ratio.

Professor John McHale: That is correct. It is a simple formula that they chose.

Deputy Stephen S. Donnelly: If Deputy Mathews's reading of the matter is correct, there is a 6% reduction. The problem is-----

Professor John McHale: It is important that we clarify that point. This is bad drafting.

Deputy Stephen S. Donnelly: We will.

Acting Chairman (Deputy Arthur Spring): Since it is Deputy Mathews's question, does Deputy Donnelly mind if we allow him some grace and time to discuss it?

Deputy Stephen S. Donnelly: I beg the Acting Chairman's pardon. That was well spotted.

Professor Alan Barrett: Deputy Donnelly asked about equality in the impact.

Deputy Stephen S. Donnelly: That is the last piece.

Professor Alan Barrett: I will provide two quick reactions. The three of us just happened to be examining that particular CSO EU survey of income and living conditions, SILC, report, which was published last week. I do not know much about the details and am reluctant to make a critical point, but I will make an observation. In the report, a graph on Gini coefficients, which are measures of inequality, is quite flat and then it bounces. Anyone who knows anything about statistics knows that, when there is a sudden jump, it could be related to a sampling effect rather than a true underlying effect. I do not mean to criticise the CSO, but I would raise a flag about this. When any series does something like that, there may be more occurring than pure observation.

The broader philosophical point is not in the fiscal council's mandate, but I will make a brief remark. The Deputy asked about the impact of inequality.

Deputy Stephen S. Donnelly: In aggregate.

Professor Alan Barrett: This is an interesting point. Twenty years ago when Senator Barrett was teaching me economics, there was a standard, simplistic argument that inequality, to use the Michael McDowell term, was good for growth. There was a trade-off and we needed inequality to incentivise people. If there was greater inequality, it would probably be good for growth.

In the intervening 20 years, there has been a great deal of work done on this subject. People have tried to measure explicitly whether societies that are less equal are growth positive or growth negative. An increasing body of literature suggests that the levels of inequality matter.

Deputy Stephen S. Donnelly: Would I be correct in believing that more equality was better?

Professor Alan Barrett: There are papers that would agree with that. While there is a growing body of evidence to this effect, it is often possible with such papers to tweak the econometrics and data analyses to provide a slightly different answer. I am still of the view that one should argue for the merits of equality as an end in itself rather than try to rely on a series of papers.

Deputy Stephen S. Donnelly: I am, but I did want to make that point at this meeting. I wanted to keep the discussion on the economic evidence for the purpose of this debate.

Professor Alan Barrett: Although there is economic evidence, it is of a longer term variety. For example, if one excludes a group of people from one's education system or ensures that they do not do particularly well from it, this acts as a long-term constraint on growth. I would not rely on too many papers. Equality is a good end in itself.

Deputy Stephen S. Donnelly: I agree.

Acting Chairman (Deputy Arthur Spring): Deputy Mathews will contribute now because he was the last to raise his hand. That is equality at work.

Deputy Peter Mathews: He who is first will be last. I thank our visitors for all of the hard work they have done. Today is just the tip of the iceberg and the 90% we do not see was done

in their private offices, meeting rooms and elsewhere. I also thank their colleague, who has departed. For his flight, that is. I am a very literal person.

I am getting the sense from today's presentation that, in terms of the big picture, there is almost a recognition of two economies. The multinational corporation-foreign direct investment, MNC-FDI, economy has a low employment head count, high earnings - mostly in exports - and high repatriations of profit and is not a large harvester of the indigenous economy. The indigenous economy, which relied to a large extent on construction related activities, collapsed and with it went the associated tax base. In order to meet the ongoing costs of public services we have run up a massive deficit. We have two tasks to perform. Professor McHale noted that we have to make the adjustment in a way that makes us creditworthy so that we are not penalised for borrowing to bridge the gap.

The bubble burst as part of a super cycle of debt across the entire developed world. An inverted pyramid rested on a tiny pinhead with derivatives increasing the extent of debt and credit across the globe. Deregulation and lack of regulation or policing facilitated the creation of unexploded financial bombs which still exist. The balance sheets of Europe's biggest banks are highly suspect because they contain all sorts of off-balance sheet financing arrangements and securities that are highly over leveraged. This problem is particularly acute in London, which has become the playground of investment banks and Wall Street companies.

We have to limit the damage done to our society as we try to rebalance our financial architecture. Our legacy debt was left behind by the private investors in our banking system who escaped. Creditor funding in the form of ECB and Central Bank advances in the euro system to the sum of at least €75 billion have replaced investment funds and bonds. We are like Atlas trying to balance the eurozone financial globe on our backs. That is not right or fair and, while our case may have been stated, it has not been heard. We have not received a realistic and fair response to our problems.

In order to achieve a reduction in the deficit gap, we have been struggling between cuts and taxes. Professor McHale said in response to Deputy Boyd Barrett's question that we have to look for the opportunities where revenue can be raised. It is not just a matter of a blanket ratio of 50:50 or 60:40; it is a question of finding where in the soil of revenue we can harvest the best plants and fruit. The imposition of a 5% levy surcharge on those at the highest income levels, such as above €120,000 per tax unit, would produce €520 million in one year. Such an approach would also relieve the steamroller effect on those on low and middle incomes. We have to consider this issue against the background of a busted bank, IBRC, in which at least 24 executives earn more than €240,000 per year.

This would reflect the practical application of what Professor McHale suggests in terms of putting together the jigsaw. Irrespective of whether the jigsaw has 12 or 1,500 pieces, let us start to put the picture together in order to mend this society's creditworthiness. If we can demonstrate that we are nourishing and harvesting our revenues while tightening expenditure on a fair basis, we will have made the first steps towards becoming creditworthy. Anybody would lend to us if we can do that. If we are part of a bigger picture of the 25 out of 27 EU member states which have created a communications network based on reporting on a current basis and we can demonstrate that we are achieving savings across the economy, we will be in financial, monetary and political harmony. We will retain the self-respect of being in the violin or wind instrument section of the European community.

Three months ago Helmut Kohl correctly stated that the evil spirits of the past are not en-

tirely dead and that the hand wringing of Europe's so-called political leaders was pathetic. It is time to step onto the stage, pull back the curtains and do what needs to be done in order to achieve harmony in current expenditure and fiscal control, alongside the safety net of a European reservoir whereby the strong can support the weak.

Acting Chairman (Deputy Arthur Spring): Has the Deputy a specific question?

Deputy Peter Mathews: Why do we not get the point across at every level of European society that we must start from a fair beginning rather than with legacy debt of €75 billion? That debt can be restructured, written down or spread across the wider European community. We put our hand in the dyke for the eurozone in 2008 and 2009 but we have been diddled and fooled for our efforts. They are trying to convince us we did not do this. It is time to get relief. The witnesses are experts who can provide the evidence and make the case to those who can aid us. I urge them to help us make that case.

I do not believe our 12.5% corporation tax rate is sacrosanct. I have considerable experience in business and the financial world. I am a bit more than 28 years old and I know that an increase of 2.5% in taxation of profits could be easily borne if input cost efficiencies improved by 1%. Take, for example, a business which has €1 billion in revenue and €750 million in costs, with tax of 12.5% on the remaining €250 million in profit. If the company's costs can be reduced by 1% through an economy which is better balanced, energised and run fairly, that would more than outweigh an increase of 2.5% in tax on profits. Rather than being obstinate about things, we need to engage in this sort of thinking too. There is lots more to say but I will leave it at that.

Acting Chairman (Deputy Arthur Spring): I would like to get to Senator Barrett. That is more of a statement, although there are some provocative questions there.

Deputy Peter Mathews: That is fine.

Acting Chairman (Deputy Arthur Spring): I will go back to Professor McHale, if that is all right.

Professor John McHale: All right.

Deputy Peter Mathews: The €75 billion creditor restructuring or write-down that should be pressed upon our creditors would be to the benefit of bank balance sheets, which in turn could allow the restructuring and write-down of loans that are crippling households and businesses. Our households and businesses do not need more loans; they need less of existing loans. New businesses need fresh credit.

Professor John McHale: Deputy Mathews has given us much to think about. We have points of agreement, including the fact that the burden of debt is holding the economy back. I cannot disagree with that. If the ECB would relieve itself of much of this debt, that would be very helpful. I do not believe, however, that to argue that fairness requires the ECB to share this burden will get us very far. We may believe we have a case - the strength of that case is something we could debate - but I do not believe it cuts any ice with the ECB. The argument we need to make is that it is in the common interest of Ireland and its European partners in the ECB to help us get through this. Deputy Mathews made this point as well. The negotiations on restructuring the promissory notes, which were aimed at helping Ireland get back to the markets and restoring its creditworthiness by improving the overall maturity structure of Irish debt, represented exactly the sort of argument that needed to be made, because there is a common inter-

est in Ireland being a success and not having to depend on other European countries for funding, and in showing there is a path through this crisis. Unfortunately, up to this point, it does not seem to have yielded substantial dividends. There was some small achievement with the recent restructuring but there is a very long way to go. We probably disagree on the possibilities of the strategy of saying to the ECB that it owes us major relief because of what we did for it. It does not see it that way. We may feel we did a lot to bring stability to the eurozone system, but this opinion does not seem to be shared and I do not think it will be shared.

Deputy Peter Mathews: Our banks would have gone bust, which would have caused a financial conflagration around the world. That is still possible.

Professor John McHale: I do not think we will convince the ECB of that. It is partly a tactical question of how we go about getting the relief that would be helpful to us.

With regard to tax, something we did not emphasise in the most recent report but we certainly emphasised in the first report was the importance of leaving all options on the table. We are concerned about the fact, for example, that income tax increases have been taken off the table as an adjustment measure, as well as public sector pay and social welfare rates. This means the burden is often forced into particular areas such as other types of social welfare cuts, cuts to service provision or capital spending cuts. We believe, without picking out particular areas, that the burden should be spread widely and that nothing should be taken off the table.

As economists, we cannot help but see trade-offs in raising income tax rates. With the 5% surcharge the Deputy mentioned, we would be bringing marginal tax rates to 57%.

Deputy Peter Mathews: Temporarily.

Professor John McHale: Yes, but what we really need are permanent fiscal adjustments that result in a lasting improvement in the deficit. Temporary measures do not get us very far in terms of the fiscal correction required. However, if the alternative is to put the burden on people who are less well able to take it, that needs to be weighed. As Professor Barrett said, inequality reduction is a goal we share. The general point is that almost all options should be left on the table.

I disagree with the Deputy about putting the corporation tax rate on the table. As he pointed out, we have a tale of two economies here, and the part that is giving us some momentum is the export sector, which has a heavy multinational presence. The hope is that growth in the export economy leads to broader growth across the domestic economy. It seems the IDA is quite successful in bringing in new investments. There will always be a debate on how important the corporation tax rate is to that strategy. At this point, given all the other uncertainties we face and given that it is the one bright spot we have in the economy, it would be a risky decision to undermine the perceived stability of Ireland's business environment, part of that being the corporation tax rate.

Deputy Peter Mathews: If our cost base was lower, the tax on profits would not have the same negative impact.

Acting Chairman (Deputy Arthur Spring): That is arithmetic, but the principle of confidence and certainty is what Professor McHale is talking about.

Dr. Donal Donovan: Professor McHale has already said it, but I do not think it would be appropriate for the Irish Fiscal Advisory Council to take a public position on the corporation tax

rate. It is always a difficult and sensitive issue. There are many ways one can look at this, short term and long term. There are alternative scenarios in the world in which costs are lower. I do not always agree with our chairman. However, I do not think it would be appropriate for us as a council to take a position on a subject such as this. We did point out in our report, as members may have seen, that there are uncertainties associated with this and pressures from various parts of the world, not just from Europe. They may still be there.

On the issue of bank debt, speaking from a council point of view, I do not think it would be right for us to take a position on the merits or demerits of arguments of the ECB and others. There is a whole swirl of arguments about this and it is quite a delicate subject. Sometimes, saying things one might feel are true ends up being unhelpful in terms of a negotiation, especially where there are other parties involved. We pointed out in our report the desirability of seeking an improvement in the debt profile, as our chairman has said. Beyond that, it would not be wise for our reports to deal with this. That is my personal view.

Professor John McHale: Professor Donovan rightly reminds me to make a distinction between the council's positions, which are in the reports, and anything we say that is not in the reports, which is not an agreed council position. We may agree on some things, but they are not agreed council positions. We could come here and not say anything beyond what is in the reports but the committee members can read the reports themselves. We have a delicate balancing act because we do want to be as forthcoming as we can be.

Deputy Peter Mathews: I appreciate that.

Professor John McHale: We do try to answer the questions asked but it is worth emphasising that the council positions are the ones that are in the reports, and anything else we may say is-----

Deputy Peter Mathews: That is why we value the presence of the representatives here, which is very important. People solve problems; reports do not.

Acting Chairman (Deputy Arthur Spring): Now that we are finished with the politicians, we will let an economist say something. We have saved the best wine for last. This is our own professor.

Senator Sean D. Barrett: A Member of the Seanad, which could be abolished as part of the austerity programmes proposed here.

The representatives are welcome. As everybody has said we value these sessions hugely. I welcome the report. I will move on to the areas that caught my interest. In page 11 of the report the authors express concern that the skills needed to assess investment proposals may have disappeared from Ireland's banks during a period when so much lending was directed towards property. Officials from the Central Bank appeared before the committee. I think they are still property focused to the tune of, perhaps, two thirds of the lending. I agree with the point made that if we are to recover that issue has got to be addressed. I submit it is also a public sector problem. On the matter of stimulus, I could propose a stimulus programme and even offer to finance it myself, which would be based on hotel building, factory building and nobody would finance it. Once stimulus comes up, we must see whether the combination of rent seeking, lobbying, regulatory capture, bureaucracy and so on would really do something in the economy. The representatives commented on the capital and the Colm McCarthy view, in his look at the State companies, is that we are about 42% below where we thought we would be in the national

development plan. Therefore, one might question capital expenditure when there are empty roads, empty airports, empty office blocks, empty hotels and so on because we are not where we wanted to be. I still do not see the construction industry coming up with much in the way of bargains. In addition to all the problems to which the representatives have drawn attention, quantitative easing does not appear to have worked that well in the US. They drew attention to low multipliers in their previous report. It is a small open economy and one that has many credibility problems. Interesting points have been raised in regard to investment appraisal in both the public and private sectors, therefore, there is much we could do to sharpen up our act.

I note the point at the beginning of page 11 that the bursting of the property bubble has led to substantial downward revisions in estimates of the potential output and that goes into the structural deficit. Some thoughts, in their next report, on what that might look like would be valuable for us as well. Getting out of where the economy finds itself is important in view of the structural deficit we would face. There are two pages of the report which are a cause of concern. The footnote on pages 14 and 15 states that we have reclassified the USC. Receipts from the USC are now collected as a form of income tax. The health levy is collected as a departmental receipt.

We cut the USC, rightly, in the budget but what will be the effect? On page 25, it is stated that there was a weakening of tax receipts as a whole in the second half of 2011. I would be interested to hear what is happening on the tax side. The USC classification and the four pages of the report from 26 to 29 on the promissory note, which we wrestled with here, state that it adds €90 million to the general government deficit in the nine remaining months of the year. That seems to be a Jesuitical kind of exercise which took the representatives four pages to explain. Having reclassified the USC and invented promissory notes and evasion mechanisms is there anything more productive on which we might spend our energy? If this is fancy accounting people will see through it.

Page 30 of the report is more enthusiastic than I would be about the expenditure ceilings and the envelopes. The authors say there is a significant development on page 39. I am not so sure that is how the big spenders feel. Is there a change in the culture? Is it the same problem in Irish banks, that the habits of the boom years have not yet been corrected? The general caution on page 13 of the report that Ireland has entered the post-bubble economy is well worth looking at in your further reports. What has that done to households, corporates and Government Departments? What has it done to Government Departments that have still not realised it has happened? That information would be useful. I am mindful of the debate in the Seanad yesterday on competition policy in that everybody there was far more radical than the Department promoting it. Therefore, some Departments have not clued in, given that in competition we are ranked 25th by the World Economic Forum, way behind any other OECD country. If we want to grow we have got to have competition policy but it does not seem to have occurred to the people in charge of competition policy that it has anything to do with them to get the country of the recession. Anything the representatives can do to spread the thoughts of how we get out of here would be valuable.

In regard to the debt to GDP ratio, page 12 of the report quotes Karl Whelan. I am inclined to agree with him that our long-term growth rate probably is not that much above 2%. We could do it the last time around because we had a greater potential having had our own currency to devalue and the fact that somebody blew the top of the UK economy. Getting the debt to GDP ratio down to 60% out of a 2% growth rate, according to the example cited from Karl Whelan, perhaps as Dr. Donal Donovan said, we get too pessimistic when we are on the down and get

far too mad and optimistic when we are on the up.

Even in the part of the economy described by Professor John McHale, I think we are down by about 60,000 industrial jobs. I agree with what he said but sometimes in Ireland economy policy is run out of PR departments rather than out of economic reality. That is why he has an important role to play in bringing his level of economics to the fore. He spoke of capture earlier. I hope he is not captured by the bureaucracy and, in particular, that he is not captured by the Department of Finance because the elements he is bringing to us are valuable because he speaks, as Deputy Peter Mathews said, away from what is in the reports and gives us the benefit of his expertise. That is vital in regard to what we are trying to achieve.

There is a figure of 84% for adjustments in health and welfare. It is useful that we are shown the impacts of various options on the public finances, poverty, employment and getting us out of this mess. The Departments themselves probably do not have the economic expertise which the council has to answer the questions. It is important that we know the full consequences and get things right as we make these necessary adjustments. I thank the Acting Chairman for allowing me time to thrash out these issues. There are many interesting issues in the report which is a valuable document.

I can understand the reason the IMF recommended the setting up of the Irish Fiscal Advisory Council because we had a dearth of economic expertise when it was badly needed. I see it, I hope, evolving towards a council of economic advisers. Certainly the role they play here in coming to speak to us is extremely valuable. I thank the council for what it does.

Professor John McHale: I thank Senator Barrett very much and members of the committee for their support. On a more general point, the effectiveness of the council depends very much on the support of the committee. We are independent of the Government. The way in which we can have an impact is by raising the political costs of bad policy. The council is not there just to be critical of the Government but to analyse the situation and speak as we find it but to have the support of an Oireachtas committee and the media is critical to a watchdog body such as us having an impact.

Senator Barrett made some excellent suggestions and gave us much to think about. In regard to capital expenditure he made important points that in a slowing economy the cost benefit analysis of various project changes must be taken into account. However, in an economy with many unused resources, multipliers tend to be larger, the opportunity cost of those resources are lower and that can have an effect on the cost benefit analysis. This is worth looking at.

Senator Barrett referred to the measurement of the output gap and this is something we are actively looking at. We will expand our basic model to give us a much stronger focus on the potential output of the output gap and ultimately the structural deficit. We hope to make significant progress on that by the next report. The Senator also made a broader point across a number of areas in terms of the importance of surveillance which is an important part of our role to ensure that the accounting is done properly in terms of reclassifications and different kinds of spending, ensuring that the expenditure ceiling framework which has a lot of potential, but there must be a follow through to realise that potential. The council has an important surveillance role in making sure that the gains are actually realised. Senator Barrett reminds us of that very important aspect of our function to look very closely at the Government accounts and to ensure that things are as they seem and to play the watchdog role we have been set up to play.

Deputy Richard Boyd Barrett: With the permission of the Chair, may I ask a couple of

questions? These gentlemen come before us only every three or four months, and they are experts

Acting Chairman (Deputy Arthur Spring): Just because it is you Deputy, I will allow it.

Senator Sean D. Barrett: I will share the Barrett time with the other Barretts.

Deputy Richard Boyd Barrett: I thank the Chair and Senator Barrett. Will someone confirm that what I think I see on page 32 is correct? In a very helpful table on the impact of growth, it sets out the figures for growth of plus or minus 1% in each of the years to 2015, and what this would mean in terms of budgetary adjustments for each of the years. Is it correct to say that if growth is 1% less per year than the Government projections, the extra adjustments, that is cuts, that will be required will be €2.3 billion in 2013; €1.1 billion in 2014; and €1 billion in 2015?

Professor Alan Barrett: Yes.

Deputy Richard Boyd Barrett: That is additional cuts of €4 billion on top of the €8 billion in cuts that we are required to make.

Professor Alan Barrett: Let me be very clear about this, it is a purely mechanical arithmetic exercise. We are saying, and this is no surprise, that if the growth is less than projected and one wants to achieve certain targets, one must do more adjustment. That is not a recommendation.

Deputy Richard Boyd Barrett: I understand that point. Am I reading this correctly?

Professor Alan Barrett: Yes.

Deputy Richard Boyd Barrett: In order to meet the troika's targets, if growth is 1% less than is currently projected, we would need an additional €8 billion of cuts in the next three years? That is shocking.

Deputy Peter Mathews: On a point of clarification, is it not a 2.8% adjustment at present?

Deputy Richard Boyd Barrett: May I ask a supplementary question? Is it not a very real possibility, one might even argue it is a likelihood, given the downward trajectory of growth projections that we will be wrong on the growth projections by 1%? In that case, is the €8 billion of extra cuts over the next three years not a very real prospect?

Acting Chairman (Deputy Arthur Spring): I think we covered this point earlier.

Dr. Donal Donovan: This is all simulation and hypothesis. What is a real possibility or not is unknown. This is a calculation. If growth were significantly lower -----

Deputy Richard Boyd Barrett: Even 1% lower.

Dr. Donal Donovan: ----- there would be a different state of the world in Ireland, in Europe and in the eurozone. What might happen to targets and trajectories and to financing from the ESM? It could be anything. I am suggesting that one cannot necessarily take a partial view of a different state of the world and say ----

Deputy Richard Boyd Barrett: Look at this graph.

Dr. Donal Donovan: The graph is a simulation of what would happen with all other things

being equal, except the growth rate. This is a mechanical simulation. It is just arithmetic. When one keeps all the numbers the same and if one changes one thing, namely growth, then of course, another number has to change. I am sure Deputy Boyd Barrett quoted the correct figure, but the point I am making is that in those situations, typically the world does change and other things happen in all kinds of different ways. One cannot conjure up a picture like that.

Professor John McHale: To clarify the issue of the numbers. The additional adjustment required to hit the current targets, if growth was 1% less after 2015, is €4.6 billion. I am not quite sure where Deputy Boyd Barrett was getting the figure of €8 billion.

Deputy Richard Boyd Barrett: That is correct, I am sorry. Yes it is €4.6 billion of additional adjustments.

Professor John McHale: As Deputy Boyd Barrett can see, I am not disagreeing with his general point. On page 34, figure C, if the growth turned out to be even worse than that, and we stress the uncertainty around the growth projections, my colleague, Dr. Donal Donovan, is correct in that other things can change as well but that does not take away from the basic point that our fiscal situation is very fragile. It comes back to our basic point that because of the fragility of the situation, if we can buy some insurance to put us in a somewhat stronger position if growth does disappoint, that insurance is worth buying, even though it has a cost in terms of slower growth.

Deputy Peter Mathews: Chairman, it is important for the record. Can we seek clarification on the recital of drafting in that treaty which is not correct? If their intention is to adjust the difference between 60% and the actual debt to GDP ratio, they have not said it.

Professor John McHale: I will clarify that point quickly. Article 4 of the treaty makes it very clear that it is basically the rule that exists under the current excessive deficit procedure. I grant it that the preamble is written awkwardly, but I can say with absolute certainty that the rule is the difference between 60% and the current debt to GDP ratio.

Deputy Peter Mathews: It should be corrected, because it is incorrect as it stands. It is incorrect as it reads in English.

Professor John McHale: It is certainly stated very awkwardly, I agree with the Deputy on that.

Acting Chairman (Deputy Arthur Spring): I would like to express on behalf of the joint committee our admiration for the Irish Fiscal Advisory Council, for its commitment and knowledge. The council is helping Irish society to get out of this crisis.

We appreciate the straight talking during the meeting. I wish they could summarise their knowledge into a 30 second soundbite for the public, however this is far more complex. We have been sitting for nearly four hours and we really appreciate the presence of the witnesses.

Should the council seek further information from either the CSI or the CPI or any other organisation, will a recommendation to that effect be put in the report and the committee will go about trying to help the council with that also.

I thank members and witnesses for attending this meeting.

The joint committee adjourned at 5.40 p.m. until 3 p.m. on Wednesday 16 May 2012.