Fiscal and financial policy for the pandemic in Ireland

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A sudden stop – even more than before

Total Employment 1998-2020

Source: CSO
Lasting jobs effect likely -- even though severe phase may be shorter than last time

Unemployment rate 1998-2022

Source: CSO; for 2020-22, Central Bank of Ireland July forecast baseline and severe
In the past, fiscal constraints limited defensive public spending.
Inequality needs to be contained

Gini (net income) 1973-2018

Source: ESRI, WIID (Luxembourg), Eurostat
Decline in global interest rates is a long-term trend

Source: Del Negro et al. 2019; dotted black line is world median
Interest costs did not grow as much as debt

Sources: Department of Finance; CSO; J.FitzGerald for 1984-90 GNI*
High prices make Ireland less prosperous

Actual Individual Consumption
per capita (selected countries) 2017

Index USA=100

Source: International Comparison Program (2020)

PPP=measured at common world prices;
XR=measured at local prices and exchange rates
Some tax revenue is again potentially evanescent

Main tax categories:
- Corporation profits
- Capital related
- Income
- Goods and services

Source: Department of Finance
Summary

1. Despite early bounce-back, there will be a lasting employment effect.
2. Heavy public spending needed. Two distinct phases:
   I) Defensive measures;
   II) Recovery & repositioning measures.
3. Before: fiscal adjustment with cuts. Containing inequality is vital & possible.
4. Global interest rates and risk-premium for Ireland is low (not just due to ECB).
   – (Vital to keep it that way if public services are to be maintained.)
   – Defensive and once-for-all spending less likely to trigger increase in risk-premium.
   – Rule of thumb: permanent spending increases need to be matched by tax.
5. Macroeconomic data in Ireland can mislead designers of policy.
   – Ireland is not as prosperous as we may think.
6. Ireland’s unusual corporate structure presents risks (as the banks did before).
   – Avoid (i) wasting public funds on creditors and rentiers of non-viable firms;
   – Avoid (ii) disruptive bankruptcies of firms with viable business models.
   – Corporate tax proved evanescent before...