

Why We Must Choose Prudence Over Power

Saturday Essay
Irish Daily Mail
6.2.2016

I still remember the intense pride I felt when, in 1977, my grand uncle Dr Martin O'Donoghue was appointed Minister for Economic Planning and Development. Since 1970, he had served as economic adviser to Fianna Fail leader Jack Lynch, and it was he who wrote the 1977 election manifesto which swept that party to power with an overall majority. Lynch rewarded O'Donoghue with a new ministry on his first day in Dáil Éireann.

A coalition government of Fine Gael and Labour had been in office since 1973, and was widely expected to retain power in 1977. Having redrawn constituency boundaries in favour of the coalition parties, outgoing Taoiseach Liam Cosgrave believed he had the election in the bag. However, when Dr O'Donoghue unveiled the Fianna Fail manifesto it soon became clear that Jack Lynch was destined for victory.

O'Donoghue was a shrewd economist, but he knew that if Fianna Fail were to succeed they must offer something startling. And so the manifesto contained a pledge to abolish car tax and rates on domestic houses. The party also promised to take whatever measures were necessary to reduce the unemployment rate.

I was only seven years of age at the time, yet I sensed that this 'spend, spend, spend' manifesto would turn the tide in Fianna Fail's favour. It did so spectacularly: Lynch secured a twenty-seat majority, forcing Liam Cosgrave to resign from political life. My grand uncle was given a top economic portfolio with the objective of implementing the manifesto.

The problem was that the goodies promised in the manifesto had to be paid for from the public purse and by borrowing. Domestic rates were abolished and the unemployment was reduced to below 100,000. However, the cost of the 'giveaways' soon took its toll on the national finances: by 1978, the country was running a 17.6% deficit – the highest of any developed country.

Moreover, the national debt ballooned by more than £2 billion and industrial action further crippled the economy. Then, following the Iranian Revolution in 1979, the world was tipped into a second oil crisis – the first being in 1973 - which plunged the global economy into recession. All of these factors resulted in Ireland enduring the most painful decade of economic stagnation in its history.

Neither Jack Lynch nor Dr O'Donoghue could have foreseen the global oil crisis. Yet, the 1977 general election does provide a salutary lesson in why prudence should always take priority over reckless promises. Fianna Fail secured a highly coveted majority, but the cost of that victory was far too great for the country to bear.

As we enter into another general election campaign, it seems like history is ritually repeating itself. Political parties are once again tripping over themselves to spend, spend, spend. Fine Gael was first out of the traps this week, promising to abolish the Universal Social Charge and to create 200,000 jobs over the next five years. The party's plan envisages that €4 billion will be invested in public services, while €2.5 billion will be given back in tax cuts. All of

this will be paid for from what Fine Gael describes as the 'fiscal space' which, they estimate, is just over €10billion.

Meanwhile, the Labour Party is promising a job for everyone in Ireland by 2018, and is committed to increasing the minimum wage to €11.30 per hour. Fianna Fail promises a €2000 childcare support credit for working parents and an increase in maternity leave to 30 weeks. They also promise to abolish Irish Water and water charges, to cap property taxes and to abolish all prescription charges.

And only this week, Sinn Fein's deputy leader Mary Lou MacDonald accused Finance Minister Michael Noonan of not saving enough for a 'rainy day'. But isn't this the same Mary Lou MacDonald whose party promises to abolish water and property tax, to increase spending on health by €3.3billion and capital spending by €2.2billion? Isn't it the very same party that, only last year, invited members of the Greek Syriza party to advise it on economic matters? It is thanks to Syriza's reckless promises that Greece now finds itself on its knees.

If you were to assess Ireland's current economic condition on the basis of these election promises, you could be forgiven for thinking that we were back to boom times. It is undoubtedly true that the national finances are in far better shape than they were in 2011. It is also true that the country is well on the road to recovery - a reality attested to by the fact that we are currently the fastest growing economy in the EU, and the fact that numbers on the live register have consistently declined.

Equally true, however, is the fact that we are not sitting on a limitless pot of gold. Our fiscal future is, at best, fragile and uncertain. While the outgoing government did bring the budget deficit below 3% of GDP, we are still running a huge deficit that must be financed from somewhere.

This is how the Fiscal Advisory Council (FAC) explained the matter in its 'Assessment Report' of November 2015: 'The Irish economy is experiencing a strong economic recovery, but faces numerous uncertainties about the pace of future growth... Notwithstanding the positive central growth scenario, numerous fragilities in the external environment and domestic risks mean that these growth prospects are far from assured. Following prudent fiscal policy during relatively good times will help ensure a sustainable growth path and limit the need for austerity measures in any future downturn'.

The FAC was established by the government in 2011 to provide 'an independent assessment of official budgetary forecasts and proposed fiscal policy objectives'. It is comprised of respected academics, economists and top people from the banking sector. It is not, in other words, a quango, but an impartial body of leading experts on matters pertaining to the economy. That is why what the FAC says should be taken seriously - especially when it warns that 'numerous fragilities' still exist both domestically and externally.

We all know, for example, that China is in serious danger of dragging the world into another major recession. The danger stems, as The New York Times recently put it, from a 'giant stagnant pool of loans that companies and people around the world are struggling to pay back... China is the biggest source of worry. Some analysts estimate that China's troubled credit could exceed \$5trillion... If such trends persist, China's economy, the second largest in the world behind the United States', may then slow even more than it has, further harming the many countries that have for years relied on China for their growth'.

The EU is China's largest trading partner. Great Britain, our biggest export market, depends hugely on China. If, therefore, China hurts, then so do we - and badly at that.

It is only normal for political parties to promise all and sundry when facing into a general election. It is, after all, a contest that is usually won by the parties offering the most goodies to the electorate. However, that is no good reason to deny the truth of our situation, especially after just suffering the worst economic disaster in our history.

The FAC warns that while 'growth prospects are far from assured', sustainable growth is possible if, 'during relatively good times', we follow 'prudent fiscal policy'. Prudence comes from the Latin word 'prudencia', meaning 'to see ahead'. It does not mean spending for today without due regard for tomorrow.

If the crash should have taught us anything, it is the value of economic prudence. It is prudent, for example, to balance your budget, to ensure that you have enough in reserve for a rainy day, to pay back your loans and to avoid spending money that you have not got. In so doing, you will not be caught short in a crisis.

The FAC urges prudence so that we can 'limit the need for austerity measures in any future downturn'. Why then has economic prudence become synonymous with austerity? Why has sound economic sense become confused with something that we have all grown accustomed to regard as somewhat evil?

The answer is that our political parties simply refuse to distinguish between prudence and austerity. Each party wants to be the one to bring the era of austerity to an end. And yet, even if that age has passed, our debt still must be financed, our bills paid and our budget balanced.

Prudence demands that election promises and budget proposals be properly costed. Prudence demands that we take account of the global situation when committing to tax cuts or increased spending on social services. Prudence insists that parties not make promises they cannot keep.

For the sake of future generations of Irish people, the political class must stop ignoring and disputing the warnings of those like the FAC. This week, for example, the body stated that €5 billion of the €10 billion in extra spending promised by Fine Gael, is money that already needs to be spent on pay and social welfare increases just to keep pace with inflation. It went further saying that the real figure available to the next government would only be €3.2 billion – a sum that was immediately questioned by Health Minister Leo Varadkar.

Again, the remit of the FAC is to advise the government so that we avoid the terrible mistakes of the past. Why, then, are government ministers lining up to dispute its warnings and dismiss its advice? The answer can only be that, if it is a choice between power and prudence, they will opt for power every time.

We should, however, never forget just how painful life has been in Ireland since 2008. We should never forget the blunders that brought us to that sorry pass. Neither should we forget how, against all the odds, we managed to recover our economic fortunes and our national dignity.

The big question now is this: do we want to squander all those gains for promises that cannot be kept - promises based on what economist Professor Stephen Kinsella this week described as 'piecemeal plans'? Do we want to sacrifice the hard won benefits of prudence for a spending spree that takes little account of the 'numerous fragilities in the external environment'?

I will always be proud of Martin O'Donoghue, not least because, in opposing Charles Haughey in 1982, he sacrificed his political career. However, the election manifesto of 1977 should be compulsory reading for all those politicians who promise to splurge their way to power. They should read it in light of the untold misery subsequently suffered by the people of this country.

Either that or they should simply cast their minds back to 2008. For all it will take is yet another external shock and we could well find ourselves back in a place none of us ever wants to see again. And if that should be our fate, there will be no point in asking why no one warned us before it was too late.

The warnings of history could not be more stark. That we continually fail to heed them is surely no one's fault but our own.