

Closing speech to the National Economic Dialogue by Minister for Finance & Public Expenditure and Reform, Paschal Donohoe TD

I'd like to begin by thanking the whole team for the great job they've done organising the session here this morning, which has made all of our dialogue flow so smoothly. Alan [Barrett – Chair] opened up with eight points that he wanted to talk to you about. I'm going to structure my own contribution into three different areas.

I want to talk about how previous National Economic Dialogues have influenced decisions that the Government has made. I want to talk about the Framework for Budget 2018, and what's to come after that. And I want to talk about policy priorities that are increasingly important to this Government, as we think about Budget 2019. And as we think about longer term plans that will make a difference to our country and to its citizens.

Alan ended with where I want to begin, by him calling out very explicitly the value of dialogue. And the value of engagement, as we have seen here. I want to underline my view of how completely appropriate it is to have a dialogue that is public, in which the voices of all stakeholders in our society, particularly when they disagree, can be heard, can be teased out. We can have inquiry in a public and in a respectful manner.

This of itself is intrinsically a public good. And we should be aware of that, as we look at how we can continue and even broaden this dialogue across the coming period. And I do this because there are a number of challenges, and a number of observations that are on my mind, on a daily basis, as I fulfil the Offices that I'm privileged to hold on behalf of the country.

There are two particular challenges that I grapple with, that I think are really important in democracies elsewhere at the moment, that we need to reflect upon, in terms of choices that we all make across the coming year and years for our society and for our economy. The first one is the sense of progress. The sense that we're all in this together. The sense that we can make a difference. And to offer the observation that if a democracy gets to a point where it believes it can make no progress on things that matter to its citizens, if a democracy gets to a point that the only thing that look inevitable is decay, then it opens up really big questions regarding what kind of choices countries will make and what can take the place of the kind of systems that we have at the moment. And this has to matter to countries, and it has to matter to all of us that want to look at how we can make a difference to our citizens, the citizens that you represent, and as against the interest of sectional or vested interests.

The second point that I would make is an economic one. Which is if you look at the challenge that we have of how we can sustain economies within democracies. As we look at how those economies are evolving. If we face a vista where fewer and fewer of our citizens feel that they might be able to participate in capital, and the kind of capital that we've known best here in Ireland are the hope of having, owing or having access to a stable home. Or the hope of having access to capital that might sustain an income for you in later life. If those things begin to fragment or begin to shift, then it really opens up very very big questions regarding how those economies are organised. And these are issues which, while they may sound to be at a very high level, are the reason why the Government is putting such time and effort into a roadmap in relation to pension reform for our country. And into the ongoing focus that

Eoghan Murphy has regarding the housing market and how we shift it, and the complete support that I have for him and his Department in the work that they do.

And as I look at those particular challenges, to put a very optimistic question to you all, which is my view and my belief that actually the countries and economies and democracies that are best able to respond back to these challenges are countries and economies that are small, that are open, and that strive towards a particular set of values. And if you look at the progress that our democracy has made, over the last decade, and recent decades, in responding back to the most challenging questions in relation to our political identity, our political institutions, the way we want to sustain them. To respond back to the most challenging and recent questions, regarding the multiple existential economic crises that we had at the same time, not so long ago, then maybe as a small open economy, if we could respond back to those kind of challenges, we have within ourselves to respond back to the kind of challenges we talked about over the last two days, and the deeper themes that I've touched on a moment ago, that guide me in my thinking about matters that I have to present to Government.

That then leads on to, if dialogue is, I believe, a public good at the moment, it can only become a public good that people want to sustain, if it makes a difference. And if we look at themes that we have discussed in previous dialogues, let me touch on four of them, where dialogue that has happened here, has informed choices that Government has made.

The first one is the challenge of climate change. This is an agenda which we must do more on. I've talked about this at other events recently. So I'll just underscore my belief, that it is a challenge that we have much to do to rise to. That being said, at the last Economic Dialogue we had a big focus on the shift that we need to make in capital investment. As we stand now in Ireland 2040, that is a programme now, equal to €22 billion worth of additional capital investment in those things that make a difference to respond back to the challenge of climate change. We have also seen recently the publication of the National Mitigation Framework for Climate Change. All of which is an effort to respond back to this challenge. But I want to underscore how much more we need to do, and to say that some of the choices in relation to this, are going to be difficult.

Secondly, in relation to planning. Again, an ongoing theme of recent dialogue, to look at where we are now, we now have a renewed National Planning Framework, delivered by Minister Murphy in Ireland 2040. And it's really impactful for me to hear the readout for the session in relation to this, to hear stakeholders in that dialogue say now their key concern is how we make that Framework happen, as opposed to focus on a lack of Framework. That's a seismic shift of where we have been over the last couple of years. A dialogue about delivering a Framework is far better and far easier to respond back to than the dialogue about not having a Framework at all. And that is again something that has happened due to the dialogue that has happened here.

Thirdly, an ongoing area of focus and other dialogue has been, for example, where we have stood in relation to public service pay, where we stand in relation to how we manage the development of wage growth in our economy. And while I am conscious of the ongoing work and ongoing challenges we will always have there, for those who work in the public service, we now have a three year Framework in which we are looking to address that. For those who work within the trading and private sector within our economy, we've seen a huge amount of effort and focus going on, into what is the degree of wage growth within that part of our

economy, that can deliver an improvement in people's living standards, without causing the kind of unravelling that we've had to deal with in the past.

And then finally, in relation to budgetary choice, again what is different to where we were in the past, and we heard many calls in the past for focus on reform, increased focus on efficiency. Is now that we're moving into the second year of a comprehensive spending review; that review has made a big difference to budgetary choices that we made in Budget '18 and would help with budgetary choices that we make in Budget '19. And to highlight the value of that, later on this year we will publish forty papers in this area. And these are not papers that are being inflicted by either of my Departments on the other Departments. These are papers that are being jointly delivered, that will call out areas of efficiency and areas of opportunity that in turn will help us deal with decisions that we have to make, to respond back to matters and challenges that have been raised by colleagues around the table here today.

So, that leads into my second area regarding what the Framework is within which we'll make those choices. And I want to emphasis points that I made in relation to the Summer Economic Statement, while contrasting that with some calls that I've heard here around the table, over the last couple of days. It's striking for me to hear calls for greater public investment and greater public spending. And for those calls not to be accompanied by the fact that the Government has already committed to €2.6 billion more of higher levels of public spending for next year. Out of that €2.6 billion, €1.5 billion of it is in higher capital investments. Next year capital investment in our economy will increase by a quarter [25%] versus where we are this year. This year, spending in capital formation in our economy, through the Exchequer, will increase by €800 million versus where we were last year. These are really significant changes. They're changes that are needed, and they are happening. And, in terms of the Budgetary Framework that the Government will move to, I will not be delivering any changes that imperil my ability to deliver a deficit that is no greater than 0.1% for next year.

And I'm going to do that, because this will be the second year in a row, in which we can point to our economy delivering books that are broadly balanced, while accompanying this by the set up of a Rainy Day Fund.

And I do all of this because one of the things that perhaps didn't get the prominence in the discussions that we have had here today, but was touched on, is the changing economic and political environment within which our open economy is secured at the moment. And we heard the Taoiseach refer earlier on to Paul Krugman, and the concept that he had of the great moderation. A question I think we should consider is whether the last five or six years were actually another wave of the great moderation, externally. And if that was to change, what that will mean for our economy. And as somebody who is in the room, in Euro Group and Ecofin, when I see other countries still grappling with difficulties that we have had in the past, I'm absolutely determined to ensure that our national finances, offer the greatest security possible to our country, if we see conditions begin to shift in a way they might. And I will deliver that. That will happen. It will happen in Budget 2019. And that context to our national finances, it's not something that has been raised to a great degree by many of you. That's not a criticism, it's just a fact. I wouldn't expect it to be. That is my role and that's what the Government is here to do. But it is the context within which we will be making those decisions.

And it is a context now of looking at what is the right budgetary stance for our economy, before I move onto challenges in relation to our society. The artist formally known as fiscal space, will not be making a return. What we have to do now is look at what is the right stance for our economy? What are the right choices that we can make? What we cannot do is look at the framework of fiscal rules, and say - because a certain element or part of that architecture could say that we might be able to spend more money- is that we go down that pathway if that's money that we don't have, and our economy needs to borrow to do it.

So the way in which the Government will be putting together this Budget is looking at what is the right Budgetary stance to take. What is the appropriate stance for our fiscal decisions that we will make, in the context of where our economy is at the moment, and in the context of what we are seeing happening abroad, and how that might influence an open economy.

And that then leads onto the six policy areas that reflect most of the discussion that we have had that will allow the percolation of the right budgetary stance for our economy, into things that I want to use to make a difference to our society. Because to underscore what I said on many occasions, a recovering economy isn't the same thing as a healed society; and why we will always have much that we need to do, and will always have much that we need to do to heal our society. That isn't a sign of why we shouldn't try, it's the clarion call as to why we need to keep at it, and why we need changes that can make a difference. But a good economy and safe national finances are a prerequisite to doing it, which is why I'm guided by the Framework I touched on a moment ago.

So what are the kind of themes that will continue to inform choices that we will make? They're to reaffirm the themes that were outlined by the Taoiseach yesterday morning. Themes that he has laid out, that he has mandated the Government to deliver. That the Government will deliver in this and future decisions that we have made.

The first one is to look at how we can continue to rebalance our economy towards changes that we need to make in our indigenous and domestic sector. And towards how we respond back to the very very demanding agenda of decarbonisation and climate change.

The second one is, is how we can use our Social Insurance System to continue to deliver tangible improvements to our citizens, whether they be self-employed, whether they be our citizens with disabilities, whether they be our citizens who don't have access to changes in the labour market, or are citizens who do work that matters to the State, and matters deeply to our society, but is not work that is paid for. How we can use our Social Insurance System to respond back to that.

Thirdly, how we can have a tax base that is broad and stable? A priority which was important for me in the last Budget, will be as important for me in the next one.

Fourthly, how we can have a better approach to land. From the planning of land to the supply of land to the organisation of land. And I want to say the work that Minister Murphy is doing in this area is work that I believe can and will make a difference to the challenges that we have, and he has my absolutely support in looking at how we can make that happen. You've seen a sign from that in terms of the commitment that the Government has, and the resources that we have made available to Home Building Finance Ireland. And I will be continuing to work with him, to look at the further changes that we need to make in that area. And we're working to bringing some important work to a conclusion in that area, soon.

Fifthly, how we continue to make gradual and sustained improvements to the take home pay and living standards of our citizens. I am committed to tax reform. I am committed to changing the tax code, where we can get ourselves to a place that, if you're earning an average wage in our country, you're not on the higher rate of income tax.

But I'm unambiguous in my commitment to delivering that. And some of the understandable questions that have been raised about my approach, have been around the gradual approach of doing it. To say well, if the difference is only €5 or €10 a year, why do it at all. There's two other questions I would pose to those who would put that question to me, which are all in the spirit of, well, what is the alternative to doing that? One alternative is, big bang approaches, big bang changes to our tax code. We've been down that path before. Look how that worked out for all of us. The second approach is not to do anything at all. That's not a tenable approach to take. It's not a tenable approach to take with the pressures that many feel at the moment, in relation to their standard of living, and not a tenable approach given the sense that many of our citizens have, regarding the challenges that they have in just getting by at the moment.

And then the final area of focus will be, how we continue to deliver sustained and increased investment in our public services, and accompany that with a deeper commitment and sense of reform, than we have had to date. And I will continue to look at choices that we have to make in healthcare, continuing to work with my colleague Minister Harris regarding how we can accompany all time high levels of investment in our health service, with the right governance structures in place, that are then settled to ensure we have accountability regarding how that money is spent.

So they're the six themes that the Taoiseach has talked about, that he's asked me to deliver along with the rest of the Cabinet, which we will be doing. That will inform choices that we make in Budget 2019 and beyond. The kind of dialogue that we've had, and the way in which I've heard people talk about these issues, will inform the choices. My view is, is even though the artist formally known as fiscal space is no longer with us, I am struck by the growing appreciation within these kind of dialogues regarding the constraints that we're under. It has been interesting, in hearing contributions from colleagues, that all of us are aware that we can't do everything. And it is really encouraging for me to hear that sense develop. Whether that sense can be maintained across the coming months, is of course the challenge that's open to all of you, not just to me.

As we look at where we are now versus where we were in the past, and versus where we want to go to, I'm struck by the fact that budgetary policy did not end up with a difficulty that it was in by Ministers for Finance saying no to unpopular things, or saying no to things that were not needed. It was the cumulative impact of saying yes to things that many did want that was a factor but not the factor in budgetary choices that ended up being made about the breadth of our tax base, and the growth of public expenditure that was a factor in the difficulty we ended up in. And by being very clear, on my budgetary framework, where I want to be with my deficit, and the guides that will be important to me in policy choices that I want to make, I'm laying out today the compass that the Government will be using in the second half of the year to get to that point.

A future that's the same as our present, isn't the kind of Framework that we need to sustain our citizens in the journey that we have to make. A present that's no better than our past is not a source of optimism either. And what we want to do, I believe as a society, and I'm

heartened by how this has underpinned many of the contributions that I've heard here today, is try to create an economic and social model that's inclusive, that's sustainable, and in which we all have a stake. I believe in some areas we are closer to that than we were a year ago. I believe in other areas, we still have a journey to make. And the Taoiseach is committed to trying to create a Framework in which we can conclude that journey. And his Ministers are going to work with all of you to try to make that happen.

So to end with where I began, as we look at what is happening at the moment in relation to dialogue, as we look at the kind of pressure that many institutions that we want to sustain in our country are under elsewhere, we're different here in Ireland. We want to maintain that and I look forward to working with all of you to try and translate this kind of debate into policy choices that will make a tangible difference to our citizens, while being conscious of all of the competing pressures, all of the challenges that are there, from trade to tax to Brexit, that we need to navigate our way through. And the dialogue we've had today, provides a bit of a compass to it. In the second half of the year, we'll be laying out the map to do it.

So thank you for your contribution. I look forward to working with all of you across the rest of this year.

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