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# Public Investment and Fiscal Stabilisation

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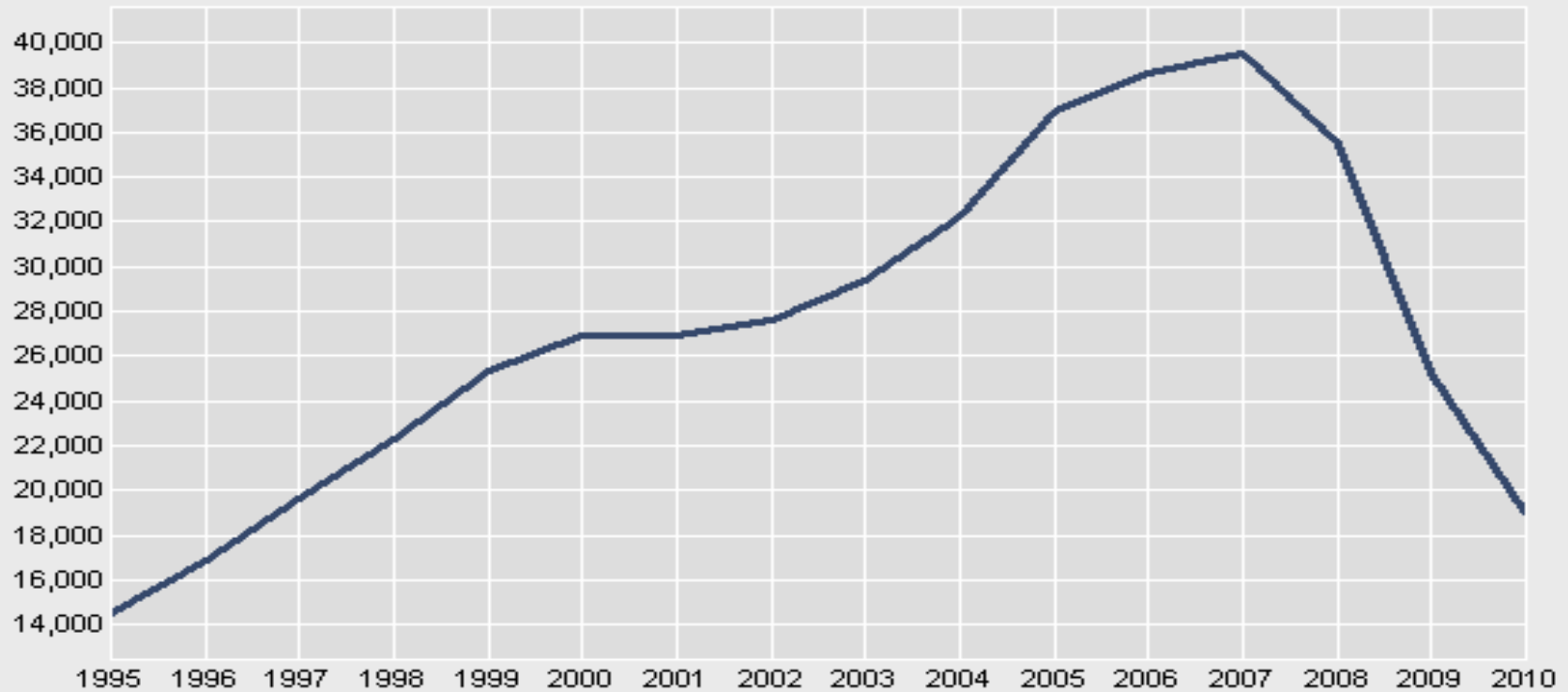


# A Popular Narrative...

- Capital spending has collapsed....
- There is an infrastructure deficit...
- Unemployment is high...
- So let's increase capital spending.

# Real Capital Formation (incl housing)

**165. Gross domestic fixed capital formation at constant prices chain linked to 2009 (€ml)**  
by Year  
State (€ml)

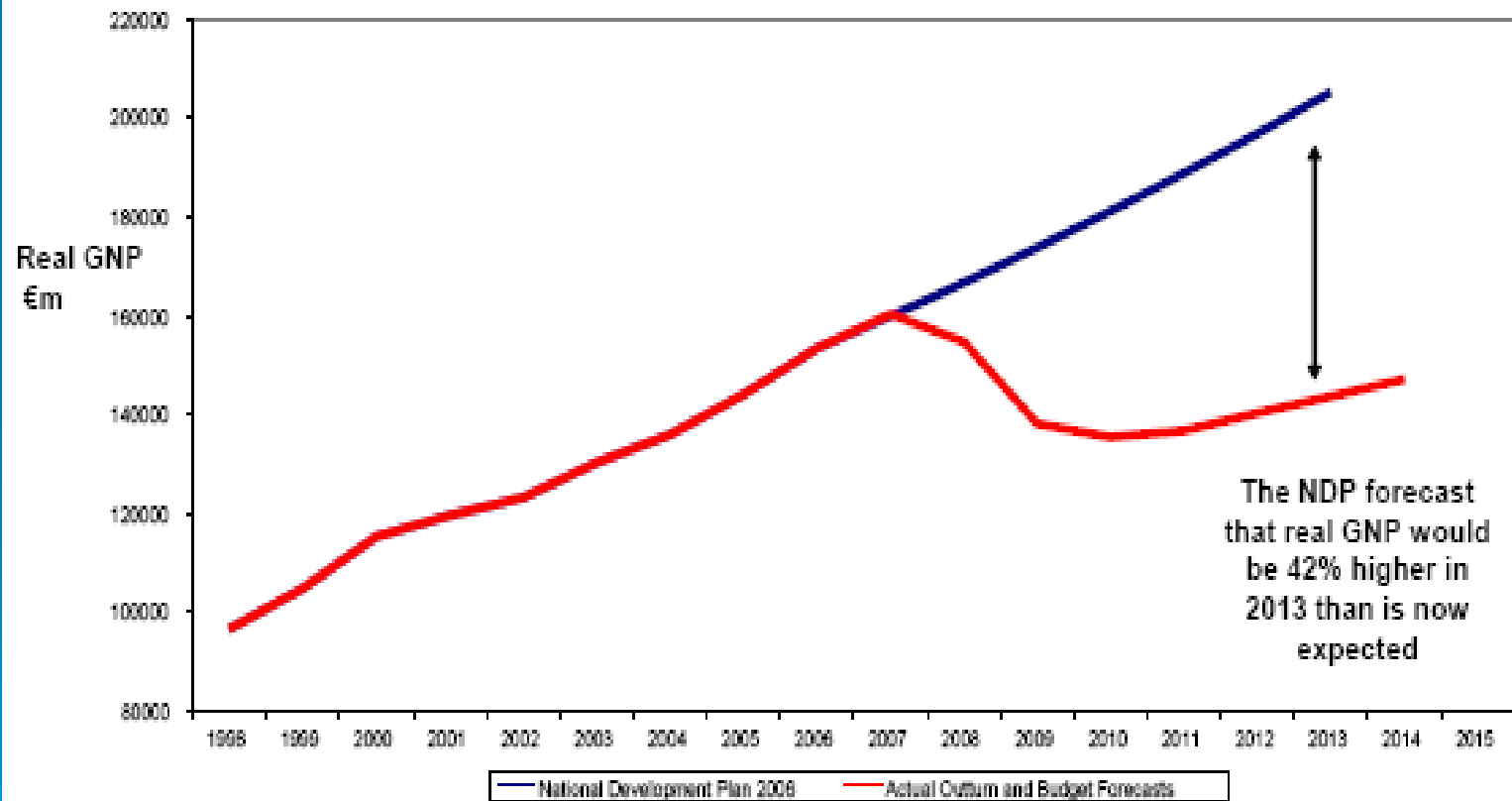


# Most of the Fall is Housing...

	2005	2006	2007	2008	2009	2010
GDFCF €m	43548	48311	48486	39430	25293	18024
- Dwellings	20509	22626	20056	14507	7497	4441
= Capex	23039	25685	28430	24923	17796	13633
GDFCF % GDP	26.6	27.1	25.5	21.9	15.7	11.6 -15.0
Capex % GDP	14.1	14.4	15.0	13.8	11.1	8.7 -5.4

# Then and Now

Chart 2.1: GNP Forecasts: Comparison between National Development Plan 2006 and Budget 2011



# From the Capital Spending Review...

‘Over the past decade or so, some €70 billion has been invested in infrastructure and the productive sector. Judged by a range of measures, the quality and quantity of the country’s stock of infrastructure has been considerably augmented in recent years.’ (Public Expenditure and Reform)

# What Infrastructure Deficit?

Table 1 World Competitiveness Yearbook: Perception of Infrastructure in Ireland, 2005-2011

Year	2005	2006	2007	2008	2009	2010	2011
Score (max 10)	4.48	4.93	4.90	5.96	6.75	7.24	7.96

Source: IMD World Competitiveness Yearbook 2011 based on executive opinion surveys.

# Ireland just got smaller...

- ❑ M1 Border / Dublin: 1 hour
- ❑ N8 Cork / Dublin 2 hour 30 minutes
- ❑ N4/N6 Galway / Dublin: 2 hour 10 minutes
- ❑ N7 Limerick / Dublin: 2 hour 15 minutes
- ❑ N9 Waterford / Dublin 1 hour 45 minutes

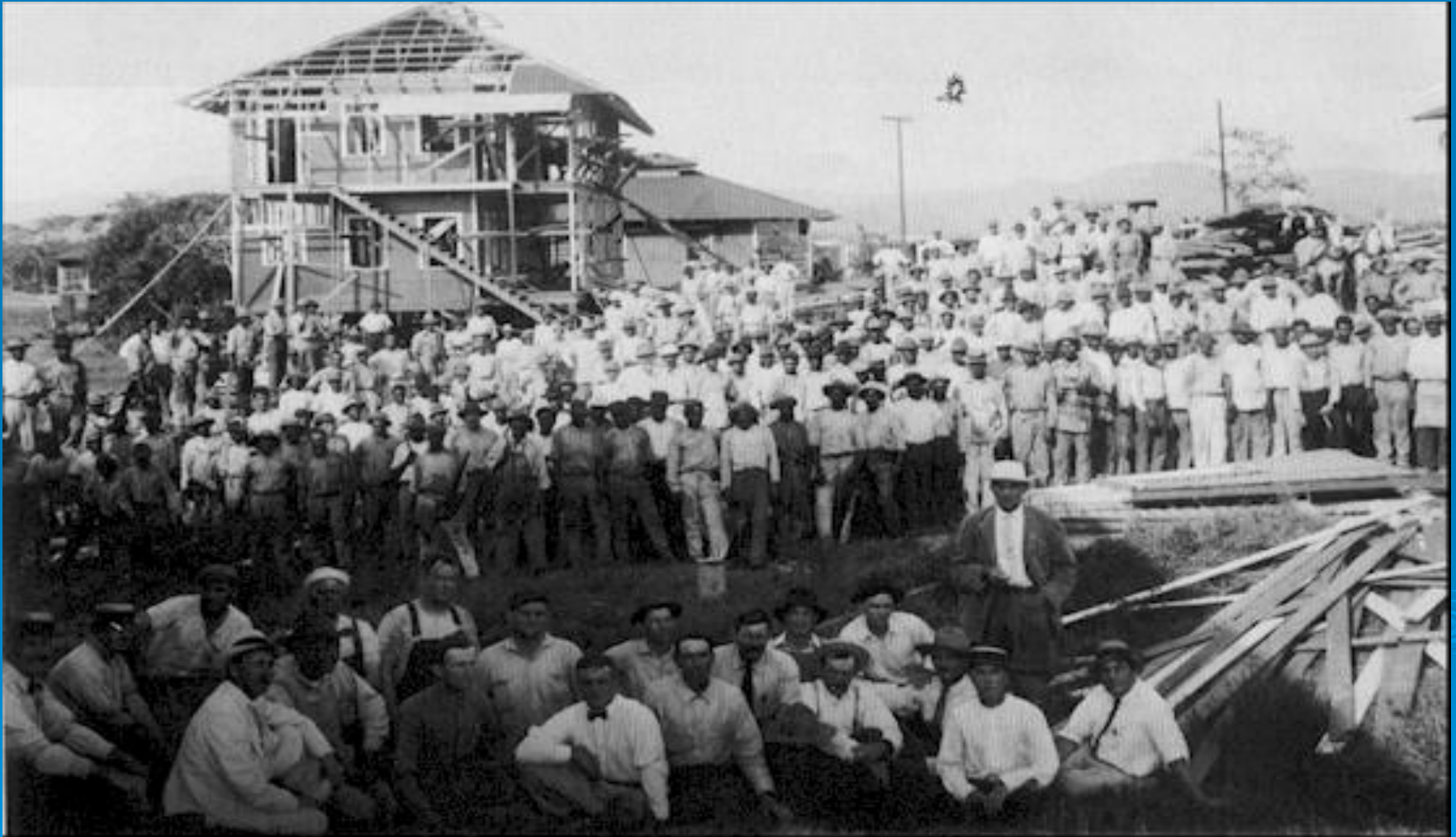
*(Approximate Journey Times from M50)*



# Capital Spending and Jobs

- Aside from house-building, Edgar Morgenroth has shown that capital spending is not labour intensive
- Nor is it suited to a countercyclical role - big projects can have 10-year lead-times, even schools take four
- Projects are never 'shovel-ready'

# Panama Canal c.1910



# Man with Shovel

Panama,—A New Sister Republic



THE NEWS REACHES BOGOTA—From the *Herald* (New York)

# How Big is State Capital Spend?

- State capital spending does not end with the Exchequer capital programme.
- State companies have had sizeable capital budgets over the last decade
- The PPP projects are off the balance sheet, so the Exchequer figure understates total State capital spending.



# UK Treasury Select Committee

**‘The price of finance is significantly higher with a PFI. The financial cost of repaying the capital investment of PFI investors is therefore considerably greater than the equivalent repayment of direct government investment. We have not seen evidence to suggest that this inefficient method of financing has been offset by the perceived benefits of PFI from increased risk transfer. On the contrary there is evidence of the opposite.’ (August 2011)**

# There has been a wasteful bubble in state capital expenditure

- The Ennis-Athenry rail line cost €105 million, absorbs €3 million pa in operating losses, average 8 passengers per train.
- NPV = - €137 million (Goodbody 2005).
- Regional airports are closing. DKM 1999: 'The next programme should not contain ...grant aid... for regional airports.'

# Project Evaluation

- There should be ex-post studies on major projects.
- Enhanced scrutiny of capital spending and acquisitions by state companies.
- A review of Irish experience with PPP.
- A statutory base for evaluation and an end to political projects.

# The Fiscal Responsibility Bill

- The DoF released a revised circular in 2005 on project evaluation.
- In principle all projects over €30 million are supposed to be subjected to a proper cost-benefit analysis.
- The political over-ride needs to be circumscribed in legislation.



# Statutory Project Review

- The fiscal responsibility act should place the 2005 circular in law.
- Project evaluations to be conducted by Department of Public Expenditure, independent of project promoters, published, tabled at Dail committee prior to consideration by government.
- This approach recommended by ESRI in 2003.