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Headline: Cutbacks of €4bn 'will kill economy'

Cutbacks of €4bn 'will kill economy'

FINANCE Minister Brian Lenihan's €4bn spending cuts will drive the economy over a cliff into a bottomless depression, a leading economist has warned.

Professor David Blanchflower, former Bank of England policy maker, said while the Government needs a plan to pay off its debt, it does not need to pay it off now.

The world-renowned labour market expert said massive cutbacks would deliver the country into a dangerous downward spiral that would lead to as many as one in four people being out of work.

"Cutting public spending will basically make things worse and drive a recession into a depression," he said.

Using both the UK and US as examples, Prof Blanchflower said any recovery in what is the world's worst financial crisis in 100 years was a result of stimulating the public sector.

On the other hand, countries doing the opposite were heading towards a depression, he said.

"If you think about this as an economic war, the first thing you do is win the war – you don't say I can't fight the war because I'm worried about spending cuts," he said.

"That's the classic mistake that people made in the 1930s (during the Great Depression)."

Speaking after the UCD-organised Dublin Economics Workshop, the top economist said the Government needs to consider whether it wanted to remain in the eurozone.

It also needed to persuade the European Union to give more financial assistance – implementing a regional policy for Ireland – and encourage the European Central Bank to relax its monetary policy to allow for a cut in the exchange rate.

In the meantime, a plan would need to be drawn up to convince people how the national debt would be repaid over several years, while the Government got to work on kick-starting the economy.

"The Government absolutely has to have a plan to pay off this public debt – but it doesn't have to do it now," he said.