



Public spending cuts 'could cause havoc'

by Brian O'Mahony

CUTTING public expenditure or public sector wages or employment could cause havoc for the Irish economy, a top economist warned yesterday.

Such action could lead to a prolonged depression, warned David Blanchflower, professor of economics at Dartmouth College in the US.

Prof Blanchflower, was until recently a member of the Bank of England's monetary policy committee and has long warned of a surge in unemployment and youth joblessness in particular.

Addressing the Dublin Economic Workshop yesterday on strategies to tackle unemployment he warned "the young will be hit hard" before this recession is

finally laid to rest, he said.

He questioned the current strategy of government to cut €4bn in December's Budget saying it was the opposite of what the country needs.

"Moves to cut public expenditure or public sector wages or employment deep in a recession are a mistake and may turn a recession into a depression," he warned.

What's needed now is a drive to maintain or even increase demand in this struggling economy.

That can be achieved by a "stimulative fiscal policy" in the Budget and low interest rates and the ready availability of money for investment.

It was essential to "keep going" using measures to drive up rather than lower demand further, he said.

He said there was "little evidence from around the world that banks are lending while banks' balance sheets have not been fixed.

In the current climate most demand growth is due to public, not private stimulus, and "it remains unclear where the new jobs will come from in the decade ahead."

If the financial services, construction or the public sector is not permitted to generate them, then where can the jobs be found to deliver economies from the current difficulties, he asked.

Solving youth unemployment is the most pressing problem facing governments today, he said.

Colm Harmon, director of the UCD Geary Institute, said many of the assumptions relating to education in Ireland were false.

There was little convincing evidence that class size matters. "It's a big fallacy," he said.

Irish class sizes are large, on average, by OECD standards, but the attainment levels of Irish pupils is at or even above average, he said.

Marginal shifts in class sizes would have "little measurable impact" on results achieved but tackling that issue has been shown to be an "incredibly expensive strategy," he said.