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We need a political system that encourages strategic thinking

OPINION: Policy-making here needs an overhaul, with guidance from bodies such as the ECB, writes **MICHAEL O'SULLIVAN**

WE NEED reform, not another rescue package. The mood among Government politicians following Tuesday's Supplementary Budget is similar to that during the many previous dramatic episodes in Ireland's credit crisis – self-congratulation that tough talk and apparently bold action have saved the day, and blustering assurance that the worst is over and the recovery is in sight.

The trouble is that our politicians, as well as many commentators and policy-makers, had displayed the same over-confidence at the times when short-selling was banned, the bank guarantees were launched and Anglo Irish Bank was bailed out, among other policy moves. Each time, they simply dug Ireland deeper into the mire, in contrast to more successful strategic thinking adopted by other small countries such as Sweden and Switzerland.

The point here is not to join those making easy personal attacks on politicians or join the chorus of doomsayers, but to highlight that the need for strategic thinking and reform of our institutions and public life is now greater than it has been in almost 90 years.

The short-sighted tactics that passed for an economic plan in Tuesday's Budget mean that Ireland is likely to be a long-term laggard while other nations recover. If there are three necessary phases in such a plan – rescue, recovery and reform – then we are still stuck in the rescue phase.

At a time when other nations are starting to think about the world after the credit crisis, Ireland's economy is still contracting and the banking system in dysfunction. So-called fiscal discipline now means more deflation later and potentially new and more serious social problems into the foreseeable future.

All the Government has succeeded in doing in recent months is to transfer a very large pool of risk from banks and developers to the Government balance sheet, and, through this Budget, it is picking the pocket and future wealth of taxpayers in order to fund the cost of doing so.

The aims of the Budget betray a Government in thrall to bond markets, and a mindset still dominated by the logic of the property bubble. In particular, this may be institutionalised with the planned establishment of a National Asset Management Agency (Nama).

This will prove another costly mistake, because the correction in wildly over-valued property prices has only begun (in Japan property prices fell for 15 years, from 1992 to 2006) and the idea should not be to prop them up but to allow them to correct.

Overall, for such a Budget to appear fair and workable, the Government needs the citizen to believe that there is a greater plan or narrative that will paint a path to recovery and prosperity, and that the immediate burden (the “tightening our belts”) is a price worth paying for a better future.

But there is neither a serious, credible recovery plan nor any evidence of a sincere and well-thought-out programme of economic and political reforms. Indeed, the danger is that, as with most episodes of this crisis, the economic pain simply has to become so great that it provokes changes. There is no need for this to happen, not least because as multiple cases in other countries have shown (the first Tarp plan in the US for example), policy made under duress tends to be bad.

A recovery plan must focus on rebuilding competitiveness in ways other than slashing wages – education (maths-based subjects) and infrastructure are important here. Re-announced research and development incentives and the new Enterprise Stabilisation Fund announced in the Budget are a minuscule contribution. The overall aim should be to foster domestic companies in newer, high-growth industries. One important puzzle that needs to be solved is why the Irish business class and wider public have committed so little capital to real economy investments in the past 15 years, and so much speculative capital to the property market.

Reform is the next challenge. Few politicians or commentators are discussing this now (the Budget announcement regarding the Central Bank is relatively cosmetic), in the same way few took seriously warnings about the structural weaknesses in our economy some three years ago.

The credit crisis has highlighted the lack of serious strategic thinking on the part of the political and policy-making classes, not just in the past six months but in a habitual way. By and large the skills and incentives of our political class draw them toward small, local issues and leave them unprepared for “bigger picture” ones. The political havoc sown by the smaller political parties during the EU treaty debate was a warning signal of where the abilities and motivation of the mainstream political class lay.

There is also a sense that the moral paradigm shift that took place in Irish politics from the 1970s onwards has now caught up with us. Moral courage, accountability and leadership are in short supply.

As a framework for reform we should begin to think of a “second republic”. While this sounds theoretical, the practical implications are increasingly clear.

Here are a few proposals: a smaller Dáil that focuses on “big picture” national and international issues; a presidency with more power and resources is also necessary; elevate

local politics to the provincial from county level, and attract better qualified and more accountable local politicians.

We must also institute an unambiguous legal framework to oversee political corruption, and to govern the interaction between commerce and the State. Upgrading the technical skills of politicians and policy-makers is also very important. Both groups need a deeper grounding in technical areas like economics, sciences and management, for example. Something along the lines of a “Grand École” is an option here, together with co-operation with international universities and institutions such as the OECD.

Ireland’s economic policy-making framework needs a complete remaking. This must be done with the guidance of international economists and institutions such as the ECB. It may well be that functions like regulation and governance need to be “outsourced” to multinational bodies.

With the historically significant Easter period as a backdrop, the way we think about the economic, social and political issues facing Ireland in a post-credit crisis world needs to be revolutionary rather than the tame fumbling we are used to.

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