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Ireland prepares to leave the bailout, after a policy of spending cuts and tax increases rather than the fiscal stimulus that some urged upon it [1]

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It's reported [3] that the Republic of Ireland will leave the 85bn euro bailout package it undertook when its banks collapsed in 2010 by December this year. Prime Minister Enda Kenny says that Ireland's 4.8% deficit next year will be well ahead of its 5.1% target.

This was done without the massive fiscal stimulus advocated by neo-Keynesians. It was done by austerity. The initial plan was for spending cuts to outweigh tax increases by 2:1, though the outcome has been more like 1:1. Ireland has cut child benefit, unemployment insurance, some health services and the capital budget for new buildings and roads. Tax increases have seen a Universal Social Charge imposed as a surcharge on income tax, starting at 10,000 euros and ranging from 2% to 7%. There have been increases in property taxes, effective income taxes and PRSI (their equivalent of National Insurance), and in VAT, plus a big increase in wine duty.

While unemployment has fallen, this is mainly down to emigration. Even so, those leaving tend to acquire new skills abroad, remit funds home, and will probably return when the economy has picked up sufficiently. Unemployment is about 13.5%, which, while high, is nothing like the levels seen in other bailout countries.

There are still problems, with the economy hovering in and out of recession and a mortgage arrears crisis that has 1 in 8 mortgage holders more than three months behind on payments. Still, bad banks are being wound down and the future looks quite promising. It was done by fiscal responsibility rather than fake stimulus, and Ireland firmly and bravely refused to give up its low corporation tax policy despite great pressure to do so, and thus remains an attractive location for business and expansion.

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