Analysis

Government has to put the brakes on runaway public spending train

Daniel Murray The pandemic kicked off eye-watering 'temporary' expenditure that has somehow become permanent

Something very strange has been happening to state's public finances that hasn't been getting much attention.

While there has been lots of talk about how tax revenues have exploded thanks to thriving multinationals based here, there has been less talk about the scale of overall spending increases by our government.

Spending has gone gangbusters, so much so that we should probably be talking about it a bit more. But we're not, because corporate taxes have followed the same trajectory, masking the underlying spending mania.

In the space of just five years, planned budget spending has grown by 45 per cent, from €66.5 billion in Budget 2019, to €96.5 billion in 2024.

By any measure, this is an extraordinary growth in public spending. And yet, the figures above only account for spending projected during the budget process and leave out the figures for actual spending in any given year, which has been consistently ahead of budget projections for every one of the last five years.

Let's go back to 2019, the last normal year before Covid-19. When Budget 2019 was launched, it proposed €66.5 billion in voted expenditure for the year but actual spending came in about €900 million ahead of that.

At the time, overspends of that scale were considered quite serious. But they had no idea what was to come in the years ahead.

It is somewhat spooky to look back at the documents prepared for Budget 2020. The aspiration then was to spend a total of €71.3 billion.

What transpired by the end of 2020, after Covid-19 had effectively put the economy into a coma, was a total spend of €85.3 billion, an incredible €17.9 billion ahead of the original budget projections, almost all of which was due to Covid-related spending.

In 2020 and 2021, pandemic spending surged past projections, and by Budget 2022 the ambition was to spend even more, a record €87.5 billion over the year.

The now familiar "Covid spending" had been relabelled "non-core spending" and was expected to amount to €7.5 billion across the year, with core – or ordinary government spending – expected to account for €80 billion.

Of course, two things happened in 2022: Russia's invasion of Ukraine begot a migration crisis across Europe, while it also turbocharged energy inflation across the bloc.

As a result, the government intervened with multiple cost of living packages that hadn't been budgeted for and spent large sums on supports for the nearly 70,000 Ukrainian refugees who arrived in Ireland that year.

As a result, actual spending ended up being €88.8 billion mostly due to an €8.8 billion spend on "non-core" areas.

You might be getting the picture now, but Budget 2023 really shows the difference in projected and real spending.

In that budget, spending was projected to amount to a new record of €90.4 billion. But during 2023, the government again rolled out multiple bumper cost of living packages, while spending in health and across several other departments ran significantly ahead of projections.

The result? Actual spending in 2023 was €94.7 billion, €4.3 billion ahead of projections, making a mockery of the budgetary process that had happened just a year previously.

The question, as we make our way through 2024, is just how much more than this year's €96.5 billion budgetary allocation we will end up spending by year end.

Last week, Paschal Donohoe warned his cabinet colleagues that spending across health and some other departments was already ahead of profile this year. Health is expected to run over budget, having been denied the budget it asked for last year due to the level of repeated overruns.

All of this suggests that public spending in Ireland is truly out of control, as record funding initially allocated to temporary emergency responses has either been absorbed into the permanent spending base or been repeated as "temporary" packages for several years on the trot.

Such a scenario is fine while our tax revenues remain as inflated as our spending habits, as demonstrated by the fact that despite the level of spending, the government is projecting a budget surplus of €8.6 billion by the end of this year.

But, of course, those tax revenues aren't guaranteed, as noted by the government's labelling of at least half of corporate taxes as "windfall", and a portion of income taxes are also unreliable due to Ireland's exceptional employment levels.

The new savings funds being set up by Michael McGrath, the finance minister, are a recognition of how tenuous those receipts are.

But eventually the government will have to address its newfound spending habits as well. What are the chances of that happening in an election year?