THE ECONOMY, PUBLIC FINANCE AND THE ELECTIONS

By Prof Edward Scicluna MEP (PL candidate on the 5th and 8th districts)

One tends to recall that the economy and elections are very much related. The famous statement "the economy stupid" was coined with this in mind. Leaders of contesting political parties can only ignore the economy at their own peril argues Profs Edward Scicluna. Let's unearth why...

Incumbent governments know how important it is to face an election at a time when the economy is doing well. And so one cannot be surprised that an election programme would promise economic growth, full employment and low inflation. For the record these economic targets which also include price stability, equitable distribution and balance of payments equilibrium have been on the electoral platform in many countries since the early 40s.

So it is no surprise that so called electoral proposals, promises or measures regarding the economic growth and employment would find a prominent place in the electoral programme of the two leading political parties. Which then begs the questions which of the two is the more credible?

The issue of credibility may be addressed with the credentials of the owner of the programme in mind. In which case one seeks to judge its past record or its team make-up and thus the past record of each individual team member. Credibility may also be addressed through the studies or presentations attached to the promises or proposals themselves.

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The 2013 general election has seen for the first time the valuation or costing of the major quantifiable measures suggested by the two leading political parties. It originated with the PL's energy proposal which promised significant cuts in the electricity and water tariffs. Sceptics of this proposal at the time wanted to know where a future PL government would find the money to pay for this presumable subsidy. The response was that any announced proposal would be costed so that information would be given as to how much it would cost, when it will be introduced and how the proposal can be achieved. This was done with regards to the PL energy plan and the successive measures announced subsequently on a daily basis.

The PN programme came out at one go with the measures listed and costed. The response from the public to the two parties' proposals was more of an alarm that such promises looked so expensive that they either could not be kept, or else would bankrupt the country.

The PN gave a presentation showing that in spite of an additional recurrent expenditure of €120 million each year the budget would not be affected since it is assumed that most of those moneys would come out of savings and efficiency made on tax collection and government expenditure. Furthermore assuming a significantly higher rate of economic growth it was shown that in spite of these big changes the deficit would still turn into a surplus in 2016 and the debt ratio would reverse towards the 60% eurozone "holy grail".

The PL presentation split the problem of economic and financial projections into two. One presentation shows the results of an econometric model exercise based on the growth and employment proposals. This shows the economic effect of a supply shock to the economy where it is expected to expand its real growth potential up to the 3.6% mark. In a separate financial exercise projections of the additional estimated annual €80 million expenditure are examined as to their impact on Malta's public finances. This is done on the basis of a purposely chosen lacklustre economic growth scenario as projected by the European Commission and the International Monetary Fund. The projections shows that while the surplus and debt targets will not be reached in the next five years, the more modest PL additional expenditure figures would at least see the lowest deficit ever by 2017.

Come April Malta would be faced by a more official set of projections due to the submission and approval of this year's Budget in Parliament.

Prof Edward Scicluna

Editor's Note:

Prof Edward Scicluna is a member of the European Parliament and Vice-Chairman of the Economic and Monetary Affairs Committee in the European Parliament. He is also the representative of the European Parliament on the European Statistical Advisory Committee (ESAC). Prof Scicluna was Head of the Department of Economics at the University of Malta; Chairman of the Malta Council of Economic and Social Development (MCESD), Chairman of the Malta Financial Services Authority (MFSA), Electoral Commissioner, Central Bank Director, MIB Ltd director, Chairman of Political Discussion Programmes organised by the Malta Broadcasting Authority (MBA),Chairman of the HSBC's Malta FundsSicav plc and Structured Funds Sicav plc, Chairman of CWG plc and board member of the National Euro Changeover Committee (NECC). Internationally he carried out consultancy work for the EU Commission, UNESCO, the United Nations Environmental Programme (UNEP), and for the governments of Albania, Croatia, Libya and Turkey; served on the Council of Europe Development Bank Auditing Committee. He acts as economic advisor to the IMF delegation and the following Rating Agencies – FitchIbca, Standard & Poor's, and Moody's and was appointed as a Euro expert by the EU Commission prior to Malta's entry into the Eurozone.