The deterioration in the public finances is unprecedented. That is because we have never experienced a spectacular house price boom and bust before.

As I've mentioned here before, housing downturns are typically associated with sharp deteriorations in the budget position.

The slump in tax revenues was always going to be dramatic. Housing activity invariably stalls during a property bust--and in our case housing accounted for an extraordinarily large share of the economy. In addition, receipts had become bloated by housing-related revenues.

The Government is responding with an early budget. I see three priorities.

First, Minister for Finance Brian Lenihan must take a knife to government spending. Expenditures that contribute the least to the economy's productive capacity or citizens' welfare need to be slashed. These shouldn't be too hard to find.

Second, there should be no stimulus measures aimed at the housing market. Like the common cold, the unwinding of the house price bubble must run its course. There is no simple cure—though there are plenty of snake-oil salesmen hawing schemes they claim will boost the market.

The simple fact is that house prices must drop further and the construction sector must shrink. Falling prices will eventually revive transactions. The sooner sellers face reality, the better. Schemes being pushed by vested interests are attempts to stick taxpayers with the bill for their excesses.

There is a case for subsidies to energy efficient investments in houses.

Third, hiking income tax rates and taxes on businesses would likely prove counterproductive because doing so would depress economic activity further.  The tax cuts of recent years will have to be reversed at some stage to put the public finances on a sustainable footing, but only when the recovery takes hold.

A good Budget will put us on the road to that recovery.