THE CELTIC CHIMERA: IRELAND'S TAX POLICIES STARVE THE PUBLIC SECTOR AND THE POOR

feature

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Ireland has been at the forefront of moves to bring the offshore model into the heart of the onshore economic system. It is also suffering disproportionately from the impact of austerity. These two facts are connected.

Ireland adopted its distinctive corporate income tax policies as part of an integrated strategy based on the 'Washington Consensus' policies made infamous in Latin America. This neoliberal strategy restrained wage increases and starved the public sector of funds by sharply reducing revenue from taxes, particularly corporate income taxes. Ireland's policies appeared to work for some time and Ireland was hailed as the "Celtic Tiger."

In 2007 the Cato Institute's director of tax policy studies, Chris Edwards, explained that Ireland's success derived from 'a series of hard-headed decisions that shifted Ireland from big government stagnation to free market growth.' According to Edwards, the key to Ireland's success was 'its excellent tax climate for business'. And the benefits of this approach were spreading throughout the continent:

The Irish model of rock-bottom business taxation has been hugely influential. In recent years, corporate tax rates have been slashed across Europe. [T]he average rate in the EU has fallen from 38 percent in 1996 to 26 percent in 2006.

Inspired by the Celtic Tiger, many Eastern European nations have … installed both low corporate taxes and simple, flat-rate taxes on individuals.[1]

Edwards even argued that Ireland proved that there was no particular reason for a nation to educate its workers because it could import skilled workers that other nations had paid to educate:

It's become fashionable to argue that increased government spending on education is the key to success for countries like Ireland. I'm skeptical. For one thing, booming economies today can attract high-skill workers from global labor markets. In Ireland, brain drain has been replaced by brain gain as smart people from across Europe are drawn into the country's growing industries.[2]

"Irish tax policies have spread the rot to other nations by inducing a race to the bottom."

The Cato Institute wasn't alone in its enthusiasm for the Irish approach. In 2004 Jean-Claude Trichet, the President of the European Central Bank, cited Ireland as the "model" for nations entering the EU:

[T]he process of transformation that [Ireland] began over four decades ago has become a model for the millions of new citizens of the European Union. The new Member States of the EU have had to confront economic challenges whose magnitude and long-term importance are similar to those that faced Ireland when you began your work. Thanks to Ireland's economic success, to which you devoted your life, we can be confident that economic reform works.

Trichet cited Ireland as his definitive proof of the correctness of the two main points of his talk. The substance of these points is a staple of the stump speech of every

Jean-Claude Trichet, admirer of the Irish model. Here seen facing right. (CC by 3.0, Euku)

Republican candidate for the presidency in the U.S. The first priority is to deregulate and reduce worker's rights.

[O]ne has to consider the astonishing experience of Ireland, which recovered from poor economic and fiscal conditions in the mid-1980s to an impressive pace of economic activity and sound fiscal position in no more than a decade. In addition to a favourable macroeconomic environment and the benefits derived from participation in the European Union, the economic recovery was grounded on far-reaching home made structural reforms in the labour, capital and product markets.

The second priority is to cut government spending (Washington Consensus style austerity, which Trichet call "fiscal

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consolidation"). Trichet notes that Ireland has done both and is the Celtic Tiger because it has followed both policies.

In this respect, the dramatic acceleration of output in Ireland in the post 1987 period can be associated with a vigorous and successful project of fiscal consolidation starting in 1987. This programme was based on tight expenditure control via subsidy cuts, social security reform and a streamlining of the public sector and control of public expenditure.

Trichet further argued that Ireland provided proof that austerity could enhance growth, particularly if it were associated with large cuts in taxes:

Ireland's experience … clearly shows how policies geared to fiscal consolidation do not necessarily entail contractionary effects on real aggregate demand and economic activity. [I]in spite of the tightening policies undertaken, the rate of growth showed a significant increase in relation to previous years. [S]ignificant budget consolidation based on spending reduction enhanced the long term fiscal sustainability and increased the policy credibility of a more favourable tax regime.

Because Ireland adopted the euro it no longer has a sovereign currency, which exposes it to the extortion of the "bond vigilantes" if it runs a large budget deficit.

As a result, once the credit and property bubbles collapsed it was forced to cut expenditures on health and employment when they were most needed. If Ireland really collected corporate income tax at the stated rate of 12.5% the Irish economist David McWilliams estimates it would have 8 billion euros greater annual income and Irish suffering would be greatly reduced. Instead we have seen the return of wide scale Irish emigration, including recent university graduates – the nation's treasure. Far from importing talented workers as in the Cato Institute fantasy, the country is exporting them.

Irish tax policies have not only left Ireland unable to provide appropriate health services and provide the jobs that would keep Irish university graduates in Ireland – they have spread the rot to other nations by inducing a race to the bottom. Liechtenstein has recently announced plans for a 12.5% across-the-board corporation tax rate, explicitly to match Ireland's. More recently the United Kingdom has been offering reduced rates.

In fairness, the UK is among the greatest tax havens in the world given the notorious Channel Islands that epitomize the 'captured state'. Ireland is a much smaller problem than the UK, but it has added materially to an already severe problem.

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Endnotes

1 Chris Edwards, 'Emerald Miracle', National Review online, 16 March, 2007, **http://www.national-review.com/articles/220321/emerald-miracle/chris-edwards**

2 'Structural reforms and growth, as highlighted by the Irish case', Keynote Address by Jean-Claude Trichet, President of the European Central Bank,delivered at the Whitaker lecture organised by the Central Bank and Financial Services Authority of Ireland, Dublin, 31 May 2004. **http://www.ecb.int/press/key/date/2004/html/sp040531.en.html**