

**Speech by An Tánaiste and
Minister for Enterprise, Trade and Employment,
Mary Harney TD
at the Taxpayers' Association of Europe Award Ceremony
Brussels, Tuesday, 20 May 2003**

'The politics of taxation'

I am honoured indeed to receive this award from the Taxpayers' Association of Europe. It is really an honour for the Party and the people I represent who have transformed tax policy in Ireland.

I applaud the goals of your association: to work towards a society with lower taxes and more individual freedom, and to stimulate efficiency and economy in the public sector.

Politics and tax

I am a practising politician, not an economist nor a tax lawyer. So I would like to speak about the politics of taxation. And it is the politics of taxation, rather than the technique of taxation, that will make the important difference in European countries in the coming years.

In democracies, tax policy is highly responsive to electoral mandates. For the citizen, the tax policies you can vote on defines your political community: local, regional or national. The boundary of your State is the boundary of your tax decisions. Fiscal independence is essential for sovereignty.

Decisions about tax go to the heart of democratic life: how much tax is raised and for what, how widely it is raised from whom, how fair it is to all.

There's also the very important question about how tax is used, *after* it is levied: is it applied effectively towards priorities? Are the resources generated by tax treated as precious and scarce, or wasted as free and cheap?

Our answers to these questions come as much from our values and our culture as from economic analysis.

The tax policy that I support is part of a wider vision. It is a means towards an end:

- an open, prosperous and fair society;
- one that has a sustainable economic basis and a sustainable social contract;
- one that values individual effort and treasures scarce public resources.

Some may say that these goals are now widely shared across European politics and that this means there is more or less a consensus about tax policy.

Some people say the era of tax cuts is over, others say the time of high tax is gone. There's an implication that the politics of taxation are over; that it's now only a matter of how and when to implement a broadly agreed set of policies.

I disagree. This morning I would like to offer my view that the politics of taxation are definitely not over. They are still very relevant to our societies and to our prosperity. And they will always be central to our democracy.

Irish experience

Naturally, I am best placed to speak about the politics of tax in Ireland as a starting point today.

Because we in Ireland drove ourselves into an economic crisis in the mid-1980s, we have had to address tax policy in a fundamental way over the last 20 years or so.

That crisis was our opportunity. It was the backdrop for the formation of the Progressive Democrats, a party committed to free and open markets and personal freedom and responsibility. The crisis challenged us to transform permanently not just the economy of Ireland, but the politics of tax in Ireland.

The crisis was very real.

Unemployment was 17 per cent. Tens of thousands of people were emigrating. Inflation was over six per cent.

The national finances were in a tailspin. The current government deficit was 8 per cent of gross national product. The exchequer borrowing requirement was 13 per cent of GDP. The national debt was 110 per cent of GDP and rising.

We were paying more in interest on government debt than we were spending on health. Half of government spending was on interest and social welfare.

Interest rates were over ten per cent between banks, and well over that for business and personal borrowers.

People on modest incomes were paying tax at a marginal rate of over 70 per cent. There were five rates of income tax. It was complex and crippling.

At the same time, tax compliance was poor. Many wealthy people evaded tax through both offshore and onshore schemes. The black economy was all-pervasive. The tax system was in disrepute, neither rational nor respected.

Who paid the price of this mismanagement?

First, it was paid by the thousands of people, young people especially, who were left with no jobs, no hope and no option but to abandon the failed economy of their homeland.

The social and economic cost of the loss of people, the loss of enterprise and the loss of confidence was enormous. It has taken us many years to overcome.

Second, the price was also paid by the old, the young and the sick who were dependent on the State for health, education and support services, and who did not receive them because the wealth generating part of the economy was stifled.

And clearly, it was paid by taxpayers, especially wage earners, who were over-taxed, unfairly taxed and relentlessly taxed.

So when we formed the Progressive Democrats in late 1985, my party colleagues and I were determined to put an end to this vicious circle of economic mismanagement, a vicious circle that was of our own making in Ireland, the consequences of our own actions.

The point of our political project was never simply to cut taxes. It was to implement and maintain a new approach to economic policy in its entirety in Ireland.

We wanted to transform a closed, State-dominated and stifled economy. We wanted an open, trading economy. We wanted robust competition. We wanted a society of enterprise. We wanted continually better jobs and opportunities for our people.

Tax policy is powerful lever in economic management. It was central to Ireland's turnaround. While it can't alone guarantee sustained success, it can and does transform incentives, decisions and attitudes.

So, over three governments we set about transforming the economy using tax policy, as well as competition and de-regulation.

We've shaped nine of the last fourteen budgets in Ireland. The tax system has been transformed, and so has our economy.

- we reduced the standard rate of income tax by 11 points
- we took 13 points off the top rate of tax
- we took 27½ points off corporation tax and 20 points off capital gains tax.

We accompanied these rate reductions by radical tax reforms. We introduced the system of tax credits, so that all income taxpayers would benefit equally from allowances. We closed down many tax shelters and loopholes. And we have given strengthened powers to the Revenue Commissioners, to reinforce the fairness of the social contract: low taxes and fair taxes in a compliant tax culture.

I won't remind you of all the details of Ireland's economic performance in recent years, but the key fact is that we have cut unemployment to below 5 per cent and we are keeping it down. Nearly 700,000 more people are at work than in 1986. We have grown resources available for public investment while we cut taxes. And we have become the most open, trading economy in the world.

I have highlighted the role tax policy because that is our theme today. Clearly we used other policies too. We agreed responsible wages agreements in social partnership. We controlled public spending and qualified for the single currency. And we received very helpful financial support over many years from the European Union.

European context

Ireland is a small part of overall European economy. I see our success as a European success as well as national one. Europe has many strengths and diverse areas of competitive advantage. At present, however, European economies are facing serious challenges and are not performing as well as we would wish.

Your network of organisations across Europe has grown out of a clear experience over recent decades where the State sector and the tax burden in European economies has grown. Alongside this, there has been a continuing rise in structural unemployment. This is a source of great concern among all European policy makers.

This year is the tenth anniversary of the Delors White Paper on Growth

Competitiveness and Employment. It set the target of halving European unemployment to 5 per cent by 2000. Unfortunately, that target was not met in many EU member states.

One of the key actions recommended in the 1993 White Paper was to reduce the tax burden on labour, that is, on job creation. We did precisely this in Ireland. The insight of the Delors White Paper was right. A tax on jobs is a drag on jobs. Whatever you call it, be it a levy, employer or employee social security, it is a burden on job creation.

Ten years on from the White Paper, a study for the Economics Commissioner has concluded that,

'the rise in labour taxes since 1970 has accounted for almost half of the rise in long term unemployment.'

Of course, labour taxes did not rise of their own accord. They were put up by governments over many years. These decisions were probably even proposed in election manifestos. They were taken by many governments of many different parties.

But the result remains that bad government decisions are largely to blame for the rise in unemployment from 2 per cent to 8.7 per cent since 1970. There are now 14 million people unemployed in the EU.

No doubt, governments raised taxes on work in order to fund desirable social and health benefits. But at what cost in the lives of millions of Europeans? Where was the justice in asking some people to pay for benefits for others by years of unemployment in their lives?

European social model

How can anyone credibly now propose new taxes on labour in the name of social justice or in the name of the European social model?

It was not the European Union or the EEC beforehand that raised taxes on labour. The Union had virtually no role in increasing the general share of tax in European economies over thirty years.

The European social model - or social models, as we now recognise - does not require high levels of tax, still less, job-destroying taxes.

In my view, the European social model clearly accommodates the different tax and social preferences of different electorates. This will become more evident with the accession of ten new Member States next year.

There is nothing in European values or the European social model that says we should acquiesce in an 'acceptable level of unemployment'. We lived with that for too long in Ireland, much longer than we should have. And there is nothing in the European values or the European social model that requires us to maintain policies that result in structural unemployment.

The recent study for the European commission also emphasised again

'the importance of lowering labour taxes for fighting unemployment in continental Europe'.

Raising tax on labour costs jobs. Where there is unemployment, lowering taxes on jobs frees up job creation.

Politics of labour taxes

With the experience we now have throughout Europe, how can anyone credibly propose higher taxes on labour as if it were cost-free in jobs? And yet we find some political parties still enticing the public with new social schemes paid for by higher taxes on labour, paid for by higher unemployment. Some even call themselves labour parties, when their policies are anti-labour.

This is why the politics of taxation are not over, neither in Ireland nor in our fellow European countries. Some on the left maintain the appearance that they now accept the case for low personal taxes. But at the same time, they seek labour tax increases, pretend they are cost free and hope people won't notice. They want people to believe labour taxes are cost-free, because they know the electorate would reject the obvious cost of personal income tax increases. Either way, they just can't shake the tax habit. Old habits die hard.

I fully recognise it is not easy in tight fiscal conditions to lower taxes and remain confident that increased activity will generate resources. Of course, there are limits to this effect. A lot depends on the growth potential in the economy.

But the politics of taxation are also the politics of government spending. The other side of the tax policy coin is to control public spending and to achieve efficient public spending.

A prudent approach to public spending means we can avoid imposing new labour and personal taxes that would be a drag on jobs and initiative. We don't want prudent spending control just for the sake of it: we implement it so as not to end up asking people to pay for spending programmes with unemployment.

Tax in European and national politics

The tax policy I stand for, and implement, is the best one for Ireland, given our small, very open economy, our history, our competitive strengths and our challenges. As a member of the Irish government, I take political responsibility for tax policy, in response to the electoral mandate we received.

One of Europe's strengths is in its diversity, the diversity of electoral choices, the diversity of economic strengths, the diversity of cultural traditions.

European electorates differ in their choices of tax policy as well as other policies. I respect that. I don't have political authority to make tax policy for German, British or Swedish voters. I haven't asked their approval for any set of policies. And therefore I will not say what they should choose for their countries. They have given political authority to their governments to make these choices.

It is very important that we should continue to respect diverse electoral mandates in Europe.

National governments should remain the decision-makers on tax policy. This is Ireland's firm view in relation to discussions about corporation tax. We have made this clear in the context of the Convention on the Future of Europe.

The basis for our view is political. It's not a technical economic argument. It's certainly not a Eurosceptic argument. It's not even an argument that low tax is the best way forward for every Member State.

It's a position based on the view that political communities in Europe are still defined primarily around the national state, the EU Member State. The politics of taxation will remain essentially national.

Because we are deeply attached to democracy in Europe, the politics of taxation are not over. You might as well say that democracy is over, and we have handed over government to some technical machine. In no political community, and at no level of government, is this desired by any people I know of in the European Union.

Conclusion

The politics of taxation will always remain at the heart of economic choices. These arise from values and convictions, not from textbooks and treaties.

I believe in the contest of ideas in politics as in life. Without a contest of ideas about taxation, democratic debate is robbed of vital content. With a healthy contest, democracy is enriched, it is safe, it is effective.

And if you want to see the tax policies you and I believe in implemented across Europe, then the task is to actively contest, challenge and contend taxation policy in your political communities at all levels. So give people choice. Give them solutions. Give them hope.

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