

WHAT TYPE OF EUROPE DO THE IRISH WANT?

POSTFACE

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"Yes to co-ordination of economic and fiscal policy... but tax harmonisation, certainly not." Ireland's Minister for European Affairs Lucinda Creighton leaves no doubt as to where her government stands, as Ireland takes over the rotating Presidency of the Council of the EU.

While Ireland is against tax harmonisation, the country wants to play an active part in the European economic integration process. Many in Berlin and Paris would see a paradox in this. Not the Irish. On this issue, politicians, academics and employers all seem to tow the same line.

In an interview, the Irish Prime Minister Enda Kenny told us that Ireland understood "the institutions of Europe very well". "We also understand what enhanced co-operation is," he stressed, adding that his Presidency would not stand in the way of Eurozone members who seek more integrated initiatives. Accordingly, Ireland will, during the next six months, be taking forward the European Commission's proposals on a Common Consolidated Corporation Tax Base (CCCTB). But one hardly expects the Irish government to be particularly enthusiastic in bringing these discussions to a close.

The island's proximity – historic, geographic and economic – to Britain is one key explanation for this timid approach. Similarly, Enda Kenny explained: "We objected to the Financial Transaction Tax on the basis that our financial services base in Dublin is so close to London, that we would be placed at a competitive disadvantage would it apply in Ireland, but not in London."

"There is no necessary synonym between having more economic integration and having a harmonised tax policy," Ben Tonra, Jean Monnet Professor of European policy at University College Dublin, said. "You can't harmonise geographic disparities," he added. "Ireland is distant from European markets and therefore has to identify other comparative advantages to help maintain

prosperity and build jobs that are not available to, for example, a company based in Paris or Berlin.”

Ireland’s accession to the EU in 1973 coincided with the setting up of the country’s specific economic model, one based largely on supporting the export industry and attracting Foreign Direct Investment (FDI). Between the mid-1950s and the mid-1970s, successive Irish governments reformed the tax system so as to benefit from increasing free trade across Europe. A low corporation tax rate was seen as key to making the island an attractive base to US multinationals and other foreign investors.

Four decades later, Ireland is home to almost 1,000 multinational corporations, representing 75% of the country’s FDI inflow, and employing 100,000 people. Most American pharmaceutical and IT giants have their European base in Ireland. Their annual tax return, at around three billion euros, may be surprisingly low for their size but their spending power is such that, in order to attract these companies, many countries are prepared to make exceptions to their tax codes.

During her last visit to Dublin, in December 2012, the US Secretary of State Hillary Clinton reminded Europe that US companies had invested more in Ireland than in Brazil, Russia, India and China combined.

Ireland’s diaspora is 40 million strong and predominantly Irish American. With obvious historic and cultural links, Ireland is a natural bridge between Europe and America. And Dublin, as Ireland takes over the Presidency, is in a key position to broker EU-US trade talks, in the next six months. “China, Canada, India, Japan: we will be hoping to make progress on all of them. But the key one for us is the US,” Lucinda Creighton stressed.

A downside to this privileged relationship is that Ireland cannot really afford to act against the interest of US multinationals, such is the weight of their investment. And the US Chamber of Commerce in Dublin is strongly in favour of keeping Ireland’s corporation tax low and is against a commitment to a CCCTB.

In the next six months, Dublin could play a vital role in fixing the flaws in the architecture of the Eurozone. Enda Kenny is keen to build on the success of the December 2012 European Council, with the adoption of a single supervisor for euro area banks. “The dates have been set for March and June 2013 for the conditions that would apply for the Single Supervisory Mechanism to be in place. Obviously that will lead to a banking union where the European Central Bank will have the capacity, together with the national regulators, to intervene if that was required,” he explained.

Thus the Irish government wants more economic integration in some areas and less in others: Ireland is clearly in favour of a banking union and a wider mandate being given to the ECB, but remains staunchly opposed to tax harmonisation. Some other Eurozone members may be tempted to say that Ireland wants to have its cake and eat it.

So what type of European polity do the Irish want to live in?

One that works. Ireland is focused on rebuilding an economy and its view of Europe is essentially pragmatic. “There is no Irish theology on Europe,” according to Professor Ben Tonra, “whether the Council or the Commission is taking the lead role, the Irish want an EU that can deliver and be effective.”

The majority of Irish voters are not comfortable with notions like ‘federation’ or ‘federalism’. “We don’t know the word ‘federal’ very well in Ireland, and when we think about federalism, we think about a centralising force rather than about a de-centralising force,” Ben Tonra explained. “By and large, the Irish see federalism in somewhat British terms, as being a synonym for bureaucratisation, for more directed control coming from Brussels, as opposed to a more German version of federalism which assumes that federalism is about taking decisions close to the citizen,” he added.

This certainly explains why many Irish ministers of various political shades give an ambiguous answer when asked about a federal Europe. In any case, Ireland’s seventh Presidency will be seen as a test of the country’s commitment to the EU integration process.