Irish budget hands millions of euros to business

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11 December 2003

In his seventh budget as Minister of Finance, Charlie McCreevy continued the Fianna Fail/Progressive Democrat coalition government's policy of offering tax breaks to big business while starving public services of investment. Increases in indirect taxation, which hit the poor hardest, have also been announced.

Transnational corporations and the construction industry were the main beneficiaries of the budget, presented with tax breaks worth hundreds of millions of euros over the next five years. McCreevy announced a new tax credit that would shave 20 percent of the costs of research and development off the corporation tax bills of companies. The government estimates that the credit will provide an average annual windfall of 90 million euros to business over the next five years.

The tax break was welcomed by the American Chamber of Commerce, whose chief executive, Joanne Richardson, said, "This is a bold move which will greatly assist multinational companies based in Ireland to attract R&D [research and development] investment from their global corporations."

The United States is the single largest foreign investor in the country and American-based companies employ 90,000 Irish workers. Almost 25 percent of all US investment into the European Union goes to the Republic of Ireland.

Also set to benefit is the construction sector. Currently one of the few flourishing areas of the Irish economy, construction was handed a raft of ten tax relief schemes that could save building firms around 100 million euros in the coming year. Currently the government spends 1.7 billion euros annually on allowances and incentives to business.

In a move partly aimed at increasing the popularity of the government in the counties outside Dublin, the finance minister announced the redistribution of over 10,000 civil service jobs from the capital to small towns across the country. Civil servants affected are generally opposed to their forced relocation. When representatives of the four main civil service unions inquired about compensation packages for relocated workers the minister in charge of the project, Tom Parlon, told them that they would get "short shrift". The government, on the other hand, is likely to do very nicely out of the move, vacating expensive rented premises in Dublin and selling off some of its own city centre buildings.

In areas earmarked for relocated government departments, house prices have seen significant increases, worsening the shortage of affordable housing in the provinces. With little public money allocated to fund public housing schemes and a highly inflated property market in the Greater Dublin area (which is unlikely to be dented by the exodus of civil servants), thousands of young Irish workers cannot afford a mortgage on even a modest home.

While offering some modest increases in the state old age pension and social welfare payments, the budget has perpetuated the starvation of funds to vital public services such as schools, hospitals, housing and public transport. As was the case with last year's budget public spending on the health service falls below the rate of medical inflation. Several hospitals across the Republic are faced with cuts or closure.

The budget's announcement of hikes in indirect taxes will shift the burden of taxation even further towards low and middle-income earners. Petrol and diesel duties were increased by five cents a litre. The fuel price increases will add an average of 125 euros per year to motorists' costs on top of a five- percent increase in car registration tax announced last month. VAT on cigarettes also went up.

Targeting middle income earners, the PRSI (Pay Related Social Insurance) scheme has been broadened to take deductions from those earning up to 42,500 euros. PRSI is not deducted from those earning more than this amount, meaning that the wealthiest people pay a relatively tiny proportion of their incomes into the scheme.

In another policy tailored to the interests of business McCreevy announced that the number of Public Private Partnership (PPP) agreements would be increased. PPP's allow the private sector to construct and/or operate public institutions such as schools and hospitals in return for an annual fee. Currently three percent of total public investment is undertaken by the private sector, a figure to be increased to 15 percent by 2008.

McCreevy was responding to economic commentators who have bemoaned the low number of PPP contracts handed out and who have warned that Irish capital was starting to flow into the United Kingdom to take advantage of the many lucrative PPP projects that the New Labour government has initiated there.

Handouts to big business—the basis of this budget—have been the hallmark of Irish economic policy over the past decade. During the 1990s government subsidies and tax breaks played a crucial roleinsecuringinternational—primarilyUS—investment. The standard corporation tax rate was reduced from 50 percent in 1988 to just 12.5 percent at the start of 2003.

Throughout the period of high growth and super profits for corporations and wealthy individuals the position of the Irish working class stagnated. While unemployment fell and average wages increased the low tax and low wage environment offered to multinationals ensured that the Republic of Ireland's public services remained starved, indirect taxation rocketed and social inequality deepened. Today the so-called "Celtic Tiger" is struggling to sustain the growth rates of the past decade. Since 2000 the country's annual GDP growth has weakened (although it is still above the EU average). The Allied Irish Bank has estimated that this year's GDP growth will be around two percent.

With multinational firms increasingly relying on wringing out productivity increases from workers and demanding tax cuts from governments in order to sustain profitability, the government in Dublin has responded by stepping up the transfer of wealth from the working class to big business.