Britain: Irish model for Scotland and Wales means widening gap between rich and poor

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The Irish model emerges as one of the definitive themes in the election manifestos of both the Scottish National Party and Plaid Cymru, the Welsh nationalist party.

"If Scotland had simply matched the success of Ireland since 1997," the SNP claims, "our nation would now be £6,000 pounds a head better off."

"Wales should have the powers to vary taxation and control its own economy in order to mirror the success of other small European nations," says Plaid's manifesto—with its gaze firmly fixed across the Irish Sea.

By "the Irish model" these parties mean that they want to emulate the success of the Irish Republic in attracting foreign direct investment. It is a strategy that has seen the Irish economy grow by an average of five percent in the late 1990s and in some years by as much as 11 percent. Last year the growth rate was 7.4 percent. At one point the Irish economy was the fastest growing in Europe and among the fastest in the world. It has gone from being one of the poorest countries per capita in Europe during the 1970s to being one of the richest today. Last year Ireland was ranked as the second richest country per capita in the world, just behind Japan and ahead of the UK, US, France, Germany, Italy and Canada.

So what could possibly be wrong with the Irish model? At a time when most European economies are stagnating and unemployment is high, the Irish model, with only four percent unemployment, might indeed seem to offer an alternative perspective for other small economies. That is certainly what the Scottish and Welsh nationalists claim and, by extension, what their supporters among the radical left must agree with. There is, however, one major and insurmountable flaw in the Irish model for any party that claims to represent the interests of the working class.

Inherent in the Irish model is a widening gulf between rich and poor. The economic growth that the Irish Republic has experienced has been at the expense of working people. There has been a massive redistribution of wealth from the poorest members of society to the richest. Anyone who advocates the Irish model has to accept that the impoverishment of the majority is part of the package. There are now 30,000 euro-millionaires in Ireland and at least 300 individuals who are worth more than 30 million euros (US$40 million, £20 million) even without calculating the value of their houses.

Alongside this wealth, Ireland has one of the highest levels of relative poverty in the European Union. According to internationally recognised measures, 22.7 percent of the Irish population live in poverty and the level of poverty has increased as the economy has grown. In 1998, 19.8 percent of the population lived in poverty, in 2000 20.9 percent and in 2001 21.9 percent according to a study by Bridget Reynolds for the CORI Justice Commission. Between 1987 and 2003, the share of income going to the poorest half of Irish society has fallen from 25.25 percent to 23.62 percent. The poorest 20 percent have seen a similar fall in their share of the national income from six percent in 1987 to 4.85 percent in 2003. The top 10 percent of the population received 23.55 percent, which was almost the same as the income of the poorest 50 percent.

These figures are confirmed by other studies. At 15.7 percent, the level of child poverty in Ireland is comparable to that in Portugal, according to a recent UNICEF study. Ireland ranks along with the UK, Portugal, Italy and New Zealand as one of the developed countries with the highest levels of child poverty, and the level of child poverty in Ireland is rising despite sustained economic growth. One of the major reasons for this is that the already low level of social spending in Ireland is decreasing. Ireland spends only 14.1 percent of its Gross Domestic Product on the welfare state. This is the lowest level in Europe. By comparison, Sweden spends 32.3 percent and the UK 26.8 percent. Spain, one of the poorest countries in Europe, spends 20.1 percent of its GDP on the welfare state and would have to spend much more without European Union subsidies.

Closely related to the low level of welfare spending in Ireland is the taxation system. Ireland has the lowest rate of direct tax in Europe, 28.6 percent of GDP, compared to 50.6 percent in Sweden. But it also has the highest rate of indirect tax, at 43.7 percent, compared to 27.9 percent in Belgium Direct tax is levied on capital or income and is a progressive tax that increases in proportion to the individual's wealth (though much less so than in the past thanks to the pro-big business policies of all the world's governments). Indirect tax is a flat rate tax levied irrespective of wealth and therefore falls most heavily on the poorest members of society.

The effect of the low level of direct taxation and the high level of indirect taxation is to redistribute wealth from the poor to the rich. It might instead be called an anti-welfare state. The Irish fiscal system is designed to benefit the rich at the expense of the poor.

Anyone who advocates the Irish model as a way forward for Scotland or Wales needs to come clean about the implications for social spending and the growth of poverty. In portraying Ireland as a glowing example of economic growth without reference to the social conditions that growth has produced, the nationalist parties and their supporters are engaged in a political fraud. They would need to cut spending on health, education, housing and social security by almost half to match the Irish model.

The SNP claim that an independent Scotland would be able to pay for the welfare state out of oil revenue. If Scotland were to win the revenues from 90 percent of North Sea oil, and that is assuming a lot, it would take all of it to finance the present level of public spending, according to a study carried out for the *Financial Times*. Assuming that oil prices remained high, another big "if", an independent Scotland could continue in that way for a decade at the most, after which North Sea oil reserves would run out, but it would leave nothing to spare for increased welfare spending or investment in alternative sources of revenue to replace oil. An independent Scotland would have to cut spending at once or soon after independence. Wales, without oil, would have no means of financing a welfare state.

In an interview with the *Financial Times* the SNP's economics spokesman indicated that the SNP is planning to move to the Irish model of taxation.

To raise the level of income tax, Jim Mather said, "would be naïve in a knowledge economy".

When asked about indirect taxation Mather refused to rule out raising the level of indirect consumer taxes such as VAT to make up the shortfall in revenue that would result from cutting business taxes.

"There is no orthodoxy we will not challenge," Mather told the *Financial Times*.

"Raising taxes is not the strategy that works." Mather added when the *Scotsman* asked him to clarify his earlier remarks to the *Financial Times* "We are in a competitive world now. We will look to set competitive rates of tax and raise revenues."

"We recognise better than anyone that no-one owes Scotland a living. We have to become more focused on competitiveness."

Competitiveness is the key concept here. Ireland has a minimal welfare state and welfare provision depends heavily on charitable church-based organisations. Even if it were possible to merely repeat the Irish experience, it would be necessary to make devastating attacks on the welfare state in Scotland and Wales. In reality, things have moved on since the Irish economy began to grow and economic conditions are now extremely competitive as more countries enter the same market for foreign direct investment. Ireland itself is feeling the pressure of even lower cost investment locations in the Far East and Eastern Europe.

Ireland's export led growth ended in 2001, and rather than running a current account surplus, Ireland is now in deficit. In 2008, Irish economic growth is expected to fall to its lowest level since 1993. The reason for this relative decline is not hard to find. Foreign firms were responsible for 92 percent of Irish exports in 2006 and they are beginning to look elsewhere as Ireland loses its competitive edge to new EU entrants who offer even greater incentives to transnational corporations. Cheaper labour, bigger tax concessions and greater EU subsidies all play their part in pulling investment, especially manufacturing, eastwards.

The closure of Motorola's software operation at Cork is an indication of a growing trend. Pfizer is reviewing its Irish operations and already plans to close its plant in Cork. Alcatel-Lucent is cutting jobs, as is Xerox. Even Irish companies, such as Xsil, which was ranked as one of Europe's fastest-growing companies last year, are considering moving abroad. The continued growth of the Irish economy is now largely dependent on domestic demand, financed by personal borrowing and the boom in house prices. Scottish and Welsh nationalists are attempting to create their own tiger economies when the Celtic Tiger is dying on its feet.

Ireland was able to take advantage of unique circumstances when it restructured its economy to attract foreign direct investment (FDI). The creation of the European single market and the euro currency provided an opportunity that will not be repeated as transnational companies, particularly US companies, rushed to establish themselves inside the European trade bloc. Roughly a quarter of all US investment in Europe is in Ireland. One third of all FDI in Europe in the pharmaceutical and health sectors is in Ireland. Most of Europe's supplies of Viagra and Botox are made in Ireland. Ireland is the world's biggest software exporter, ahead of even the US. The conditions that produced this vast concentration of FDI will not be repeated. Neither Wales nor Scotland could expect such a highly favourable situation in which to launch a drive for FDI.

Both Plaid Cymru and the SNP say that would reduce corporation tax if they won the power to do so from Westminster, either by outright independence or greater devolution. "We need additional help for West Wales and the Valleys to improve its economy," Plaid's leader Ieuan Wyn Jones told Cardiff Chamber of Commerce earlier this year, "and as we have seen from the Republic of Ireland and other EU countries, reducing corporation tax does help the economy in terms of regeneration and high value inward investment."

Jones, who also calls for the local business tax to be halved, wants the UK treasury to agree to a 10 percent cut in corporation tax for Wales.

The SNP wants to cut corporation tax to 20 percent. Alex Salmond, the SNP's leader, has argued that it would be possible to make up the loss of revenue by bringing more business to Scotland because of a lower rate of taxation. A smaller country, he claims, can do that more easily because the loss of revenue is not on such a huge scale as it would be if a larger country like the UK tried the same fiscal strategy. It would be extremely difficult for the UK to attract enough investment to make up for a sizeable cut in corporation tax. Many economists would agree that in theory a cut in corporation tax can lead to increased revenue for a small economy, but would also point out, as the *Financial Times* did recently, that a cut to 20 percent in Scotland would have very little impact when the rate of corporation tax in Ireland is only 12.5 percent.

Sir George Mathewson, former chairman of the Royal Bank of Scotland (RBS), Scotland's largest company, is a prominent supporter of the SNP. His recent call to end "the dependency culture" in Scotland, like Mather's remarks in taxes, gives some indication of the discussions that are going on behind the scenes among the nationalists. While Alex Salmond might claim that his party would maintain welfare spending, the close ties between the SNP and one of Scotland's major financial capitalists suggests otherwise.

After oil, finance is Scotland's largest industry and the links between the two are close. Edinburgh is already the UK's second largest financial centre, in part due to the presence of the RBS headquarters there. But other international financial service companies such as JP Morgan and Morgan Stanley also have offices in the city. The Scottish Parliament has attempted to encourage the growth of finance capital in Scotland and the SNP is an enthusiastic advocate of Scotland as a base for the financial services industry. If an independent Scotland were to pursue this path, and attempt to make itself a base for financial services as Ireland has done, then it would have to reduce corporation tax to the Irish level or less.

Such a possibility is already under serious discussion among the financial and political elite. A recent article by Anatole Kaletsky, associate editor of the Murdoch-owned *Times*, suggested, "One plausible approach would be for Scotland to become a tax haven like Ireland, with taxes well below the English level and corresponding reductions in public sector employment."

Making Scotland a base for finance capital on the Irish model would have serious implications. The first point to be made about the finance services industry is that the number of people it employs is small. The International Finance Services Centre in Dublin employs perhaps 20,000 people. By no stretch of the imagination can this replace the huge number of jobs that Scotland once had in such industries as mining, engineering, shipbuilding and steelmaking. Scotland and Ireland are simply not comparable in this respect. Kaletsky cynically suggests that Scotland should re-train coalminers as gamekeepers and huntsmen in a bid to attract up-market tourism as Ireland has done.

Secondly, Ireland has only been able to establish itself as a base for finance capital because it allows a large proportion of the profits of transnational corporations to be repatriated. This was a huge attraction for manufacturing companies too, but without the free movement of capital finance capitalists cannot begin to do business.

The result has been that on average about 30 percent of the profits made in Ireland are exported from the country, according to *The Economist*. Most of this money goes to the US What this figure means is that, despite its high ranking in the world wealth figures, Ireland stands in a semi-colonial relationship to America.

An independent Scotland or Wales would have to establish exactly the same relationship with US finance capital if it was to compete with Ireland in attracting investment. Kaletsky advises Scottish politicians to stop denouncing American imperialism if they are to follow the Irish model. The message coming from Rupert Murdoch is blunt—the break up of the UK and of other long established nation-states is on the agenda, but Scottish independence means adapting its economy and political outlook to serve the needs of finance capital.

Kaletsky asks, “Do the Scots want to take some big risks and then accept responsibility for their success of failure” and become “a nation of risk-seeking political entrepreneurs, or do they prefer the safety net of the British welfare state?”

At the moment that choice is not being made by the majority of Scottish working people, but by a tiny minority of nationalist politicians who are determined that the reality of the situation is kept hidden from view. The Socialist Equality Party is the only party standing in the elections for the Welsh Assembly and the Scottish Parliament that has told the truth about the implications of independence or greater devolution of powers.

In proposing to adopt the Irish model, Scottish and Welsh nationalists, as well as their radical supporters who claim to be socialists, are actually proposing to enter a semi-colonial relationship with the most powerful and rapacious imperialist country on the planet. What the nationalist parties are pleased to call independence is a form of modern colonialism, in which the welfare state would be destroyed to allow finance capitalists to accumulate vast fortunes at the expense of working people.