Britain: “Celtic coalition” demands London slash tax on big business

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Soon after his victory in the Scottish parliamentary election in May, Alex Salmond, the leader of the Scottish National Party (SNP), telephoned his counterpart in Northern Ireland to arrange a meeting.

The Northern Irish first minister, Ian Paisley, leads the right-wing Democratic Unionist Party (DUP), an organisation with a long history of anti-Catholic bigotry.

Commenting on his phone conversation with Salmond, Paisley said, “There are things Wales, Scotland and Northern Ireland have in common that if we go to the British Government in harness, we will get more out of them.”

What Paisley and Salmond principally had in mind became clear when the latter flew to Northern Ireland on June 18, where he met Paisley as well as Martin McGuinness, the Sinn Fein Deputy First Minister in the power-sharing executive.

The Scottish, Welsh and Northern Ireland devolved administrations should work together to make the case for a dramatic reduction in corporation tax, Salmond told the press after addressing Northern Ireland Assembly members at Stormont on his first official engagement outside Scotland as first minister.

Salmond backed the call by most Northern Irish politicians, including the DUP/Sinn Fein coalition, to cut corporation tax from 28 percent to 12.5 percent—the rate paid by businesses in the Irish Republic. Commenting on this prospect, Salmond said he was “enthusiastic about the principle behind the push for a 12.5 percent corporation tax,” which would be “hugely important for Scotland and for Wales.”

The Scottish First Minister called for a united front of the three devolved governments—dubbed the “celtic coalition” in some newspapers—in pushing the British government to back the cut: “Whether we will be successful in persuading the Treasury of the importance of that I have got no idea. But one thing is for sure, we would be more successful if we were pressing together than we would be if we were pressing separately. We take the view that three hands on the tiller steering in the same direction would be more effective than one.”

The devolved administrations in Northern Ireland, Scotland and Wales have limited powers, with most responsibility for taxation and overall public spending levels controlled by the United Kingdom government.

Northern Irish politicians are lobbying the new government of Prime Minister Gordon Brown for the massive tax cut for business in the province. During the May election, the SNP made the demand for corporation tax to be slashed by 7 percent (from 28 percent) in order to compete with the Irish Republic. It aims to cut local business taxes within Scotland, which falls within Holyrood’s remit.

The joint offensive by Salmond, Paisley and McGuinness goes far beyond the SNP’s initial demands and, like the low tax threshold in the Irish Republic, represents a massive redistribution of wealth away from working people to big business.

Over the last decade or so, foreign investment has flooded into the Irish Republic to exploit low taxes and cheap wages. Whilst Ireland was ranked last year as the second-richest country per capita in the world, the position of working people has worsened significantly. Low tax rates have starved the welfare system and public services of funds despite the booming economy, leaving the country one of the most socially unequal in Europe. Between 1987 and 2003, the share of income going to the poorest half of Irish society fell from 25.25 percent to 23.62 percent. Additionally, growth rates in the Irish Republic are falling as international investment shifts to new lower-wage and even lower-

tax locations in central and eastern Europe.

All the devolved regions have relatively high levels of funding granted to them under the Barnett Formula, a system of distributing monies from the UK Treasury to the constituent nations of Britain and the province of Northern Ireland. This formula ensures that Scotland, Northern Ireland and Wales receive higher levels of public spending per person than England, giving the devolved governments an additional fiscal cushion that they plan to use for big-business handouts.

With regard to the sympathies of the Labour government at Westminster for cutting business taxes in general, Salmond and Paisley are kicking at an open door. During his 10 years as chancellor, Brown oversaw significant cuts in corporation tax and the maintenance of tax loopholes that permit many corporations and many of the richest people in Britain to avoid paying virtually any tax.

One of the principal reasons behind the introduction of devolved government in the late 1990s was the fostering of national divisions in the UK in order to create more favorable business conditions, with the different regions competing against each other to attract business investment.

There is increasing pressure on the UK government to accede to Stormont's request to "harmonise" its tax rate with the Republic's. Such a tax break, combined with a large increase in public spending allocated to Stormont this year, is likely to be part of the pay-off for the DUP and Sinn Fein putting a lid on their long-time enmity and agreeing to form an executive. The prospect of corporate tax cuts and control of public spending—the so-called "peace dividend"—has long been a lure to the negotiating table for the business interests behind both the Republican and Unionist camps in the province. But London has insisted that the North must reduce its dependence on central government funds, which currently make up 60 percent of its income.

Scotland is another matter. Whilst Salmond and the SNP hope to utilise any concessions to Northern Ireland to press their own nationalist agenda, the Labour government is reluctant to be seen to be bankrolling cuts in corporate taxes in Scotland at the expense of English taxpayers.

Speaking in Belfast, Salmond said, "It is not a question of ganging up, it is a question of formulating ideas in a constructive way. And on many of these issues it will also be, in my opinion, in the interests of the Westminster government."

He is also due to have talks in Dublin.

Bertie Ahern, the Irish Taoiseach (Prime Minister), invited Salmond to Dublin within days of his election. Speaking to the BBC's Andrew Marr on May 20, Salmond stated that he hoped to cut corporation tax in order to "establish a competitive advantage in Scotland to increase economic growth, increase jobs, increase prosperity and actually increase government revenue as well, very much based on the hugely successful model in the Irish Republic."

This month, Salmond is due to visit Norway, a country often cited by the SNP as an example of a small independent country that, like Scotland, has large oil and gas deposits. After that, he will visit Brussels, the centre of the European Union.

Though the SNP is a minority government in the Scottish Parliament, it can count on support from one or more of the opposition parties, including Labour and the Conservatives, for cuts in business taxes.

A further expression of the big-business-dominated agenda of the SNP was its appointment of a council of economic advisers to guide economic policy. The 11-member council will be chaired by Sir George Mathewson, former chairman of the Royal Bank of Scotland and a prominent backer of the SNP during the election campaign. Salmond said that the council was "the most formidable intellectual firepower ever to have tackled Scottish economic underperformance."