The Political Economy of Fiscal Policy in Ireland

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Abstract and Keywords

Relative to other small open economies in Western Europe, Ireland has a low revenue to national income ratio. This limits the strategic capacity of the state to invest in new public services. Fiscal policy is highly centralized, with weak revenue raising capacity at local government level. The Irish government commits significant resources to socially protecting low-income earners through the welfare state. The income tax base is quite narrow in Ireland relative to comparator countries. A rather small group of higher income earners pay most income and wealth taxes. Social insurance revenues are relatively low from a comparative perspective. More recently, Irish revenue has become unusually dependent on procyclical corporate tax receipts.

Keywords: fiscal policy, corporate tax, uncertainty, state capacity, fiscal adjustment

Introduction

THIS chapter starts from the observation that what governments do is shaped by the revenues they generate. In political economy, this is a key feature of state capacity (see Rueschemeyer et al., 1992; Boix, 2003; Besley and Persson, 2009). This is typically measured in terms of the total amount of taxes generated within a country over a given period of time, expressed in terms of national income. If a government takes in 50 per cent of national income in taxes, it has a lot of resources to commit to public expenditure. If it takes in 10 per cent of national income, it has few resources to commit to expenditure. State capacity in this respect is therefore intimately connected to the fiscal politics of taxing and spending.[1] 15 per cent is the minimum the World Bank considers to be essential for states to be able to grow successfully (Gaspar et al., 2016). Countries that do not generate enough revenue require more public debt to meet public expenditure demands.

It is worth recalling that the ability of nation states to raise revenue and commit to public expenditures is a relatively new phenomenon in the long run of history. Prior to the First World War, most Western governments only raised enough revenue to fund the regal functions of the state. They typically took in between 10 and 15 per cent of national income in taxes, and committed these to a standing army, a police force, and a permanent civil service (Piketty, 2014). It was only with the birth of mass democracy—and an expansion of the electorate across classes and gender—that nation states started to raise more revenue for universally provided public services and collective goods. These revolutions in fiscal politics were intimately connected to democratic capitalism. The birth of democratic capitalism, in effect, was the birth of fiscal democracy.

During the period from 1945 to 1975, most countries expanded their approach to fiscal democracy. The type of tax and spend policies institutionalized during this period (p. 446) shaped the trajectory of country-specific models of economic development. In comparative political economy, it is commonplace to describe what emerged as different worlds of welfare capitalism.[2] The Scandinavians institutionalized their high tax and spend models of social democracy. Germany and the conservative welfare states of continental Europe institutionalized their social insurance models. The UK and other liberal market economies institutionalized their relatively low tax and spend models of means-tested welfare. There is now a large comparative welfare state literature that situates Ireland somewhere in between all these public policy regimes (Cousins, 1997; McCashin, 2019).

The total amount of taxes that governments collect today is not that different from what they collected at the end of the 1970s. It is for this reason that political economists refer to the 1945–75 period as one involving the emergence and consolidation of fiscal democracy. In historic terms, it was a truly revolutionary period for public policy. Broadly speaking, liberal market economies take in 30 to 35 per cent of their national income in taxes,[3] conservative welfare economies take in 36 to 45 per cent, and social democratic oriented economies take in 45 to 55 per cent. Overall, what we observe is that in almost every capitalist democracy, governments take between 35 and 55 per cent of national income and spend it on collective goods.

Typically, in all advanced market economies, governments spend up to 80 per cent of total revenue on three things: healthcare, education, and social security. Within social security, the dominant form of expenditure is pensions. Fiscal democracy is therefore related to an implicit social contract between government and citizens to provide educational and healthcare services, and social protection in the form of eldercare. A larger tax to income ratio is likely to mean a larger public sector, which means more people working in public services—healthcare and education in particular. This usually means more women working in public services (see Huber and Stephens, 2000; Hemerijk, 2013; Thelen, 2014). Unsurprisingly, therefore, a large proportion of the taxes raised in advanced market economies is committed to paying the wages and pensions of those who work in public services.

The Politics of Fiscal Adjustment

The stability in the broad contours of what governments raise in taxes and the collective goods they spend it on, however, should not mask the importance of fiscal change. The politics of fiscal adjustment is rarely technocratic and almost always conflictual. Different parts of the electorate want different things from government. Implementing austerity measures typically leads to voters kicking a government out of office at the next election. In the study of comparative political economy, research has focused increasingly on what exactly voters *want* from government, and how these fiscal preferences are formed. Different social groups have conflicting attitudes on tax and spend policies. In (p. 447) turn, the dynamics of voter–party linkages and electoral competition shape the ebb and flow of fiscal politics.

Higher income and higher educated voters typically want more social investment aimed at enabling market access in such areas as childcare, education, and capital infrastructure. Those with lower levels of education and lower levels of income typically want social protection from the market, such as in the form of cash transfers through the welfare state (Häusermann, 2010; Häusermann and Kriesi, 2015). The ability of government to raise new forms of revenue to pay for changing citizen demands—and to respond to new societal challenges—is not an easy task. The social revolt against water charges in Ireland (in 2014), and new carbon taxes in France (in 2018/19) are perfect cases in point. Tax reform always benefits some social groups over others. This often comes with a significant electoral cost for governing political parties (Giger and Nelson, 2011).

Recognizing that fiscal reform is difficult leads to path dependence. It is often easier for governments to not do anything at all rather than introduce change (Pierson, 1996). This interplay between path dependence and incremental change typifies the political economy of fiscal policy in advanced market economies. Beramendi et al. (2015) describe this as a model of *constrained partisanship*. Past choices (such as instituting a large or small public sector) constrain what governments can and cannot do. But ultimately what governments do is shaped by the partisan nature of government, and voter–party linkages. In the Irish case, the dominance of Fianna Fáil throughout the history of local and central government has undoubtedly shaped the trajectory of the public sector and welfare spending (Murphy, 2016; also Little and Farrell, Chapter 30).

In this chapter, we trace the politics of tax and spend policies in Ireland since the early 1990s. This timeframe provides a useful window to observe the structural change of fiscal politics. Unlike the rest of Western Europe, it was during the period from the 1990s onwards that Ireland experienced strongest economic growth. This period of growth allowed the government to collect more taxes and increase public expenditure. These commitments have permanent lock-in effects, which often become problematic when confronted with an economic crisis. This is what occurred in 2008–11 when Irish revenues associated with a construction boom collapsed. This was then followed by sharp income tax increases.

As shown by Kinsella (2012), a distinguishing feature of Irish fiscal policy has been its *procyclical* nature, an observation echoed by Bergin et al. (2011), Lane and Milesi-Ferreti (2011), and most recently by Cronin and McQuinn (2018). In good economic times, Irish governments have tended to cut income taxes, but increase other forms of revenue and public expenditure. In bad economic times, Irish governments have had to do the reverse, increase income taxes and reduce public expenditures (for a comparison of the 1980s and 2000s, see Hardiman, 2014; Dellepiane-Avellaneda and Hardiman, 2015; Kinsella, 2016). In ideal technocratic terms, and in order to counter the boom–bust cycle of capitalist growth, governments really ought to do the opposite. However, in a democracy, with open electoral and party competition, it is extremely difficult for governments to resist increasing public expenditure in response to electoral demands, particularly if (p. 448) demography is rapidly changing. A growing population will demand more healthcare and educational services.

Comparatively, we identify five distinguishing characteristics of Irish fiscal politics. First, at 34 per cent, Ireland has a relatively low revenue to income ratio. This does not mean that Ireland is a low tax economy, rather it means that overall revenue is comparatively small. Second, the Irish fiscal state is highly centralized, with local government having very weak revenue raising capacity (see Reidy, Chapter 23). This contributes to the lower than average total tax to income ratio. Third, government commits significant resources to the welfare state and social protection, and much less to social investment and capital infrastructure. Fourth, the income tax base is very narrow in Ireland, with a relatively small group of income earners paying the lion's share of income taxes, while social insurance revenues are remarkably low in comparative perspective. Finally, and more recently, Irish revenue has become hugely dependent on corporate tax receipts. The remainder of the chapter discusses each of these features.

Mapping Irish Revenue over Time

It is notoriously difficult to assess the size of the Irish tax take as a percentage of national income. In most countries, it is perfectly reasonable to express revenue, expenditure, public debt and taxation as a percentage of GDP. But this is not a reliable or accurate measurement in the Irish case. Owing to the tax-avoiding and business strategies of some large multinationals, Irish GDP is significantly over-inflated. Using GDP as the denominator means that the tax to GDP ratio in Ireland is less than 25 per cent, whereas the public expenditure as a percentage of GDP is 22 per cent. Comparatively, these figures make the public sector look tiny, and would put Ireland toward the bottom of the OECD. Using these dubious measures, it would also appear that income taxes are minimal and social protection meagre.

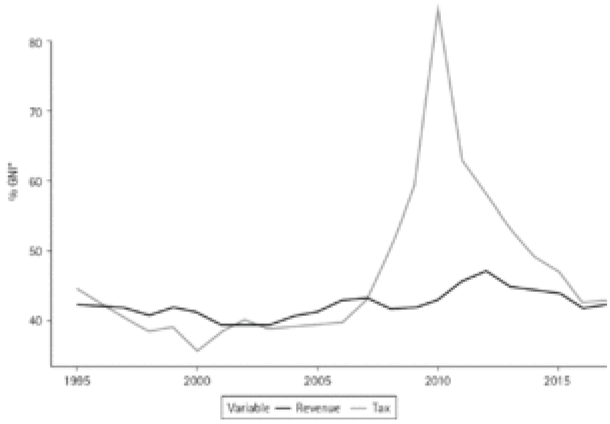

Figure 26.1 Tax and revenue as share of modified GNI

Source: Central Statistics Office (CSO)

To get a much more accurate picture of Irish fiscal policy, we need to use modified GNI, known as GNI*, a measure developed by the Central Statistics Office to correct the distortions associated with profit-shifting practices of multinational corporations. This is a far more reliable measurement of the actual income available to the residents and government of Ireland. Figure 26.1 shows the tax to GNI* ratio over time. Note, however, that these figures exclude social insurance contributions from employers. In most European countries, social insurance contributions from employers are a significant means of financing the social state. In Ireland, these are relatively small, but they do increase the overall tax take compared with what is depicted in Figure 26.1. With the exception of the 2008–11 recession, Irish GNI has grown significantly over time, thereby increasing the capacity of the state to tax more and generate more revenue.

As detailed by Brazys and Regan (Chapter 24), the Irish economy is highly globalized. Structurally, Ireland can be characterized as an export-oriented economy that is highly dependent on foreign direct investment (FDI). The Irish state has actively used its fiscal **(p. 449)** policies to attract multinational firms, through its corporate tax regime. This includes the 12.5 per cent corporate tax rate on tradable income, in addition to a whole host of other complex legal instruments that global corporations use to reduce their effective tax rate. A defining feature of this corporate tax regime is certainty. It has remained stable and unchanged since the 1990s, and there is a near total consensus within the state that it should remain unchanged.

The productivity engine of economic growth in Ireland is closely connected to the high-tech, high-income, foreign-owned sectors of the Irish economy. As demonstrated later, these sectors contribute significantly to the overall corporate tax take, with the employees who work in these higher-paid sectors (whether directly or indirectly through professional services) also contributing a significant share of the total income tax take. These higher spending sectors also have an indirect effect on domestic consumption in the non-tradable sectors of the economy (housing, retail, bars, restaurants, catering, security), and are a core contributor to the overall tax take of the state. It is perhaps unsurprising, therefore, that the Irish state actively promotes and defends the core economic interests of the FDI sectors.

In all advanced democracies, governments raise revenue through a mix of consumption, excise, income, and capital taxes. These are often referred to as direct and indirect taxes: direct taxes refer to taxes on capital and labour income; indirect taxes refer to taxes on consumption. In most countries, taxes on labour income, corporate profit, and (p. 450) domestic consumption make up 90 per cent of the total amount of central government revenue. Local governments will then typically raise additional revenue for local public services.

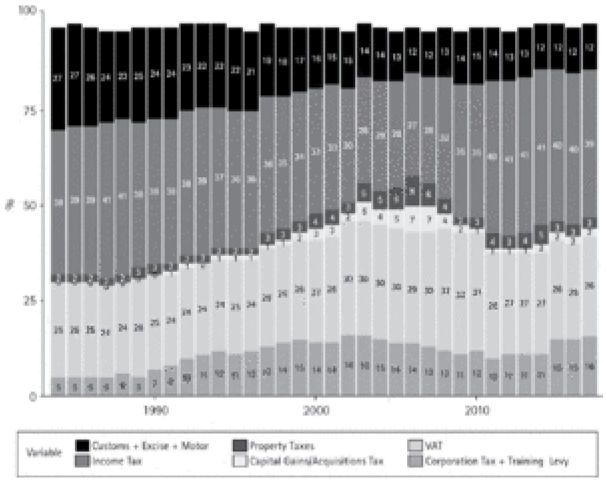

Figure 26.2 Sources of taxation

Source: Central Statistics Office (CSO)

Figure 26.2 shows the evolution of the composition of Irish taxes since the 1980s. There are five notable features. First, in the early 1980s, income taxes made up almost 35 per cent of the total tax take. By 2008, this had declined to 25 per cent. Since then, income taxes have increased significantly. By 2017, income taxes made up almost 40 per cent of the total tax take. Second, consumption taxes—VAT—have remained stable at around 25 per cent of the total tax take from the 1980s to the present. These taxes increased to almost 32 per cent at the peak of the boom in domestic demand during the mid-2000s. Third, customs and excise duties have declined significantly over time, primarily because of EU membership. These taxes have largely been replaced by taxes on cars and tobacco. Fourth, wealth taxes are effectively non-existent in Ireland, making up less than 5 per cent of the total tax take. Fifth and finally, corporate tax receipts have surged from 4 per cent of the total tax take in 1990 to almost 18 per cent in 2017. This is perhaps the most striking change over the past decade.

(p. 451) The sharp increase in income taxes from 2008 onwards is largely a function of the previous decade of income tax cuts. From 1997 to the mid-2000s, income taxes were radically cut. During this period, over 50 per cent of income earners were taken out of the income bracket entirely. This policy was reflective of the partisan preferences of the government of the day, which included the centrist Fianna Fáil party and the right-of-centre liberal Progressive Democrats. The sharp reduction in income taxes was replaced by pro-cyclical taxes associated with the house price boom, and the associated surge in domestic demand. When the construction boom and the credit-fuelled housing bubble burst, government revenues collapsed. In response, income taxes were increased, particularly on middle to higher income earners.

As noted by Collins and Regan (Chapter 27), from 2010 onwards, the Irish income tax system has become highly progressive. This progressivity, however, is largely a function of the narrow income tax base. Higher income earners pay higher income taxes. Thirty per cent of households pay 80 per cent of income tax. Thirty per cent of households with earned income pay no income tax at all, whereas 7 per cent of households pay almost 50 per cent of the total income tax take. By definition, this makes the *income* tax system highly progressive. But as Collins and Murphy also argue (Chapter 25), it suggests a large low-wage market economy, whereby individuals simply do not earn enough to contribute into the income tax system (albeit in an income tax structure that deliberately excludes the lowest paid to a degree that is well above most other European countries).

Ireland has a highly centralized tax state. It is the second most centralized tax state in the OECD after Turkey. Ninety per cent of public sector workers are employed centrally (i.e. their funding and their pay comes centrally and directly through the Department of Finance), and 95 per cent of total revenue generated goes to the central exchequer. This means that local government has very weak fiscal capacity (see also Reidy, Chapter 23). Local government raises some of its own revenue through commercial rates on businesses and local property taxes on housing capital. Housing is by far the largest form of wealth in the Irish economy. But as shown in Figure 26.2, property and wealth taxes only make up 3 per cent of the total tax take. While local government can decide to increase or decrease the local property tax, central government decides the overall rates.

This very weak role for local government makes Ireland particularly unique in Western Europe. Again, this peculiarity can be traced to partisan politics. During the 1977 election campaign, Fianna Fáil campaigned on a platform to abolish local household rates while also committing to significantly increase public spending. (This platform of cutting taxes and increasing spending also defined the Fianna Fáil party manifesto in the early 2000s.) The 1977 campaign worked. The campaign returned an extra twenty parliamentary seats for Fianna Fáil, and gave the party an overall majority in government. But the implication was to effectively remove the revenue generating capacity of local government. This seriously undermined both local democracy and the strategic capacity of local government to deliver local services.

To conclude this section, if we only look at the past ten years of changes to the tax structure in Ireland, it is perhaps the sharp increase in corporate tax receipts that is most (p. 452) remarkable. In 2018, corporate tax receipts made up almost 20 per cent of the total tax take of the state. This means that for every €100 the government spent, almost 20 euro came from corporate income tax. The average across the EU is between 3 and 8 per cent. This surge in corporate tax receipts is associated with multinationals treating Ireland as a tax haven (Zucman, 2015).

The background to this surge in corporate taxes is partially related to domestic changes to laws regulating capital taxes, and international changes to OECD regulations. In 2009, Ireland introduced a new capital allowance for intangible assets. This was designed to encourage multinationals to shift their intangible capital assets and intellectual property to Ireland for tax purposes. Meanwhile, the OECD introduced a series of policies designed to crack down on stateless income, and to ensure that the multinationals pay income tax somewhere. The effect was to encourage many multinationals in the technology and pharmaceutical sectors to move their assets and capital income to Ireland. Recent research has highlighted the high dependence on volatile corporate tax receipts as a challenge for Ireland (Fitzgerald and Bedogni, 2019).

Mapping Irish Expenditure Policies over Time

As mentioned in the introduction, a significant part of taxation is spent on providing public services in the form of healthcare, education, defence, security, and maintaining the civil and administrative services of the state. This is the case in all advanced democracies. The more extensively involved the state is in providing health and education, the more people it has to employ. According to recent estimates by researchers in the Department of Expenditure and Reform, a population growth of 1 per cent implies a 3 per cent growth in public service numbers (Walker and Ryan, 2019). In most small open economies, the state is the largest single employer in the economy. Public sector pay and pensions is therefore a central feature of fiscal politics.

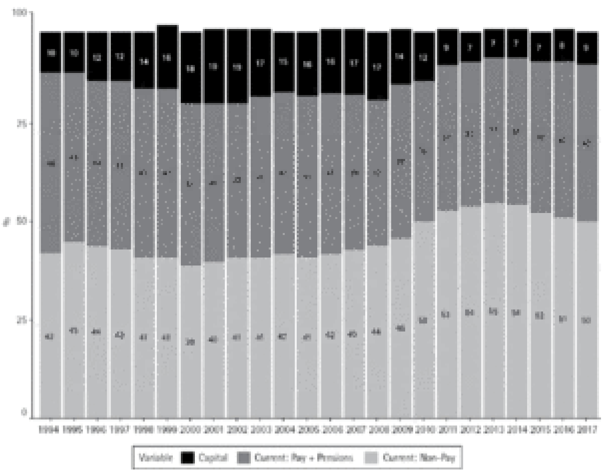

Figure 26.3 Uses of taxation

Source: Central Statistics Office (CSO)

In 2019, there were 335,000 people employed in the Irish public sector. This equates to a wage bill of €18.7 billion, or 31.5 per cent of total current expenditure. Figure 26.3 shows total government expenditure broken down into three functional parts: current non-pay, current pay and pensions, and capital expenditure. In total, this equals roughly a 50, 40, 10 split. Public sector pay and pensions make up 40 per cent of total current expenditure. Current non-pay expenditure equals 50 per cent of total expenditure. Almost 35 per cent of this is committed to social transfers in the form of pension payments, jobseekers' allowance, and other cash transfers. In total, the government spends €18.7 billion on wages and €19.7 billion on social transfers. The result is to achieve a remarkable degree of redress in the very high levels of market income inequality in Ireland, amounting to about 40 per cent. The net distributive effect of taxes and transfers is to bring Ireland back to the middle range of income inequality (Causa and Hermansen, 2017; Department of Finance, 2016).

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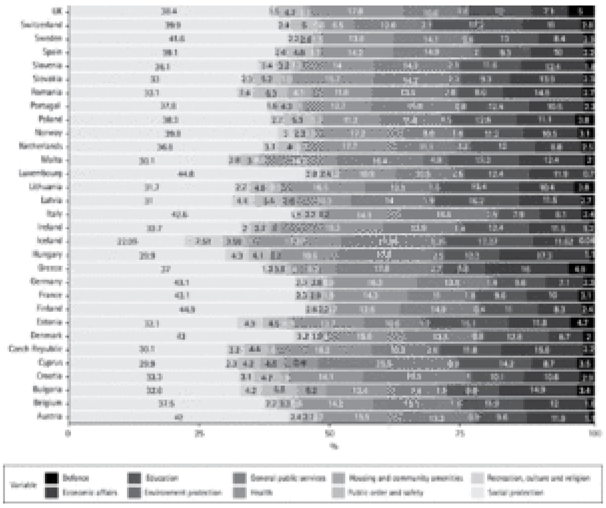

Figure 26.4 Breakdown of spending by spending group

Source: OECD

Figure 26.4 shows the precise uses of taxation as a percentage of government expenditure broken down by major spending group for a range of OECD countries for 2015. We can see that Ireland is broadly in line with other EU countries in the proportion of spending it allocates to social protection (32.7 per cent, ranked twentieth of thirty-one countries studied), general public services—the major components of which are health (19.3 per cent, ranked first), government debt servicing (13.9 per cent, ranked sixteenth), education, (12.4 per cent, ranked thirteenth), public order and safety (3.7 per cent, ranked nineteenth), culture, and religion (2 per cent, ranked twenty-seventh), housing and community amenities (2 per cent, ranked sixth), recreation, culture, and religion (2 per cent, ranked twenty-seventh), housing and community amenities (2 per cent, ranked sixth), environmental protection (1.4 per cent, ranked twenty-third), and defence (1.2 per cent, ranked twenty-seventh).

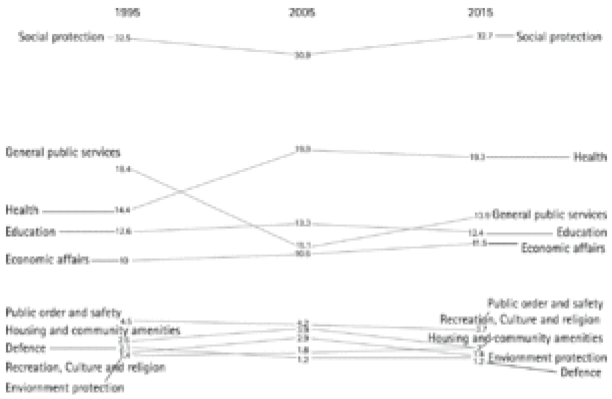

Figure 26.5 Slopegraph of spending by spending group by decade

Source: Central Statistics Office (CSO)

Looking at the changes in Ireland's components of government expenditure over time, Figure 26.5 computes a slope graph by decade. The slope graph can be used to show a before and after story of different values, based on comparing their values at different points in time. It can be used to show changes in expenditure categories over time. The major changes are in health, which moved from 14.4 per cent of total government spending in 1995 to 19.3 per cent in 2015, and general public services, which shrank from 18.4 per cent in 1995 to 12.4 per cent in 2015. Public debt transactions made up the (p. 454) largest component of general public services, falling from 12.6 per cent to 9 per cent in 2015.

Volatility in health spending has been a feature of government policy from the early 2000s to the present day. A detailed analysis of healthcare expenditure is beyond the scope of this chapter, but it is worth noting that countries with a strong public–private mix within the overall healthcare provision system have the greatest difficulty in controlling costs (Connors, 2018).

Looking at these descriptive figures, we can infer a distinction between *social investment-oriented* expenditure and *social protection-oriented* expenditure. Social investment typically includes expenditure on education (particularly higher education), research and development, labour market activation, environmental protection, and capital infrastructure. On all these fronts, Ireland is below the OECD average, and significantly below the EU 15 average. This is rather puzzling in light of the argument presented by Collins and Murphy (Chapter 25), which shows a significant amount of occupational upgrading in the labour market. Comparative political economy research would suggest that when this occurs, the electorate (more middle- to (p. 455) high-middle-income voters) will demand more social investment. They will demand (and vote for) more capital infrastructural investment.

These issues have not been salient in Irish party-political discourse, in part owing to the weakness of class cleavages in the party system. Confronting the implicit trade-offs entailed by different mixes of tax and spending priorities was further postponed during the boom: between 2002 and 2007, almost every sector of society benefited from lower tax rates and higher levels of spending, particularly social protection spending on jobseekers' benefits, pensions, and child benefit payments. For a time, it looked as if Irish voters could have it all. The reality of the crash and its aftermath necessitated harsh adjustment measures, which further postponed framing clear policy choices. And yet little appears to have changed in the terms of political debate. The most likely explanation for Ireland's divergent profile from European norms may be that these options have simply not been presented to Irish voters by the larger parties, whose issue prioritization reflects their ambitions to maximize cross-class appeal (see Little and Farrell, Chapter 30; also Suiter and Flynn, Chapter 34).

The single largest item of current government expenditure is social transfers (€19.7 billion). This is followed by public sector wages (€18.7 billion). Electorally, in the context of a growing economy, population growth, and occupational upgrading, one can expect voters to demand more public services, which means more public sector workers and wages. In turn, public sector workers themselves become a core electoral constituency. In particular, as shown by Gingrich and Häusermann (2015), the professional salaried (p. 456) public service sector (health and education) has become a core constituency for centre-left and Green parties, whereas the professional salaried private sector (business and finance) has become the core constituency for the centre-right. While these two middle- to high-income voting groups often have different preferences for taxation, they both want more social and capital investment. This heavy dependence on cash transfers is a defining feature of the Irish social state. Politically, it can be traced to the dominance of Fianna Fáil in government throughout the twentieth century, and the long shadow of clientelist practices in Irish party politics (Marsh and Cunningham, 2017).

Discussion

There are four core inferences to be drawn from the Irish case. First, when allowances have been made for the structural differences in the Irish economy, compared with other small open economies in Northern Europe, Ireland has a relatively low revenue to income ratio. This obviously constrains what government can and cannot do. The reason for this is that revenue is highly centralized. Local government has minimal revenue-raising capacity and is highly dependent on transfers from the central state. This dependence severely restricts the fiscal capacity of local government. Social insurance contributions in Ireland are used to fund central exchequer spending and are not dedicated to funding social insurance provision. For example, in most European countries, social insurance contributions from employers and employees are used to cover healthcare insurance. This is not the case in Ireland, where all revenue is directed centrally. The highly centralized nature of fiscal policy in Ireland is a path-dependent feature of the social state and the structural nature of public service provision.

Second, Ireland's relatively low revenue to national income ratio, and highly centralized fiscal system, does not mean Ireland has low *income* taxes. On the contrary, most middle to higher wage earners pay on average 40 per cent of their market incomes in labour taxes. Income taxes on workers increased significantly in the aftermath of the financial crisis. This procyclical income tax response to the crisis was a function of the procyclical cuts to income taxes during the boom in the 2000s. As multiple authors have pointed out over the years, from the 1970s onwards, Irish fiscal policy has tended to be highly procyclical, meaning that income taxes are often cut during a boom, then increased during a bust, the reverse of what a good macroeconomic fiscal strategy would advise. In Ireland, and quite unlike other European countries, cutting income taxes is largely seen as a legitimate electoral strategy. This may be changing. Public opinion data would suggest the median voter in Ireland, if given a choice, would choose public service expansion over tax cuts (Leahy, 2017).

The principal income tax challenge in Ireland, it seems to us, is to broaden the income tax base. The lowest 30 per cent of earners pay no income tax, while the highest 30 per cent of earners pay 80 per cent of the total income tax take. Politically, this tends over (p. 457) time to weaken the democratic 'fiscal contract'. The fiscal contract between members of the society and the state requires that everyone should contribute to collective well-being through taxation, and everyone should be able to see visible benefits to themselves as well as to the overall distributive effort. A high level of distinction between those who pay into and those who benefit from the fiscal effort is likely to deepen social divisions among the electorate without a large redistributive effort, and to weaken the political consent on which widespread tax compliance depends. Broadening the tax base has two dimensions to it. At the bottom end, it requires increasing the wages of the bottom 50 per cent of the income distribution, such that they enter the income tax net (and supporting net disposable incomes through some combination of higher market wages and social transfer payments). At the top end, it involves taxing the returns at the top of the income and wealth distributions through changes in the income tax to make it more progressive in its effects. This means changing the way the wealth holdings of the very well off are treated by the tax system through changes to wealth, property, and inheritance taxes.

These policy options have typically fallen outside the remit of an individual government's policy platform. Yet Irish governments do make very large interventions into the exceptionally wide disparities in market incomes in evidence in Ireland. Taxing higher income earners and redistributing this income through the social welfare state is already broadly legitimated. As mentioned earlier, the largest component of government expenditure is social transfers—equating to almost €19.7 billion of total government expenditure (the largest portion is pensions). The government could of course choose to cut income taxes and cut back social security payments. But electorally, given the nature of Irish party competition, there has never been popular support for cutting the welfare state.

Third, in terms of expenditure, the Irish social state is heavily dependent on cash transfers. This poses difficult questions for the future politics of welfare reform. On the one hand, there is no electoral demand for cutting back social security, particularly pensions. But on the other hand, with a changing society, and more women entering the labour force, there is likely to be growing demand for new public services, such as providing universal childcare provision. This will come at a cost and requires either raising new forms of revenue (ultimately increasing taxes) or moving existing resources from within the cash transfer system to public service provision. These are difficult choices, with electoral consequences, and will be decided through the democratic process of partisan politics, and government formation.

Finally, much as in previous times, it would appear that the Irish state is once again committing to permanent fiscal expenditures on the basis of highly volatile procyclical taxes. This time it is in the form of corporate income tax receipts. Since 2012, corporate income tax receipts have boomed, as firms shifted their capital assets and profits into subsidiaries that are tax resident in Ireland. The OECD has cracked down on multinationals making capital income tax-free and stateless. Many of these firms are now moving this income to Ireland. In the short term, this makes the Irish fiscal position look great. But these corporate income tax receipts are likely to decline, and in a worst-case scenario, disappear entirely. This would cause a large budget deficit. In response, (p. 458) the government would have to cut public expenditure and/or increase income taxes, perpetuating the procyclical cycle.

The time may now have come to reopen the terms on which the fiscal contract in Ireland has been constructed, and to make explicit the policy options that would be required to remediate the many aspects of unfairness and inefficiency that are the source of many yet varied grievances across Irish society. Without a clear-eyed understanding of what is at stake, there is a real risk that the political sustainability of the current system will be eroded. At worst, without preventive action, a further cycle of volatile boom and bust measures may follow, with a further round of avoidable harm and social suffering. The Irish state has a well-developed fiscal capacity, but without critical scrutiny and corrective action, its current path-dependent trajectory may be a risky prospect.

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Notes:

(1.) It is also intimately connected to inclusive political institutions that mitigate against state capture (see Acemoglu et al., 2015).

(2.) For a detailed history, see Esping-Andersen (1990), and Scruggs and Allan (2008).

(3.) This is also similar to the EU member states in Central and Eastern Europe.

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