

Charlie's taxing task is to please all interest groups

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In the immediate run-up to the Budget in November each and every interest group will make known their concerns on tax.

Already the skirmishing has started, with opposition politicians, trade unions and employers setting down markers for the Government to deliver, against the background of massive Budget surpluses.

However, as Edmund Burke famously wrote: 'to tax and to please, no more than to love and be wise, is not given to any man'. Mr McCreevy's disappointed suitors might reflect on the reality that the current tax debate brings together a range of broader issues about where the economy is heading, above and beyond the legitimate interests of particular groups.

The essential macro background is that policy on taxation and expenditure (fiscal policy) is one of the few available instruments within the control of an Irish Government, now that monetary policy is determined in Frankfurt. The other (often neglected) instrument of policy, is competition/supply-side policy, which rarely tends to inform budgetary consideration, more's the pity.

At the very least, the Minister for Finance will hope to avoid major fiscal policy mistakes, if only because the European Central Bank (ECB) does not stand ready to bail us out if he gets it wrong.

The key worry is that expected Budget surpluses of the order of £2 billion may invite political demands for unsustainable taxation and expenditure

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measures, precisely when the economy might appear to be due a slow-down in growth. One might reasonably argue that these surpluses are to be expected when the economy and tax revenues are growing rapidly.

The expectation then is that with unchanged policy, we can expect modest surpluses, or even Budget balance, if there is a downturn. As against this, the unfinished agenda of income tax reform is on the Minister's desk.

The argument is: if this is not the time to widen bands, and reduce tax rates, then will it ever happen? Fine Gael has promoted one option here, in advocating amongst other measures, the introduction of a middle tax rate of 35%, leaving the top rate for only highest earners. This attempts to tackle the economic reality that too many hit the top rate at modest incomes, while taking on board the political reality that reducing the top rate by itself is perceived as benefiting the rich disproportionately.

Mr McCreevy's response to this conundrum last time was the introduction of tax credits but he still faces pressures from his villa-mates in the PDs to tackle the top-rate issue. There is probably also some reluctance amongst policy advisors to return to a more complicated rate structure in the income tax system.

The prospect of net tax reductions worries some observers, given the potential for stoking up inflationary pressures. Yet asset-price inflation especially in the housing and equity markets, at first glance, involves different issues. As the Minister for the Environment is discovering in dealing with the terms on which mortgages are offered, influencing the demand side of the market is probably not worth the candle, even if increasing supply is inevitably a medium to long term matter. Eircom's anaemic performance, the bank shares' troubles and broader worries over global equity markets might tend to cool price pressures on the financial side.

More than this and crucially insofar as wage pressures are building up, especially but not only in the public sector, tax relief may help to shore up the partnership process, and help a very tight labour market.

In some respects, we should not be at this stage; for two decades we have debated the perverse impact of our income tax system on the labour market. While some progress has been made, this microeconomic horse has always come before the budgetary cart. In other words, tax reforms which could have prompted the exceptional employment generation of the last few years much earlier were delayed until the Budget numbers looked right.

This is probably in part due to an understandable conservatism on the part of Department of Finance officials, worried about a loss of control over revenue if radical reform were ever actually introduced. Add to this mix, the build-up of compliant PAYE taxpayer resentment over the indulgence granted to well-heeled sinners in the past, and the Minister faces a politically sensitive and economically difficult Budget to frame.

British Chancellors of the Exchequer generally take time out with officials in a country house before their Budgets—but perhaps that would be a villa too far for even this Minister.

http://www.aidankane.net/writingsetc/1999_kane_budget.html