

Free to choose? Fiscal autonomy in Ireland

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The debate over fiscal autonomy in Scotland is of interest to economists generally, and to this Irish economist in particular, for a number of reasons. Apart from altruistic and fraternal concerns born of cultural affinity, and quite a few nights out, there are both historical and contemporary parallels between Irish fiscal experiences and current questions for Scotland.

Historically, Ireland's relationship with the rest of these islands can be traced, not just as a matter of a sequence of rebellion then separation (followed by tourism and boybands), but in fiscal terms. Our constitutional status has often been surprisingly identified with the specific exercises of sovereignty represented by the power to tax, and the right to spend.

The pre-1801 Irish Parliament in Dublin drew upon a tradition of parliamentary control of the monarch, and scrutiny of the executive, in certain respects older than that of its supposed mother in London, in for example having a more ancient, active and powerful committee of public accounts. For Irish patriots of that era, mainly from the Protestant tradition, the expression of Irish liberty as a separate kingdom under one monarch was especially centred on the fiscal powers of their parliament.

The counterpart to this was that the Act of Union provided specifically for the ending of this autonomy through a number of provisions. These envisaged Ireland's separate exchequer eventually merging with the new Union arrangements over a transitional period. That Act imposed on Ireland a charge for imperial services commonly understood as disproportionate to her means, which eventually bankrupted the Irish exchequer in 1817, mainly because of the unforeseen length and scale of the Napoleonic campaign.

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Part of the civilising mission of Union was then to treat Irish subjects to the same tax regime as others in the Union, despite the divergence in income levels and economic structure. This was termed ‘indiscriminate taxation’ and it proved very regressive. Added to this mix was the separation of Irish taxation from Irish public expenditure, and the result was a pathological fiscal system. The consensus of the many parliamentary commissions and inquiries which addressed Irish complaints was that Ireland was a net contributor to the Union finances for much of the 19th Century, before the Famine and beyond. Does this ring any bells?

On the monetary side, the separate Irish pound had gone by 1826, and even after independence, a one-for-one link with sterling continued to 1979, when Ireland joined the Exchange Rate Mechanism of the European Monetary System. Some English resistance to monetary union and fiscal co-ordination today might prompt a rueful backward glance to the Irish experience of 150 years of monetary union with sterling and over 100 years of fiscal union. To be fair to the English, they at least know how these things should not be implemented.

The question of the financial relations between Britain and Ireland occupied much attention in the Home Rule debate. But by the time the Free State was formed, we sleepwalked into our fiscal autonomy, our leaders exhausted by one war of independence, and one civil war. The 1921 settlement deferred outstanding financial questions, and these were not substantially untangled till 1938, as both sides anticipated the onset of another European War.

If there is one lesson from those transactions, it is this: bring on the public accountants once the political framework is seen to shift. That expertise is necessary, as all too often politicians and public will focus only on flows of expenditure and taxation, and disregard the stock counterpart to these flows i.e., the public debt component. This was a neglected aspect of the Irish experience of fiscal separation: who owes what part of the debt? Who owns these assets?

Some indication of the potential longevity of these issues is that one aspect of a British-Irish financial agreement of 1926 envisaged compensation payments (from Ireland to Britain) being paid every year to 1985! The upsurge in violence of 1969 eventually prompted the embarrassed writing off of that particular debt.

Many of these difficulties can be sourced in the violent origins of the Irish

state, or more precisely, to the lack of a clear-cut winner in that violence; neither side was in a position to impose a settlement, nor did they have the luxury of negotiating an acceptable agreement in a peaceful atmosphere, as part of a programme of constitutional evolution.

Early Irish governments after independence tried perhaps too hard to run the same system as before, only more cheaply. For many years, the key index of Irish autonomy was the income tax rate, and ministers for finance squeezed budgets to bring the Irish rate below the British one. A consequence was one minister's reduction of the old age pension by a shilling a week, an act of deeply unfunny political stupidity, which remains in the Irish folk memory.

Any more recent account of Ireland's experience with fiscal autonomy has to acknowledge that our current strong economic performance was preceded by the gloomy 1980s. Key indicators of our troubles then were precisely out-of-control public finances, with taxation levels inexorably rising and much public expenditure pre-empted by ever-increasing levels of debt repayment. Yet the beginnings of our economic recovery in 1987–88 co-incided with a dramatic turn-around in Irish public finances, which is where the real political and fiscal lessons lie.

First, even sovereign states are not entirely autonomous in fiscal terms; financial markets regard fiscal probity as good signals for wider economic conditions and the competence of policy makers, and so provide one set of constraints. Second, the free movement of labour and of capital, especially that in the form of foreign direct investment, also determines the effective freedom of policy makers to make sustained mistakes: put too much pressure on the tax base, and it migrates.

Third, policy makers and citizens can and do learn from mistakes, and so mature politically, when autonomy brings them face-to-face with the consequences of their fiscal decisions. Ireland's crisis in the 1980s was just such a sobering experience, but ultimately a confirmation of the potential for self-directed public policy; we faced many problems, but they were *our* problems, and our solutions. In other words, while avoiding a temptation to draw attractive but blithe analogies, fiscal autonomy is not an end in itself, but an option which opens up other choices—and a worthwhile option, if you trust your country to choose wisely, and to learn swiftly when it does not.

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