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Calling A Shamrock A Shamrock

A Commentary By Howard Rich

Friday, November 26, 2010

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As the European economy grapples with yet another bailout of a bankrupt sovereign state, a storyline is emerging that seeks to frame this latest instance of government interventionism along deliberately disingenuous lines. According to this misleading narrative, Ireland's abysmal fiscal condition did not come as a result of chronic state overspending, but is instead due to the island nation's comparatively-low corporate income tax rate.

Sound like a familiar song? On both sides of the ocean there appear to be plenty of Keynesian apologists who believe that economic downturns are always caused by greedy capitalists – never by greedy politicians and government bureaucrats.

Now several European nations – led by France and Germany – are insisting that Ireland raise its 12.5 percent corporate tax rate as a prerequisite for receiving a Eurozone loan that would pump tens of billions of Euros into its banking system. Such a tax increase aims to bring Ireland in line with corporate tax rates in France (33 percent) Germany (30 percent), Spain (30 percent) and Great Britain (28 percent) – but it would also stifle productivity and job growth at a time when Irish citizens need their economy to be firing on all cylinders.

While it certainly makes sense for Europe's sovereign nations to minimize their financial exposure – it would make even more sense for them not to expose their taxpayers to such risks in the first place. Of course under "continental rule" it is often difficult for these nations to distinguish their own interests from those of the "collective." This creates an additional disincentive for sound sovereign financial management – as if European governments needed another excuse to act in a fiscally reckless manner.

But consider this: Why would one nation watch out for its bottom line when it can simply pass the buck – or in this case, the Euro – on to another nation's taxpayers?

Obviously, the solution that makes the most sense in all of this is for sovereign governments to confine themselves to a very narrow list of core functions on behalf of their own citizens – and then to perform these functions with maximum efficiency and transparency. Clearly such a rational view of government was long ago abandoned by Europe's welfare statists, just as it has been cast to the curb in recent years by socialist-leaning politicians in the United States.

Yet while America's own Keynesian interventionists – led by U.S. Federal Reserve Chairman Ben Bernanke – continue to blame other nations' debt crises for the ongoing sluggishness of the global economy, very few are willing to "call a Shamrock a Shamrock" as it relates to the Irish debt crisis.

One analyst willing to do so is Daniel J. Mitchell, a tax expert at The Cato Institute. In seeking the real culprit behind the Irish implosion – and for that matter the broader European debt crisis – Mitchell examined nearly three decades worth of Irish government expenditures and tax receipts. In doing so he found that from 1983-2006 both expenditures and receipts in Ireland were on similar upward trajectories – a regrettable result of the Irish government's insistence on spending every new dime

that came into its coffers. Beginning in 2007, however, these lines began moving in opposite directions.

“When the financial crisis hit a couple of years ago, tax revenues suddenly plummeted,” explains Mitchell. “Unfortunately, politicians continued to spend like drunken sailors. It’s only in the last year that they finally stepped on the brakes and began to rein in the burden of government spending. But that may be a case of too little, too late.”

In addition to profligate spending, Mitchell points to the adoption of the Euro as another contributing factor in Ireland’s decline.

“The one thing we can definitely say … is that lower tax rates did not cause Ireland’s problems,” Mitchell concludes. “It’s also safe to say that higher tax rates will delay Ireland’s recovery.”

Irish negotiators are holding firm thus far against European demands – making the case that if Germany and France want to recoup their investment in Ireland, they will not choke off the nation’s economic growth.

Frankly, no European taxpayers – Irish or otherwise – should be forced to pick up the tab for this disaster. Similarly no European taxpayers should have been forced to bail out Greece earlier this year. Governments on both sides of the Atlantic must learn the hard way that they are to restrict themselves to core functions – a process that starts with telling the truth about how they landed in their current predicaments.

Howard Rich is chairman of Americans for Limited Government.

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