PEOPLE’S NEWS

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25 per cent of GDP wiped out as we pay 42 per cent of the cost of EU’s banking crisis

According to Eurostat, Ireland has paid 42 per cent of the total cost of the EU banking crisis, at a cost of close to €9,000 per person! The crisis cost Germany €40 billion—but Ireland, according to Eurostat, is liable for €41 billion. By way of comparison, the crisis has cost Ireland 25 per cent of GDP and Germany 1½ per cent.

The average banking crisis debt throughout the EU is €192 per person; yet the figure of €9,000 for each Irish person does not take into account the €18 billion put into the banks from the National Pension Reserve Fund.

The German people, at €491 per person, have shouldered the next-biggest cost of bailing out their big regional banks, which invested heavily in hedge funds.

Britain to have a referendum on EU membership in 2017—if the Tories win the next election

In his strongest warning yet on Britain’s future role in the EU, the prime minister, David Cameron, said on Wednesday that if he is re-elected he will hold a referendum on Britain’s membership of the EU in 2017. He described it as a “very simple in-or-out choice: to stay in the EU on these new terms, or come out altogether.” Without reform, he warned, Britain may choose another path.

“I don’t just want a better deal for Britain,” he said in a sharply critical speech on Britain’s future relations with the EU. “I want a better deal for Europe too.” He went on to describe major challenges, including high debt, a lack of competitiveness, and the people’s diminishing trust in EU institutions. The union, he argued, must urgently be reformed. “The biggest danger to the European Union comes not from those who advocate change but from those who denounce new thinking as heresy.”

He said his decision is based on the crisis of confidence in the EU, saying that the people no longer feel represented. He described an acute feeling in Britain that more and more power is flowing to the EU. Treaty after treaty is changing the balance of power between member-states and the EU.

Cameron said it is not his goal for Britain to leave the EU. “Would Britain collapse if we left the EU? No, of course not,” he said last week. “You could choose a different path. The question is, What is in our national interest?” Power must flow back to member-states, and there must be democratic accountability and fairness, he added.

Here in Ireland, where such a move by Britain would have serious political and economic consequences, we were treated to platitudes instead of analysis, with the Tánaiste, Éamon Gilmore, saying he thought the EU was "better with Britain in it," and that Britain was better being in the EU. Richard Bruton said that "obviously Ireland has concerns about any situation that would see the UK take a different direction to our own, but I suppose the challenge now will be to ensure that we use all our influence to ensure that Britain continues to be a strong and active member."

Enda Kenny last week described a British departure from the EU as "catastrophic"—though it was not clear for whom.

The shift in the position of Britain's political class reflects a wider increase in discomfort at the constraints of involvement in the EU. Support for membership has waned in business, the trade unions, and throughout civil society. The media are mostly hostile. EU-wide opinion polls show that British people see less gain from membership than people in any of the other twenty-six member-countries.

It is increasingly likely that in the next general election campaign both the Labour Party and the Conservatives will promise a referendum. Recent opinion polls have shown for the first time that if a referendum were held on membership now, those opposed would win convincingly. In the latest survey, 49 per cent say they would vote to leave, only 32 per cent that they would vote to stay in. That's a gap of 17 points; but referendums can deliver surprising results, and the Tories haven't delivered on past undertakings regarding EU membership!

Nonetheless, the Foreign Office began a detailed audit last July of how powers exercised at the EU level affect British interests. This audit, due to be completed in 2014, will provide the basis for Britain's negotiating position on the repatriation of powers from Brussels. Conceding what would in effect be à la carte membership would be difficult, as undoubtedly it would generate further demands from other member-states that could, in the long run, bring about the demise of the EU political project.

On the other hand, if Britain does not succeed in repatriating powers the momentum behind withdrawal will grow, while membership of the European Economic Area would not be a viable alternative, as members are obliged to accept EU single-market legislation, while having no say in its formation.

Another option might be a changing series of bilateral agreements. For Ireland, having Britain move to such an arrangement—outside the European economic, political and legal order—would have very negative implications, including the risk of a weakened English pound harming exports—more than €14 billion in 2011—and tourism, coupled with the possibility of the creation of tariff barriers.

And then there is the issue of the North leaving the EU along with Britain—or of the referendum in the North delivering a different result from Britain!

If Britain was outside the EU, tariffs would also have to be collected on its exports entering this state. Average EU tariffs are quite low, but some, on such items as dairy products and clothing, are quite high. Customs posts would have to be established on border roads to ensure the collection of these tariffs.

There would very probably be changes to major EU treaties to allow Britain to opt out of some areas, and a referendum—or a series of them—in Ireland on the new measures. EU legal experts say the type of changes the British are likely to demand on specific opt-outs would require changes in the treaties, as any repatriation of powers would require the consent of all EU members.

According to IBEC, any shift in the relationship with the EU could have "massive economic implications." It points out that "Ireland has a unique economic relationship with the UK. Britain is our most important trading partner, and we have a shared consumer market."

To limit the damage to our economic relations with Britain and the North, the Republic could also leave the EU, an option that Michael McDowell appears to favour.

It is high time that the Government carried out an economic and political cost-benefit analysis of a range of options that might be exercised in the event of Britain leaving the EU, so that we don't make another monumental mistake that future generations will end up paying for.

High Court challenge to promissory notes

Promissory notes amounting to more than €31 billion in financial support for Irish financial institutions, including the Irish Bank Resolution Corporation, are flawed, and payment on them cannot be made, it has been claimed in the High Court.

David Hall is seeking to prevent the Government making payments on foot of the notes issued in favour of Anglo-Irish Bank, the EBS Building Society and Irish Nationwide Building Society.

In an affidavit he said he has had "grave reservations about the manner and way the public finances of the country have been run. The Irish people, having never been consulted about this, and in circumstances where its representatives were bypassed, were being asked to honour a deal made in flagrant breach of the Constitution, with no democratic legitimacy and in breach of the Treaty on the Functioning of the EU."

John Rogers SC, for Mr Hall, told the High Court that the promissory notes were unlawful on various grounds, including the grounds that Dáil Éireann had not specifically approved them, as required by the Constitution.

He said that spending was initiated by the Government bringing a "money message" to the Dáil signed by the Taoiseach, and the Constitution provided for the Dáil to be the body that voted through the process. The Constitution "can't be set aside, except by the people." There was "no emergency 'let-out' clause in the Constitution," he said. Without specifically naming figures and seeking Dáil approval for them, the Government's procedure on the promissory notes amounted to "a blank cheque," something that is not provided for in the Constitution. What the Government was engaged in was interference with the primacy of the Dáil, and he would be seeking a declaration that the moves were unlawful.

Michael McDowell SC, for the minister for finance, the state, and the Central Bank, said that the minister was not required under law to put any "ceiling" on amounts to be paid under promissory notes. He claimed that Mr Hall, because he is not a TD, has not got the required legal standing to bring a High Court challenge alleging that the promissory notes were issued unlawfully, with the effect that payments under them cannot be made. No member of the Dáil has challenged the notes, despite the "considerable political controversy" about them, the state pointed out in its submission.

A promissory note is an enforceable promise to pay, and the fact that some of the obligations under the promissory notes continue until 2031 is "not relevant," the state claims.

The Irish presidency

The Government was wise to keep the beginning of the Irish presidency of the EU and the fortieth anniversary of the country's signing of the Treaty of Rome low key. But a population that has suffered €28½ billion of spending cuts and tax increases since 2008—equivalent to 17½ per cent of its economic output—will still be justifiably angered to learn that the Government intends to spend approximately €60 million to cover the cost of turning Dublin into a glorified poste restante address for the fifteen thousand EU bureaucrats who will be rushing to and fro in the city during the next six months.

And as people face into another year with unemployment at nearly 15 per cent, after a net decline of 16 per cent in paid employment between 2007 and 2011, as well as heavy emigration by young people, and with total debt (combining government debt, household debt, and private business debt) some 50 per cent higher than that of Greece, Éamon Gilmore promises us that Ireland will be "the first country in the euro zone to exit an EU-IMF programme and will be a success story for Europe again."

And part of the additional cost of this "success story" in 2013 will be a property tax and laws to give banks legal powers to repossess homes more easily. The troika of international lenders—the European Commission, European Central Bank and International Monetary Fund—has pushed for "reform" of repossession laws, saying it is "crucial for Ireland's economic recovery." And Michael Noonan said in a memorandum sent to international lenders: "We will by end 2013 introduce legislation to remove unintended constraints on banks to realise the value of loan collateral under certain circumstances."

Consider Iceland, a country of 300,000 people. Iceland's debt was proportionately much worse than Ireland's. Its banks had borrowed much more abroad than ours had. Iceland let its insolvent banks go bust and set up new clean banks to keep credit flowing. It forced its creditors to take a €60 billion loss on their improvident loans, and came to an agreement with them on long-term repayment for the remainder.

Iceland kept its own currency, and restored its economic competitiveness by allowing its value to fall, imposing capital controls to assist it in the process.

Since the crisis broke in 2008, Iceland has entered and left an IMF lending programme and returned to borrow on the bond markets. Instead of the state taking on past private bank losses, as the ECB pressured Ireland into doing, foreign investors see Iceland as being in a much better position to repay future debts.

Economic growth for 2012 is 3 per cent and expected to be 2 per cent for 2013. Iceland's employment rate is now 5 per cent—a third of our 15 per cent, which would be 20 per cent but for the emigration of our young people.

In the initial panic in 2008 Iceland's government applied to join the EU in the hope of a quick fix, but public opinion has now turned quite against that course.

Security for some!

The "security" operation for Ireland's six-month presidency of the European Union is likely to cost at least €10 million but will probably climb higher, according to the Government. It is understood that when the final costs of the operation become clear after the six-month term expires at the end of June the Gardaí will be reimbursed most, if not all, of the money used to finance the operation.

When heads of state or heads of government visit Ireland the Gardaí will provide escorts on their arrival and as they move around, mostly in Dublin. "You have to make sure everything is okay," said one source, "from securing a venue by controlling access points in and out" to investigating the underground tunnel network, "in case any devices have been left there." The Gardaí also carry out surveillance on any groups that might be suspected of planning an attack, however minor, that might embarrass the state during the six-month term.

This is a high cost merely to prevent embarrassment to Kenny, Gilmore, et al.!

The total cost of the presidency is now estimated by the Government at €60 million. Contrast this with the miserable move by the FG-Labour coalition to slash spending this year on personal security alarms for older people, which costs €2.45 million (subsequently withdrawn). The security of a large segment of our elderly population was to be jeopardised in order to save €1.3 million. The cynical might say that this would be used to bolster the presidency security budget.

In any event, why should the popularly elected EU dignitaries require such intense security when visiting a country that has consistently been shown in opinion polls to be the most Europhile of the member-states? But then, of course, the Commission is not elected by popular vote—even though it exercises the sole prerogative to initiate legislation; neither are Barroso, van Rompuy, or a host of others who increasingly decide our destiny.

However, the whole episode demonstrates again the attitude of the Irish Government: the privileged are well looked after, while the ordinary citizens pay up or suffer. It is a policy fully endorsed and supported by the EU and ECB.

The rich get richer!

"We have borne the burden for every other body in Europe by doing what we did. European banks would have suffered a catastrophic collapse".—European of the year, 2012, and Time cover boy Enda Kenny.

Last week, a day after Manuel Barroso said the "existential threat to the euro has essentially been overcome," Eurostat published the latest monthly unemployment data. The bad news is that unemployment has reached a record 27 per cent in Spain, rising to 57 per cent for young people, and similarly in Greece, at 26 per cent and 58 per cent. Portugal came in at 16 and 39 per cent, followed by Ireland at 15 and 30 per cent. Unemployment for the euro area as a whole stood at a record 12 per cent.

Barroso may well be right about the debt crisis, as the euro disaster is not at root a public-debt crisis, though it has been cleverly used to attack public provision and wages. Remember Frau Merkel's "Never waste a good crisis!" The euro area's aggregate public debt is lower than that of Britain, the United States or Japan as a proportion of GDP; but unemployment seems to be a priority only when Enda Kenny in his "presidential" role speaks for a domestic audience. It's a price the EU political elite are willing for us to pay to "save" the euro.

The euro crisis is the result of knocking together misaligned economies and countries into a single currency. the outcome, if the euro does not break apart, will be a dramatic shift in wealth from the peripheral states to the wealthy central states and a concentration of wealth in a smaller cohort of the population within those states.

And in case you didn't know, the European Union is not responsible for the wave of austerity sweeping Europe. "I want to make this clear," Barroso said on a visit to Ireland, "because there is a myth that it is the European Union that imposes difficult policies. It's not true."

But grinding austerity will ensure that the level of unemployment will remain static, or grow, while more and more working poor will emerge as charges, taxes and levies increase to satisfy the greed of international bankers and their shareholders.

In Ireland the top 1 per cent of the population hold 20 per cent of the wealth and the top 2 per cent control 30 per cent, while the top 5 per cent dispose of 40 per cent of private assets. If we exclude the value of houses, then the top 1 per cent control 34 per cent of the wealth. Approximately 30,000 are cash millionaires (discounting the value of houses). Meanwhile in 2009, 630,000 Irish people lived in poverty, according to the Central Statistics Office.

The Nevin Economic Research Institute (www.nerinstitute.net) in its quarterly economic analysis and forecasts has shown continuing economic stagnation as a result of continued contractions in domestic demand, sustained uncertainty at the European level, and a related slow recovery of the international economy. Over the next three years it projects a growth in GDP of less than 1 per cent per year for the next two years and 1.8 per cent in 2015, a further contraction of the domestic economy following the 2013 budget, and a further increase in unemployment in 2013 and 2014.

This leads it to question the Government's capacity to reach its fiscal targets in 2015 and to limit the increase in the national debt without significant changes in policy as well as an improvement in international conditions.

It also looks at the nature of Ireland's income distribution and describes the distribution of income among households and individuals. It shows that 33 per cent of households have a gross income (including social benefits but before tax) of less than €30,000; 56 per cent have a gross income of less than €50,000; 62 per cent have a gross income below the mean household income; the top 20 per cent have a gross income of more than €80,000 per year; 14 per cent have a gross income above €100,000 per year; and 2 per cent have a gross income above €200,000 per year.

Barroso may be right that the euro will not collapse in 2013; but what matters from now on is whether the victim euro member-states wish to stay in a project that is causing so much damage, or indeed whether there is any moral, as distinct from political, purpose in holding the euro together at this stage.

In Ireland we are paying a huge price for having held it together.

As we move inexorably towards a banking union, elected parliaments will be permanently stripped of the final control over tax and spending and with this the last vestiges of democracy. Control will fall into the hands of the unelected bureaucrats in the ECB and the Commission.

So one has to ask, What is the euro for? As time passes, it must be increasingly obvious that it is a political project that has been immensely damaging to the people of this country, and that we must resist any further deepening of the project while beginning the debate on the desirability of our continued adherence to this project, which benefits very few of us.

Beware of "smoke and daggers"!

"Irish people know what caused this, and they know how it's going to be fixed."—European of the year, 2012, and Time cover boy, Enda Kenny.

Bertie Ahern's mangling of metaphors when he said that deferring increased pay for politicians would "only be playing smokes and daggers" might well be remembered when we consider the pending payment of €3.1 billion on the Anglo-Irish Bank promissory note at the end of March.

The FG-Labour coalition has put a big bet on some sort of deal and must now be under pressure to produce a rabbit. But remember, we didn't "pay" the instalment last year either, according to Kenny and friends. That's where the smoke in particular comes in; and we would be well advised to watch out for more of the same this year!

Last year the Government was under somewhat less pressure to change the arrangements regarding the promissory note, and there were extensive discussions with the ECB aimed at getting approval for a delay in the IBRC's repayments of "exceptional liquidity assistance." The Government was not successful in these negotiations: the IBRC made its €3.06 billion ELA repayment as scheduled, and as insisted by the ECB. This followed a payment of €3.1 billion in March 2011.

IBRC

ELA is assistance provided by the Central Bank of Ireland, which takes the risk. These loans are accepted in return for collateral not normally accepted in ECB operations. So, this money was not borrowed from the ECB but was created or conjured up by the Central Bank. Within the euro system, money is created by central banks—not the ECB. So the Central Bank simply credited the accounts of the IBRC banks (the merged Anglo-Irish and Irish Nationwide) with this money it had created. Their balance sheets absorbed the money, and it was used in the main to pay off the bond-holders.

In 2012 there was an adjustment in how the €3.1 billion payment was made—and a lot of smoke! The IBRC was provided with a thirteen-year government bond—adding to the national debt. It then entered into a repurchase agreement with the state-controlled National Asset Management Agency in which NAMA provided the IBRC with €3.06 billion in return for temporary ownership of the thirteen-year government bond.

One government agency gave a few billion of our money to another government agency, on the understanding that it would be paid back in thirteen years. So the money to make the ELA payment came from the Irish state.

The IBRC subsequently swapped the bond with Bank of Ireland. What happened was that Bank of Ireland purchased the bond for €3.06 billion and is pledging the bond as collateral with the ECB in return for an estimated €2.87 billion. In return, the IBRC is lending Bank of Ireland the ECB "margin" of €190 million, and providing it with a fee of €39 million.

To sum up, the IBRC is receiving €2.83 billion from this operation, to be repaid in one year. After the Bank of Ireland agreement was concluded, the IBRC repaid NAMA, adding an additional €229 million from its own funds.

Noonan claimed that this deal helps to "reduce the economic cost for the state as a whole of refinancing this payment," and that it improves debt sustainability; but it's just more smoke, as there is no solid ground for this statement, because the only beneficiary was Bank of Ireland, which pocketed the €39 million fee.

As Bank of Ireland must be repaid during 2013, the deal does nothing to reduce demands on cash flow during the current EU-IMF deal.

Because Bank of Ireland borrowed €2.8 billion from the ECB as part of the deal, it did reduce the amount that Ireland repaid in euro-system loans in 2012. However, the heart of the matter is that the deal did nothing to reduce the long-term burden imposed by the promissory notes. The state (us) got the money from Bank of Ireland (50 per cent us), and now it must pay Bank of Ireland.

So where will the money go if we stump up on 31 March? A cool €3.1 billion in promissory notes will be given by the Government (us) to the IBRC (owned by us), which owes ELA debts to the Central Bank (owned by us), which accepts the repayment of the ELA and reduce its stock of money by the appropriate amount—sometimes referred to as "burning" it on our behalf, thereby creating more smoke. Of course this is a balance-sheet transaction in reality, but nevertheless the Central Bank's assets drop by €3.1 billion.

You may have noticed that the ECB and EU are not involved in any way in this transaction, other than in insisting that the money be paid (destroyed). But it is important to remember that people's lives are destroyed in the process, whether the old person whose allowances have been pared or the patient whose suffering is prolonged while awaiting medical treatment.

So it is open to the Government to refuse to pay, as distinct from defaulting. There would be a frosty welcome for Messrs Honohan and Kenny at the ECB Council and the European Council, respectively, but the world would not fall apart as the realisation dawned that the action would only cause a very small increase in inflation in the euro zone. However, it would create a bad example in a German election year, and it would take courage on the part of the Government.

But it is the only way forward, as there is universal agreement that we will need a further bail-out, and that our debt is unsustainable if we continue on the present trajectory.

But the Government is sticking to the "deal" narrative and seems unlikely to take any radical initiative. For the majority of us, however, with nothing to lose, we should beware of smoke being blown in our faces by the FG-Labour coalition and demand that we don't pay the €3.1 billion on 31 March.

Euro zone refuses to shift burden of bank bail-outs off government books

The euro zone is seeking to implement a burden-sharing proposal between the European Stability Mechanism (the euro-zone bail-out fund) and national governments for any future bank bail-outs. The proposal suggests that if a country wishes to receive ESM aid to help bail out a struggling bank, the government will also need to contribute to the bail-out or guarantee the ESM against losses.

The proposals further dampen the hope that euro-zone members will be able to shift the burden of bank bail-outs off their books and onto the ESM.

Financial transaction tax goes ahead without Ireland

A member of the European Commission, Algirdas Šemeta, has described the European Council's decision to introduce a financial transaction tax as a "major milestone." The decision authorises eleven member-states to push ahead with implementing a tax through "enhanced co-operation," and it now falls to the Commission to make a proposal defining the substance of the agreement.

A meeting of the council of EU finance ministers formally gave consent for the group, only the third time the EU's voting procedure has been used to allow a group of countries to press ahead with a special project. (The others were on divorce law and the recently established European patent court.) A minimum of nine countries is needed to request the so-called enhanced co-operation procedure. The eleven countries signed up to the scheme are Austria, Belgium, Estonia, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia, and Spain.

An event hosted by Paul Murphy MEP

Details at: http://countersummit.eu

EU-ECB-IMF demand the sale of Coillte

Thousands of workers in Coillte, rural communities, walkers, sports and leisure societies, youth groups, environmentalists, workers in the forestry products industry and tourism owe a debt of gratitude to the Coillte Branch of the trade union Impact for a beautifully produced and informative publication spelling out the social, economic and environmental case against selling Coillte's assets.

The Government plans to sell the rights to fell and sell trees in state-owned forests as part of the so-called state asset commercialisation programme demanded by the troika. This move would end a century of public forestry and make Ireland the first country in Europe to give up its public forest estate.

The potential consequences are entirely disproportionate to the relatively small sum the Government could hope to raise—€400 million—from selling Coillte's long-term harvesting rights.

A state body, New ERA, has been established within the National Treasury Management Agency to act as an adviser and a shareholder executive in relation to the state's ownership of its principal assets and companies. Additional "advice" is provided by Barclays Capital, experts in asset-stripping. Barclays Capital has the lucrative contract "to advise on commercialisation possibilities" in relation to Coillte and the other state assets up for grabs.

Bertie Ahern and a company called Helvetia Wealth AG, with which he is connected, has been mentioned as a potential purchaser. The former Taoiseach is chairman of the International Forestry Fund, a joint venture between the Irish Forestry Fund and Helvetia Wealth.

There has been no consultation with the stakeholders who have links to the forests either through work or recreation. The one criticism that can be made of the union's publication is that it does not give any suggestions about how these stakeholders could be mobilised in a campaign to maintain the forests as a public asset. The British government recently abandoned plans to sell English forests following public pressure, and in Sweden, where 65 per cent of the state forestry company fell into private ownership, 100 per cent is now restored to public ownership.

Coillte is responsible for the management of some 1.2 million acres of state forest. It is also responsible for 90 per cent of the supply of logs to the country's timber industry. Coillte has made significant strides in the development of new products and created an income of more than €12½ million last year from products that didn't exist four years ago. The transfer of Coillte's assets to the private sector would seriously jeopardise the forest products industry, which employs 12,000 people and generates €2.2 billion worth of activity and €286 million in exports a year.

The "commercialisation" proposal would destroy the character and the quality of forests and, in a country with no legal rights of way over private land, would limit access to the countryside for walkers, cyclists, school groups, and the public in general. Any attempts by the Government to force private companies to allow access are likely to be costly or ineffectual, or both.

Similarly, the maintenance of almost 14,000 miles of forest roads would be put in jeopardy, with the country facing either their rapid and permanent deterioration or significant maintenance costs. The erosion of public access to forests would be a huge social and environmental loss.

It is difficult to see how Ireland's internationally recognised forestry standards could be maintained under the proposals. It is not clear how the Government intends to deal with reforestation, species mix, environmental design, forestry inventories and other regulatory and environmental issues. It would be difficult or costly, or both, to regulate concession-holders.

The country would risks losing its certification by the internationally recognised Forest Stewardship Council, with resulting adverse effects for consumers, tourism, other industries, and the environment. Once lost, it would not be possible to rebuild the reservoir of forestry expertise on which the future viability of Irish forestry depends.

■ www.impact.ie/files/servicesandenterprises/coillte/SaveOurForests.pdf

So what if we increased our low corporation tax rate?

Ireland's rate of corporation tax has remained off the agenda during the preparations for Ireland's assumption of the presidency of the European Council; but the EU commissioner for taxation and customs union, Algirdas Šemeta, has told the Oireachtas Committee on Finance that "the day of isolated tax policy" in the EU is over.

While he did not refer to corporation tax during his address, Šemeta called on Ireland to help push forward the "common consolidated corporate tax base" during its presidency. "I would reiterate that the CCCTB has nothing to do with tax rates, and Ireland has nothing to fear in this regard. Member-states must remain free to set rates," he said, "and this flexibility allows a healthy degree of tax competition to be maintained." But he added that the issue of tax could not be avoided in the debate about deepening European integration.

The Government has previously voiced concerns that the CCCTB would make it less attractive for firms to take advantage of Ireland's low rate of corporation tax, at 12½ per cent, and has made the rate a make-or-break issue during a number of negotiations. Richard Bruton repeated last week that the rate is a "red-line issue" and that the Government would resist any pressure to increase it.

Although the Commission's proposal would be voluntary for five years, and does not specify what rate should be levied, Enda Kenny has described the proposal as tax harmonisation "by the back door."

Under the proposal, companies would be allowed to submit one centralised tax return for all EU countries in which they operate. Their taxable profits would then be split between the member-states they operate in according to the size of their profits in each country, which would retain the right to set their own rate of tax.

But it was not until the 1970s that the Industrial Development Authority began to overtly market low tax to attract foreign direct investment, with such provisions as a fifteen-year tax holiday for exporting firms, full depreciation, and total tax relief on earnings from royalties and incomes from licences patented in Ireland. These reliefs did little for the drastic level of unemployment during the 1970s and 80s.

Once Ireland joined the EEC, however, such tax incentives were judged to be interfering with competition and had to be changed. The result was a 10 per cent tax for manufacturing, although a 32 per cent corporation tax remained for other sectors.

It should be noted that many of the mainstays of foreign direct investment, for whom we are told the 12½ per cent is sacrosanct, set up business here during that period. Microsoft, Pfizer, Dell and Intel come to mind.

In the 1998 budget, however, Charlie McCreevy announced that he would bring forward legislation for a phased introduction of a new regime of corporation tax. On 1 January 2003 the 12½ per cent rate came into existence.

But the importance of this low rate is frequently overstated and in the main benefits the brass-plate companies in the International Financial Services Centre, which essentially launder profits and provide little employment. The IFSC is hardly a source of growth in employment: 39 of the 46 treasury management firms surveyed (out of the four hundred or so at the IFSC in 2008) reported no fixed assets and had a median employment of nil. Yet they were highly profitable and had median financial assets of €643 million.

In 2008 investment in the IFSC was more than thirteen times the size of total foreign direct investment and approximately eleven times of GNP. Much of this investment can be attributed to the "double Irish arrangement," which is a tax-avoidance strategy that American transnational corporations use to lower their liability for corporation tax. The idea is to use payments between related entities in a corporate structure to shift income from a higher-tax country to a lower-tax country. It relies on the fact that Irish tax law does not include American transfer-pricing rules.

As an example, Google Ireland's accounts for 2011 show that the company had a total income of almost €12½ billion and turned a profit of €9.075 billion—thanks largely to the collection of advertising income from Europe, the Middle East, and Africa. However, it paid only a little over €8 million to the Revenue Commissioners in corporation tax, because its pre-tax profit was only €24.4 million—thanks to the nearly €9 billion in royalties the company paid to the Bermuda operation that holds its intellectual property rights.

An Irish-registered company called Google Ireland Holdings Ltd holds the intellectual property rights for Google's advertising systems and other products. Although that company is officially registered here, it is managed in Bermuda—meaning that it pays tax on its income there and not in this jurisdiction. Simultaneously, Google Ireland Ltd pays Google Ireland Holdings Ltd billions for the use of its products—meaning that those expenses are deducted from its own total income, and lessening its eventual Irish tax bill.

Another aspect of the corporation tax rate that gets very little attention is the boost it gave to Irish banks and certain domestic firms to which it applied (the vast majority of Irish firms do not earn enough to be liable for corporation tax). This changed their liability for corporation tax overnight from 32 per cent to 12½ per cent. The resulting profits, however, were not invested back into businesses but into property speculation.

The total take from corporation tax has fallen significantly, from €6.6 billion in 2006 to €3.9 billion in 2010 and €3.5 billion in 2011; so the benefit to the exchequer has been almost halved during those five years while the IFSC operation trundles merrily along.

But what if we were to increase corporation tax by only a couple of percentage points? Simple arithmetic suggests that the €3½ billion was paid on declared profits of €28 billion, while the CSO suggests that the gross operating profit of private companies in Ireland was €55 billion. So the effective tax rate is a miserable 6½ per cent. If that effective rate were increased by removing subsidies from the private sector—after all, the EU forbids any government subsidy "which confers a benefit to the recipient"—it would provide a yield of somewhere between €3½ and €6½ billion.

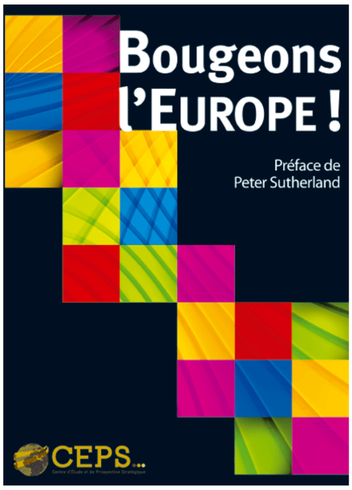
But what if the corporation tax rate were to be increased to a still low 15 per cent—leaving us equal to Lithuania and Portugal and still below the levels of Poland and Romania? The tax would then yield approximately €8½ billion and would produce an extra €4½ to 5 billion in tax for the exchequer.

Of course this would benefit ordinary people only if it was not used to pay the promissory note; but wouldn't it go a long way towards providing a decent health service! The question must be, Why don't we do it?

It seems the Government is wedded to the idea of providing a floating money-laundry anchored in the Atlantic and has decided to put the welfare of shareholders in transnational companies before those it was elected to represent.

■ There is an interesting article, entitled "A 21st-century blueprint for taxing multinational companies," at: http://blogs.euobserver.com/shaxson/?p=105

The federal way forward!



The president of the European Commission should be elected, and EU states' VAT should be "centralised at the federal level," according to a report entitled Let's Get Europe Moving, launched in Dublin by the minister for education, Ruairí Quinn.

The proposals also include introducing a new European tax, and making "Europe Day" a national holiday in member-states.

In a preface to the report Peter Sutherland, a former Irish member of the EU Commission, argues that the failure of the European project, "which cannot now be totally discounted as a possibility," would leave the continent with "terrible internal tensions." To remedy the EU's "democratic deficit," the think tank that produced this report says the president of the European Commission should be elected by members of the European Parliament.

On EU elections, the report suggests addressing low turn-out by introducing mandatory voting, and the parliament itself should become a "fully fledged player" with the right to initiate laws (at present the preserve of the Commission) and implement a "European tax" to finance the union's activities.

The report stops short of calling for a common rate of corporation tax—an idea cherished by France but resisted by Ireland—but suggests that VAT should be "centralised at the federal level," in order to put an end to fraud and inefficiency!

It refers to the proposal as "a political taboo if ever there was one" but denies that it would not amount to money transfers from rich to poor states, nor herald the creation of a federal state. It also advocates the creation of a "federal treasury," however. It says a currency can work only if it is linked to a single treasury and a central bank, which "must assist the [treasury] by purchasing part of the debt" it issues.

On the EU's relations with the rest of the world the report calls for a strengthening of the bloc's common diplomatic identity and a speeding up of moves to create multi-state "European embassies" around the world.

ECB unveils new €5 note

The European Central Bank has launched a new €5 note. The note features a watermark and a hologram of Europa, a Phoenician princess who, according to myth, lent her name to Europe. The portrait was taken from a 2,400-year-old wine jug in the Louvre museum in Paris.

The president of the European Central Bank, Mario Draghi, signed a model of the bill at the unveiling ceremony in the archaeological museum in Frankfurt. "Over the years," he said, "euro banknotes have become the most visible symbol of European integration."

The first Europa notes will arrive in banks and shops in May.