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Behind Europe's War on Low Taxes

Brussels's probe into Ireland's favorable treatment of Apple is raw envy and political opportunity converted to pseudo-economic doctrine.

By Declan Ganley

Dublin this week caved to years of pressure from Brussels and Washington, announcing a tax-code reform that will raise taxes on many of the multinationals that do business in Ireland. Thus the country once again finds itself playing the patsy to great powers, but it should expect little thanks in return for a move that can only hurt the Irish economy.

The government's tax hike comes five years after the Irish people finally ratified the European Union's Treaty of Lisbon. Ireland had initially rejected the treaty in a democratic vote, but after European leaders grandly unveiled a set of "guarantees" on issues as diverse as neutrality, taxation and abortion, Irish voters felt reassured that, in these areas at least, their independence would be guaranteed. On Oct. 2, 2009, the Irish electorate took Brussels at its word, with the promise that the EU would, in turn, swiftly ratify the guarantees.

Those guarantees remain unratified. It constitutes a breach of faith between the citizenry and those who govern them that calls into question the sincerity of European leaders in their dealings with the 500 million citizens they rule over, and from whom they have so diligently and completely isolated themselves over the past several decades.

The issue of the unratified and conveniently forgotten guarantees matters even more in light of the renewed focus in Brussels on Ireland's tax arrangements. Last month, the commission announced an investigation into allegations that Apple and possibly others received favorable tax treatment that amounts to "state aid" under European law.

Setting aside the merits of this case for a moment, note that the EU has in the past six years poured hundreds of billions of euros into a bailout of the European banking system. For Brussels, then, talking about state aid is rank hypocrisy. There are a great many European financial institutions that would no longer exist today were it not for state aid worth many times what Ireland allegedly offered to Apple. Indeed, this case is not even about Ireland's current tax laws but about historic arrangements dating back to 1991. Ireland's current tax laws aren't the subject of this investigation—but they are indisputably the target. And with this week's tax-reform announcement by Finance Minister Michael Noonan, the investigation is already having an effect.

The European Commission has desired the harmonization of corporate taxation across the European member states for many years. But this desire has only ever taken the form of outrage about countries on the periphery of the EU that dare use tax rates to attract inward investment. Across the EU, and indeed in Washington, political criticism of low corporate-taxation rates has rarely taken the form of coherent objection on economic principles. Mostly, it has been from politicians seeking to blame foreigners for capital flight from their own countries. It is raw envy, exploited for political opportunity, converted to pseudo-economic doctrine.

It is also dreadful policy. The harmonization of European economic policy, and fiscal policies in particular, places a monopoly on perceived wisdom in the hands of a small elite. It presupposes that the center has learned all there is to know about economic strategy and must now impose its wisdom on the periphery. It takes (in Europe) 28 laboratories of democracy and economic choice and converts them into a single monolith. In the eurozone, we have already seen that policy choices are made with the needs of large central economies in mind. It takes little imagination to suppose that the same outcome would be in effect were the dream of tax harmonization ever brought to fruition.

The reality of being a small country on the edge of Europe, with no land bridge to the Continent, is that without tax competition Ireland is not an attractive place to locate a European headquarters. It seems to have occurred to nobody in power in a major European economy that instead of effectively banning the Irish policy, it would be simpler to simply replicate it. After all, if Ireland can do it, so, surely, can the Germans. With added efficiency.

It is an unusual and troubling development that the response to the most spectacularly successful corporate-tax regime in Europe has been to seek its demise. Indeed, what Europe needs more than anything is increased competition and economic vibrancy. The high-tax model that has dominated European political and economic thought since World War II is sailing into choppy waters. With a pensions crisis looming, an economy that gastropods would call sluggish and few, if any, obvious solutions, the answer is not to harmonize further. It is to encourage innovation.

The EU may have a case about Apple and Ireland as it relates to transparency, and certainly, any special deals and state aid in that case should be as widely reviled and denounced as any of the bank bailouts of recent years. To pretend, however, that this investigation is about a single case is as naive as to believe that the EU ever intended to ratify its guarantees to Ireland in 2009. The probe into Dublin's deal with Apple is about the desire of European politicians to break faith with competition in the name of envy and greed. Ireland's capitulation to that pressure this week is one more milestone on the road to permanent European stagnation.

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