

**IRISH TAXATION INSTITUTE ANNUAL DINNER  
(BURLINGTON HOTEL, DUBLIN 4)  
FRIDAY 27<sup>TH</sup> FEBRUARY 2009**

**Embargo til 8.30pm, 27<sup>th</sup> February, 2009**

Good evening Ladies and Gentlemen:

Thank you for inviting me this evening. We are here to enjoy ourselves - and despite the times that are in it I hope we can still do that.

Can I say firstly how pleased I am to see Richie Ryan - one of my predecessors as Minister for Finance - here tonight. Today is Richie's 80<sup>th</sup> birthday: I must say I find it encouraging that a man who held the Finance portfolio during the very stressful times of the mid-1970s continues to enjoy a healthy and active life more than 30 years on. I am sure that in these even more troubled times, my friend Brian Lenihan will take some comfort from that.

I remember Richie as a very innovative Minister for Finance, from which I benefited in more than one respect. I was a tax advisor at the time to many of the big Fine Gael farmers down in Kildare and they paid me to help me minimize their liabilities on one or two of the capital taxes that Richie introduced. And a few of them told me that when they went into the polling station at my first election in 1977, having prayed forgiveness to their forefathers, with their left hand they covered up the words "Fianna Fail" that lay next to my name, and with their right hand they gave me their number 1. So I was both a financial and a political beneficiary of Richie's innovations .

Since we last met 18 months ago the world has changed.

The challenges we face now are more formidable than anything we have seen in more than half a century.

Over the past 15 years Ireland has been a major success story. A small open economy, we depended for our standard of living on significant inward investment flows. And we got them. We depended on the skills of our people. And we got them. We depended on their research capabilities, their creativity, their service quality, and on their ability to market and sell in international markets. And we got all of that too.

In a globalized market – and lets hope that through this crisis we can keep the world's markets global – capital for high value added projects flows to where it gets the best return: To where productivity is high, infrastructure is efficient, the cost base is competitive, people skills are deep and diverse, and to where taxes are low. That's why for so long so much high value added investment and so many talented people came here - or returned back home after emigrating in the 70s and 80s.

Staying focused on this reality is imperative.

Because when times get tough, as now, the pressures come on: Muddled thinking, short term expediency, sticking plaster, quick fixes - can easily take hold. Without strong nerves and broad backs these pressures can become irresistible. There is no democracy in which that doesn't hold true.

We can take one of two paths in the period immediately ahead: The first path is the path that prioritizes the maintenance of international confidence in Ireland. That will require a detailed and credible plan for reducing our indebtedness by laying out how over a three to four year period we intend to close the formidable gap between government income and spending. Side-by-side with that we must develop a plan to rebuild our competitiveness. That's not just about reducing costs - although being realistic about our living standards in the new economic circumstances is important. But it is much more about reducing our unit costs and we can do that by increasing our productivity and efficiency – in public and private sector alike. Its also about using the downturn to upgrade our skills, and improve our

infrastructure. Above all – because people and capital are mobile – its about keeping our taxes on capital and work competitive. These truths should be self evident. And point clearly to the path we must take so that as the global recession recedes, renewed investment will flow back, and the employment opportunities and growth that goes with it will flow back too. That in turn should take any remaining pressures off the public finances and restore them to sustainable good health.

We could, of course, choose the other path and pretend that the State can go on spending as before – regardless of the collapse in tax revenues. The pressure to do that is there. But we mustn't delude ourselves: We simply have to make a big, immediate and urgent effort to bridge the gap that has opened up between government income and spending. This has reached unprecedented proportions and it won't be filled by some fairy godmother stalking the capital markets, in pursuit of a shamrock. As I said towards the back end of last year the availability of capital to governments is not limitless. The reality is this. Never before has there

been so much competition from so many governments to attract capital to close the gap in their public finances – At the same time, never before has such capital been so scarce in the world's capital markets. So it stands to reason that governments that bring forward the best laid, the most detailed, and most credible plans for getting their budgets back to balance will be the governments that attract the capital at a sensible price - Others will pay a hefty premium if indeed the capital is available at all. Ireland – with its substantial national pension reserve fund and currently low debt to GDP ratio – is in one sense well placed. But in another sense we are hugely challenged - because of the size of the gap between revenue and expenditure that has now opened up. The transition from a decade of sustained and strong growth to managing in a world on the edge of a depression is exceptionally difficult and painful. The government had no choice but to start facing up to this issue. To have dodged or delayed the decision would have had consequences that would have made the recent and pending cutbacks seem like a walk in the park.

Unfortunately, there will be much more unpleasant medicine to come. But avoiding it would be worse – much worse! It would destroy our capacity to fund public services and to pay public servants at anything remotely close to current levels, destroy our capacity to attract inward investment, to fund innovation and re-skilling, and to raise funds at anything close to acceptable interest rates. Instead of defeating the challenges, delay would have allowed the challenges to defeat us.

None of us want a divide to open up between the public and private sector. When the tide turns back in this country's favour, I want the public sector to share in the prosperity that that tide will create. But, in particular, I want the public sector to share in the sustainable efficiencies and cost savings that they themselves generate through higher productivity, and more flexible working and recruitment practices.

Most people in this room are old enough to remember the grim times in Ireland in the 1980s. Some of us

remember the 60s and 70s too. Look at how far we have come since then. Of course, we have slipped back in the very recent past. And with the scale of the global downturn we will slip back quite a bit this year too. So the issue to focus on now is how we can recover and how quickly. Part of that answer depends on developments in international markets beyond our control. But much is within our own control.

There is nothing in the formula for renewing and strengthening our competitiveness that is not within our capacity to deliver.

But it requires us first to tailor our spending to our income. To get our debt down - and get confidence in investing in our economy back up. And side-by-side with that to do all the other things I have already mentioned – on reskilling, on taxes, on productivity, and on infrastructure.

If we do these things I am certain that when the global economy recovers, financial capital will flow back,

skills will be readily available and Ireland will return to the virtuous circle of creating high value added that feeds strong tax revenue flows, generates jobs, reduces dependency, and increases living standards for everyone - in public and private sector alike.

As to the problems in the global banking sector, when you look across Europe what is absolutely clear is that supervisory structures in every Member State – without exception- failed. The same can be said about the United States. While some of the lessons of this crisis point to the need for revisions in regulation, in most areas they point to the need for much more effective cross-border supervision. Having a comprehensive pan-European framework of regulation without an adequate framework for cross-border supervision results in the worst of all worlds – the cost and burden of expensive regulation, and then the huge price of weak supervision. The proposals we announced earlier this week to tackle these issues will, if implemented, materially strengthen Europe's cross border supervisory framework over the medium term. But they can only be brought into effect

with the support of Member States who, to date, have been remarkably reluctant to agree to cede any material powers or responsibilities to cross border supervisory bodies- despite the fact that 80 per cent of Europe's banking assets are now held in cross-border groups. So I hope that the chastening experiences of recent times have resulted in "a wake up call" for Member States to give support to proportionate and sensible proposals for strengthening the cross-border supervisory framework.

Ladies and Gentlemen, to conclude on the current economic difficulties, let us not forget that for the past decade and more we were the first generation of Irish people to have earned, by our own efforts, prosperity and growth on a scale that far exceeded anything ever achieved by our immediate neighbours. The challenge now is to secure that legacy for the next generation. And I hope that the next few years will be a time on which our grandchildren will look back at the efforts and sacrifices we made. That they will see that, at a time when the world was threatened by a financial tsunami, we faced up to reality, retained our good sense,

and joined together in a national effort to do what had to be done and to make the sacrifices that had to be made to return our economy to health. To return it to a path that will deliver the opportunities and living standards for *our* children and grandchildren that we ourselves have - for well over a decade - had the good fortune to enjoy.

Thank you very much.

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