

# **THE EURO CRISIS, EUROPEAN ECONOMIC GOVERNANCE AND THE POLITICS OF CONSTRAINED CHOICE – THE CASES OF IRELAND AND SPAIN**

By

Juliane Sophie Stein

Submitted to

Central European University

Department of Political Science

In partial fulfilment of the requirements for the degree of

Master of Arts in Political Science (2-year)

Supervisor: Professor Dorothee Bohle

Budapest, Hungary

(2014)

## ***Abstract***

The institutional arrangements of European economic governance that have been put in place in response to the euro crisis have raised serious concerns about the state of democracy in the EU and its Member States. Notwithstanding, our understanding of the emergent European economic governance system's impact on the practice of democracy in the euro area member states is so far fragmentary. Engaging in a structured, focused comparison of tax policies in Ireland and Spain in the period 2008-2013, this study investigates the role of euro-area specific constraints and political parties' agency in national fiscal policy choices and their legitimisation. The analysis is guided by a conceptual framework that is developed based on Peter Mair's concept of responsive and responsible government. As the findings suggest, the new instruments of EU economic governance have significantly reduced national governments' ability to both keep their mandate and remain responsive to the demands of citizens. At the same time, political parties retain an important role in building legitimacy for policy choices that are made in the context of constrained choice. The study concludes that political parties need to adapt to the conditions of strengthened economic and fiscal integration in order to manage the democratic challenge that national governments are facing down the road.

## ***Acknowledgements***

First of all, I would like to thank my supervisor Dorothee Bohle for her support, remarks and ideas that have considerably enriched the intensive research process I have engaged in. Moreover, I am thankful to Carsten Q. Schneider for his critical but more than helpful comments on early drafts of my thesis, which helped me to narrow down my research topic.

Furthermore, I yield thanks to Niamh Hardiman, David Farrell, Muiris MacCarthaigh, Aidan Regan and Oscar Molina. I appreciate the time they have made for me and the valuable insights they have provided me with. All of them have significantly contributed to filling the research topic with more life.

I give thanks to my classmates Alex Moise, László Horváth, and Endre Borbáth. They have not tired of raising critical questions and giving valuable advice to me, sacrificing a couple of lunch and coffee breaks.

Also, I would like to thank Dénes for his patience and for making me take time out even in moments when I thought I could not. I am grateful also for his technical support. If he had not revived the dictation machine and lent me his laptop when my one gave up the ghost, I would not have been able to finish the thesis in time.

Finally, many thanks to my parents, Tona, Tilmann, Kriszti, Sanne and many others. Ein richtiges Wort zur richtigen Zeit kann Wunder bewirken.

## **Table of Contents**

Abstract .....	i
Acknowledgements .....	ii
Table of Contents .....	iii
List of Figures and Tables .....	v
List of Abbreviations .....	vi
Introduction .....	1
Chapter 1: Democratic Government in Hard Times: Literature Review and Conceptual Framework .....	7
1.1 The impact of the emergent European economic governance regime on democratic government in the EAMS – A literature review .....	7
1.2 National governments in times of constrained choice – A conceptual framework .....	14
1.2.1 Peter Mair and the growing incompatibility of responsive and responsible government .....	14
1.2.2 Conceptualising responsiveness and responsibility in the context of the euro crisis and European economic governance: The politics of constrained choice.....	18
Chapter 2: Research Methodology .....	29
2.1 Taxation policies 2008-2013 in Spain and Ireland - Case selection.....	29
2.2 Data collection and analysis .....	33
Chapter 3: Tax Policies in Ireland and Spain.....	36

3.1	From “vampir taxes” and “every little hurts” to a fair tax system? - Taxation reforms in Ireland between 2008-2013 .....	38
3.1.1	Taxation of personal income – Widening the tax base .....	40
3.1.2	VAT – Zigzag course and unexpected leaps .....	44
3.1.3	Carbon tax, property tax, water charge – What’s next? .....	49
3.1.4	The Corporation Tax – A sacrosanct institution of the Irish tax system? . .....	50
3.2	The difficulty of consolidating fiscally without increasing taxes - Taxation reforms in Spain between 2008-2013 .....	51
3.2.1	Personal income taxation – Burdening the rich and the home buyers. ....	53
3.2.2	VAT – Widening the tax base .....	58
3.2.3	Towards “growth-friendly” taxation – The introduction of environmental and wealth taxes .....	62
3.3	The politics of constrained choice - Tax policies in Spain and Ireland by comparison .....	66
	Conclusion .....	73
	Appendix A: List of Interviewees.....	77
	Appendix B: Text Analysis: List of Primary Sources .....	78
	Appendix C: Detailed Analysis of Ireland’s Corporation Tax Policy.....	81
	Appendix D: Detailed Analysis of Irish Taxation Policies in the Domain of Property and Environmental Taxes .....	85
	References .....	95

## ***List of Figures and Tables***

- Figure 1** Peter Mair: Constraints on governments' scope to be responsive
- Figure 2** Euro-area and crisis-specific constraints on governments' scope to be responsive
- Figure 3** Responsibility and responsiveness in the context of constrained choice
- Table 1** Tax measures in Ireland 2008-2013
- Table 2** Tax measures in Spain 2008-2013
- Table 3** Responsibility and responsiveness in Ireland 2008-2013
- Table 4** Responsibility and responsiveness in Spain 2008-2013

### ***List of Abbreviations***

AGS	Annual Growth Survey
CIS	Centro de Investigaciones Sociológicas
CIT	Corporate Income Tax
CSR	Country-specific recommendation
EAMS	euro area member states
EDP	Excessive Deficit Procedure
EFSF	European Financial Stability Facility
EMU	European Economic and Monetary Union
ESM	European Stability Mechanism
EPP	European People's Party
EU	European Union
MEFP	Memorandum of Economic and Fiscal Policies
MEP	Member of the European Parliament
MIP	Macroeconomic Imbalance Procedure
MTO	medium-term budgetary objective
MoU	Ireland: Memorandum of Understanding on Specific Economic Policy Conditionality Spain: Memorandum of Understanding on Financial-Sector Policy Conditionality
PIT	Personal Income Tax
PRSI	Pay Related Social Insurance
SGP	Stability and Growth Pact
USC	Universal Social Charge
TFEU	Treaty on the Functioning of the European Union

## INTRODUCTION

What started as a subprime mortgage crisis in the United States in 2007 and rapidly turned into a global financial crisis has engulfed large parts of Europe in a severe banking and sovereign-debt crisis that has not yet been completely resolved. Most prominently, the economic woes in the region have been challenging the viability of the euro area, revealing both flaws in the institutional architecture of the European Economic and Monetary Union (EMU) and a high degree of macroeconomic interdependence of its Member States. Ever after, the institutional framework of European economic governance has been undergoing rapid change. To stabilize the eurozone, “[t]he EU and its member states have put in place, amidst some confusion and under pressure from the financial markets, a new set of regulations, procedures and institutions” (Degryse 2012, p. 6). These reforms include, among others, the launch of the Six Pack and the Two Pack, the adoption of the Euro Plus Pact and the Fiscal Compact, as well as the creation of the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM). With fiscal stability being the guiding principle, this new set of rules and institutions is geared towards the strengthening of economic and budgetary coordination, building on tighter surveillance of national budgets and economic policy as well as on reinforced sanctions.

Yet, the new European economic governance framework has been drawing fierce criticism for both possessing little democratic legitimacy and for undermining democracy in the Member States of the European Union in general and the euro area in particular. Consistent with these concerns, public opinion polls show that satisfaction with how democracy works in the EU and at the national level has



significantly dropped since the onset of the crisis in most EU countries (European Commission 2006-2013). All this suggests that the economic crisis in the EU has turned into a political crisis that concerns the legitimacy of policy-making at both the European and the national level, raising important questions about the state of European democracy.

The problems of democracy and legitimacy that have emerged in the context of the European response to the region's sovereign-debt crisis have been extensively studied in recent years. However, research has tended to focus on the European dimension of the political crisis rather than on the democratic challenges arising at the national level. The bulk of the literature has investigated thoroughly the implications of both the process of euro area crisis management and the consequent new institutional architecture of the euro regime for the democratic legitimacy of specific EU policies and the project of European integration as a whole (see e.g. Grauwe 2011a, 2011b; Schmidt 2009, 2013, forthcoming; Scharpf 2011, 2012, 2013; Hallerberg et al. 2012; Poiares Maduro, Witte & Kumm 2012; Puetter 2012; Schwarzer 2012; Liddle, Cramme & Thillaye 2012; Dawson & Witte 2013; Fabbrini 2013, Menéndez 2013).

Our understanding of the new euro regime's repercussions on the practice of democracy in the euro area member states (EAMS), by contrast, is at present unsatisfactory, which is not least attributable to the novelty of the emerging system of European economic governance. Nonetheless, despite all the uncertainty this entails, there is a consensus in the academic literature that EAMS governments, particularly but not exclusively in countries that are subject to financial assistance programmes, are increasingly constrained by the European level when it comes to fiscal and macroeconomic policy making (Scharpf 2011, 2012, 2013, Kumm 2012, Laffan 2014,

Armingeon & Baccaro 2012, Rose 2014, Solomos & Koumparoulis 2012), a condition that Brigid Laffan (2014) calls the “politics of constrained choice”. Several authors (Dawson & Witte 2013, p. 826, Laffan 2014, p. 282, Dellepiane & Hardiman 2013, p. 26, Regan 2013, p. 12) have drawn attention to the key difficulty that democratic government across Europe faces in the context of the politics of constrained choice: building political legitimacy for decisions that are only to a limited degree under its control but that are, given their distributional effects, of immediate relevance to the citizens. Unfortunately, however, we know little about how exactly certain components of the emergent economic governance regime constrain national policy making in practice and how national governments and political parties deal with the challenges of democratic legitimacy that arise from this setting.

Against this backdrop, the objective of this project is to provide both systematic and comparative empirical evidence on the political implications that the crisis-induced deepening of economic integration in the EU has for democratic government in the countries of the euro area. While previous studies in the field have tended either to give a general view of the problem, drawing on theory or anecdotal evidence, or to examine empirically a specific aspect of a single case, this work combines a theory-based take on the problem with a comparative empirical analysis of a policy field.

With this in mind, this work sets out to answer the following research questions:

- a) *How are national governments subject to financial assistance programmes constrained by the emergent European economic governance regime when it comes to adopting fiscal policy measures?*
- b) *How do these governments respond to the challenge of providing these measures with democratic legitimacy?*

In theoretical terms, I will approach the research problem starting out from Peter Mair's concept of responsive and responsible government (Mair 2009, Mair 2011a). As several recent studies have shown (Bohle 2014, Laffan 2014, Dellepiane & Hardiman 2013, Bosco & Verney 2012), this concept provides a useful theoretical framework for making sense of the dilemma that democratic government is facing these days.

To empirically investigate the impact of the emergent European economic governance framework on national fiscal policy choices as well as on political parties' role in creating legitimacy for these choices, I conduct a case study pursuing the method of structured, focused comparison as theorised by Alexander L. George and Andrew Bennett (2005, pp. 87–124). Adopting a most-similar case design, I analyse taxation policies adopted in Spain and Ireland in the period 2008-2013 based on a qualitative text analysis of a broad corpus of primary and secondary sources. The focus on taxation is motivated by the comparatively high salience of taxes for citizens as well as by the policy field's central role in budgetary policy-making, which is a policy area of constrained choice par excellence (Pisani-Ferry 2013, Laffan 2014, p. 283). In view of the fact that fiscal union is increasingly seen as necessary complement to monetary union within the EU (see e.g. European Council 2012, p. 5), we can expect that the coordination of tax policies will considerably gain in importance in the foreseeable future.

Investigating how the Spanish and Irish governments, in the wake of the euro crisis, navigate between the demands of being responsible with regards to the obligations deriving from their EMU membership on the one hand, and of being responsive to their citizens on the other hand, I argue that the emergent European economic governance framework has significantly reduced national governments' ability to be

responsive to citizens. However, contending that national politics still matter for fiscal policy choices and their legitimisation, I conclude that political parties' agency is significantly affecting national governments' performance in responsiveness and therefore also the democratic legitimacy of the policies enacted by them.

The contribution of this work is at least twofold. On the one hand, opinions in the literature differ with regards to the question of how severe European constraints on fiscal and economic policy making in euro area programme countries are and how problematic this is from the point of view of democratic legitimacy. Owing to both its theoretical foundation and empirical orientation, this study provides valuable insights regarding the profound assessment of this problem. By systematically describing the politics of constrained choice in two similar countries in a salient policy area, this study advances the understanding of a topical, hotly-debated but still understudied phenomenon. In so doing, it sheds light on the role of political parties, which is a central but so far neglected aspect of the phenomenon of the politics of constrained choice. On the other hand, the thorough investigation of the political implications of the emergent European economic governance regime on democratic government in Spain and Ireland proves very useful to identify lessons to be learned for future financial assistance programmes, which are far from inconceivable (O'Brien 2013; N. Hardiman. Personal communication, April 25, 2014). Furthermore, studying various instruments of the prevailing euro regime, the analysis presents an outlook of how strengthened economic and fiscal integration may condition national-level politics and policies down the road.

To answer the research problem, the thesis proceeds as follows. Chapter 1 reviews the literature on democratic government in the context of the recent crisis in general and under the emergent European economic governance regime in particular.

Subsequently, Peter Mair's concept of responsive and responsible government is introduced, on the basis of which I then develop a conceptual framework of responsibility and responsiveness in hard times that will guide the empirical analysis. In Chapter 2, I describe the research methods applied, explain the case selection and present how responsibility and responsiveness are operationalised. Chapter 3 is devoted to the empirical analysis of the nature of the tension between responsibility and responsiveness in Ireland and Spain. It provides case-based systematic evidence for the debate on the dilemma of democratic government in times of constrained choice, explaining how the growing tension between the demands of responsibility ensuing from EMU membership and the demands of responsiveness towards citizens plays out in the cases of tax policy in Spain and Ireland. Finally, in the conclusion, I survey the findings of the analysis and point to their broader implications for democratic government in the euro area. Also, I make suggestions for further research.

## **CHAPTER 1: DEMOCRATIC GOVERNMENT IN HARD TIMES: LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK**

In recent years, there has been growing interest in the political implications of the European response to the European sovereign-debt crisis, especially with regards to the issues related to legitimacy and democracy. Although the majority of contributions focus on the European dimension of this problem, several authors discuss the impact of the emergent European economic governance regime on democratic actors in the EAMS. While it is beyond debate that national parliaments across-the-board, even if with varying intensity, have a hard time maintaining control of national budgets and economic policy in the context of the new rules of European economic governance in general, and the European Semester in particular (see Hefftlér & Wessels 2013, Hallerberg, Marzinotto & Wolff 2012, Wessels & Rozenberg 2013, Laffan 2014, Fasone & Griglio 2013, p. 267), the implications for national governments are less straightforward. Section 1.1 provides a literature review on this issue. To make sense of the dilemma that democratic government is facing in the context of an altered euro regime, in theoretical terms I draw on Peter Mair's concept of responsive and responsible government. Presenting this framework, section 1.2 introduces the theoretical background of this study. Based on Mair and further literature, in section 1.3 I develop a conceptual framework of responsiveness and responsibility in hard times which guides the empirical analysis in Chapter 3 and which allows for addressing the literature gap outlined above.

### ***1.1 The impact of the emergent European economic governance regime on democratic government in the EAMS – A literature review***

Economic integration has always been at the core of the project of European integration and has traditionally been considered to be an effective tool to

democratize the European countries. Since the outset of the crisis, however, the growing coordination of economic policies has been increasingly regarded as undermining democracy in the Member States of the European Union. The basis of this concern is the observation that national governments in the EAMS gradually lose control over the making of fiscal and economic policies.

Admittedly, the scope of policy discretion left to national governments in an ever closer union and its related legitimacy problems have been discussed intensively since the very beginning of European integration.<sup>1</sup> However, this time it seems to be different. While European governance has traditionally kept the hands off core functions of national sovereignty, the institutional arrangements for economic and fiscal coordination that have been established in response to the crisis significantly increase the scope for European intervention in policy areas that are at the heart of democratic sovereign government, namely budgetary and macroeconomic policies (Kumm 2012, p. 34, Laffan 2014, p. 274). Budgetary decisions, for example, are now subject to the all-year policy coordination of the European Semester and to tight surveillance of compliance with the debt and deficit rules through the reinforced Stability and Growth Pact (SGP). Furthermore, the intergovernmental Fiscal Compact requires its member states to enshrine country-specific medium-term budgetary objectives (MTO) in national binding law, preferably of constitutional nature. “Yet institutionally this shift of power is not accompanied by a strengthening of a genuinely democratic political process”, as Kumm criticises (2012, p. 34). Consequently, the framework “allows distributive norms to be decided in a forum that is incapable of offering a space of open contestation and communication” (Dawson & Witte 2013,

---

<sup>1</sup> This is especially true since the end of the so-called “permissive consensus” in the late 1980s and early 1990s.

p. 826), giving rise to doubts about the democratic legitimacy of fiscal and economic policies.

At the same time, the shift in power poses a serious challenge to the legitimacy of party government. Given that “[p]ublic budgets represent the key instrument whereby governments exercise their redistributive and stabilisation functions in the economy” (Laffan 2014, p. 282), the massive transfer of fiscal and economic sovereignty to the European level adversely affects “the ability of governments to respond to their electorates”, as Laffan (2014, p. 282) points out. As a consequence, national governments are increasingly confronted with the intricate challenge of building political legitimacy for decisions that they control only to a limited degree but that are, given their distributional effects, of immediate relevance to the citizens, as several authors explain (e.g. Dawson & Witte 2013, p. 826; Laffan 2014, p. 282; Dellepiane & Hardiman 2013, p. 26; Regan 2013, p. 12). This is all the more true for EAMS countries that are subject to any of the European financial assistance programmes, which make the granting of loans conditional on the implementation of fiscal consolidation, financial sector reform or structural reform.

While there is consensus in the literature that EAMS governments’ discretion over budgetary and macroeconomic policies is increasingly constrained by prescriptions from the European level, opinions differ on the question of what impact the euro regime has on democratic government in the EAMS. In this context, there are two interrelated but distinctive crucial aspects to be considered. First, the question arises of how severely national self-determination is actually hampered and what this means for the democratic legitimacy of the national political system. Laffan (2014) puts it straight when asking whether the emerging system of economic governance implies “that choice is so heavily constrained that it is drained of all meaning or



[whether there] are [...] still significant political choices to be made even within the constraints” (282). Second, it remains unclear in what ways party politics and public support for the national political system are conditioned in a setting of constrained policy discretion over salient issues. In the literature, three main views with regards to the assessment of these problems can be identified.

According to the first narrative, the scope of the constraints from the emergent EU economic governance regime is huge and the consequent political implications are highly problematic. Scharpf, for example, argues that already pre-crisis EMU had “removed crucial instruments of macroeconomic management from the control of democratically accountable governments” (2011, p. 185) but asserts that “the euro crisis and the policies defending the euro have created an institutional constellation in which the control of democratic member states over their economic fate has been largely destroyed” (2012, p. 29). Correspondingly, he sees the euro area on a trajectory towards a situation where “elections and changes of government cannot make a difference” (Scharpf 2011, p. 166) and concludes that we can observe “political resignation, alienation and cynicism, combined with growing hostility against ‘Frankfurt’ and ‘Brussels’” (p. 195). Similarly, Aidan Regan (2013) suggests that “[a]t national level, political parties change but policy remains the same” (p. 14). This setting is captured by Vivien Schmidt’s concept of “politics without policy” (2006), where citizens are left with holding their national politicians accountable for EU policies they may disapprove of (Schmidt forthcoming). Focussing on the situation in Greece, Ireland, Italy, Spain, and Portugal, often referred to as the “European periphery” or “PIIGS”, Armingeon and Baccaro (2012) put forward that national responses to the euro crisis “have been enforced on them either directly, through conditionality linked to bailout packages, or indirectly, through very high interest rates

on sovereign debt" (p. 163). In respect of policy selection, they argue, domestic politics proved meaningless: "[t]he only type of choice left to governments was in the modalities used to mobilize popular consensus for, or at least blunt hostility against, austerity policies: a grand coalition in Portugal and later in Greece and Italy; a mix of unilateralism and concessionary corporatism in Ireland and Spain" (Armingeon & Baccaro 2012, p. 182). Addressing the issue of national tax sovereignty, Suzanne Kingston (2013) illustrates the claim that policy discretion retained by governments in the European periphery has been *de facto* removed: "as current troika programme countries are all too aware, major decisions on how and what to tax can be, and are, effectively taken out of national governments' hands" (p. 12).

As opposed to this, some authors place special emphasis on the additional discretion that national governments have gained since the onset of the crisis at the expense of the parliamentary opposition as well as the parliament as an institution. For them, it is, first of all, the strong role that the executive plays in crisis-driven economic policy making that poses a threat to democracy (see e.g. Enderlein 2013, White 2014, Dawson & Witte 2013). White (2014), for example, argues that the decreasing voice of marginalised interests and representative institutions is paralleled by a "greater power for national executives, with responsibilities for the initiation of, and compliance with, policy proposals shifting during the crisis towards the European Council" (pp. 817-818). Yet, it seems that in this game "[t]hose countries with the most economic resources are in a significantly stronger bargaining position to get other member states to comply with their interest" (Regan 2013, p. 9), which means that the potential gains of the executive are unequally spread among the EAMS governments. According to Enderlein (2013), by contrast, the executive's position is strengthened by the prevalence of "ad-hoc technocratization", which he conceives,

however, rather as a crisis-specific than a euro-area or EU specific variant of executive decision-making (pp. 732-734).

Advocating an intermediate position between these two poles, some authors (Laffan 2014, Dellepiane & Hardiman 2012) acknowledge that national governments are indeed constrained by the European level when it comes to making choices about the overall direction of economic and budgetary policies but stress that governments still face important choices. These include, for example, the balance between spending cuts and tax increases, the policies and sectors to be mostly affected as well as the distributive effects of economic and fiscal adjustment. Referring to this phenomenon as “politics of constrained choice”, Laffan (2014) insists that “there is still a lot to play for in domestic politics and room for differentiation across parties” (p. 283). What is more, she argues that approaches that ignore the remaining policy discretion of national governments do not do justice to the complexity of the problem:

Accepting a doomsday scenario robs politicians of agency and weakens their responsibility to engage with their electorates on the challenges and complexities of multilevel politics and contemporary interdependence. (Laffan 2014, p. 283)

Different from Laffan, who focuses on the implications of the emergent euro regime, Dellepiane and Hardiman (2012) are mainly concerned with the impact of economic pressures emanating from the increasing integration of capital markets on domestic politics of fiscal policy choice. Having examined the fiscal responses to the economic crisis in Ireland and Spain, they come to the conclusion that “the profile of economic policy choice is always mediated by political consideration [and] partisanship makes a difference” (Dellepiane & Hardiman 2012, p. 31), even if it is significantly constrained by market pressures and the obligations deriving from EMU membership.

Given the novelty of the emergent euro regime and the complexity of the crisis context in which the institutional changes are taking place, so far, assessments of the

state of democratic government in the EAMS in general and the programme countries in particular have primarily relied on anecdotal evidence. Systematic comparative empirical evidence, by contrast, is still scarce, which makes it difficult to get to the bottom of the diverging opinions. At first glance, however, the position taken by Laffan (2014) and Dellepiane and Hardiman (2012) appears to be most balanced and plausible. Laffan's approach appears particularly appealing for taking seriously key political actors from both the European and the national level. Accounts stressing executive supremacy over other democratic political actors point quite rightly to the inter-institutional conflicts that may arise at the national level. Yet, they neglect that national governments do not only gain but may also lose leverage in the context of multi-level governance. The bleak assessments, by contrast, correctly emphasize the problems that national governments face in a multi-level governance setting but assume structural determinism in a way that does not leave any room for the agency of political actors in the realm of national government. Overcoming the deficiencies of these rather one-sided strategies, Laffan (2014) concludes that governing parties will have to face the challenge to arbitrate "between domestic electoral politics and stronger external commitments that place limits on their freedom to respond to their electorates" (p. 285).

To empirically test Laffan's argument in particular, and to systematically analyse the challenges of democratic legitimacy that national government face in the context of the emergent European economic governance system in general, Peter Mair's (2009, 2011a) concept of responsible and responsive government provides a useful theoretical starting point. Therefore, it will be introduced and specified in the remainder of this chapter.

## **1.2 National governments in times of constrained choice – A conceptual framework**

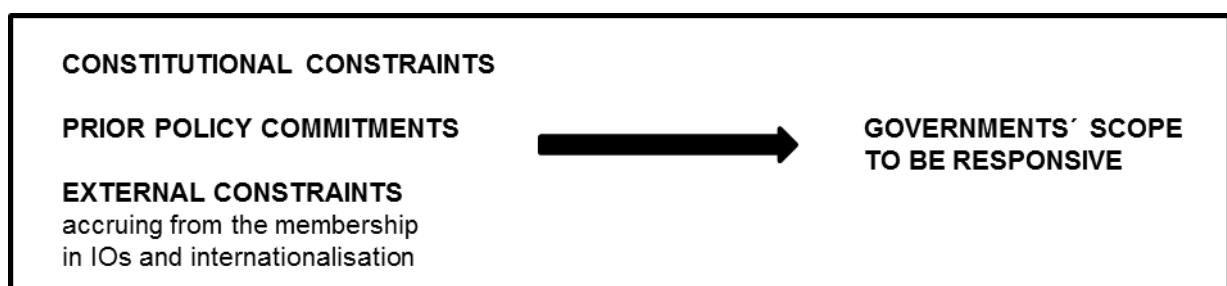
This section lays out the theoretical and conceptual foundations for the empirical analysis of the research problem. In section 1.2.2, I develop a conceptual framework to guide the generation of systematic and comparative empirical evidence on the state of democratic government in the EAMS countries that are subject to financial assistance programmes. Prior to this, I introduce Peter Mair’s concept of responsive and responsible government, on which this framework is primarily based.

### **1.2.1 Peter Mair and the growing incompatibility of responsive and responsible government**

The idea that political leaders should be responsive to the wants of the people and, at the same time, responsible for what they do in government, which includes the making of unpopular decisions, plays a central role in classic democratic theory (Rose 2014, pp. 253–254, Morlino & Quaranta 2014, p. 331). In his recent articles “Representative versus responsible government” (2009) and “Bini Smaghi vs. the Parties” (2011a), Peter Mair seizes this idea, linking it to party politics and party system change, the key concern of his academic work (Bartolini & Daalder forthcoming), and the context of the Irish crisis, respectively. In the following, I will briefly present and comment on Mair’s main argument put forward in these articles.

Mair argues that political parties have increasing difficulties in reconciling their two main functions of governing and representing the citizenry, which is, as he argues, “one of the principal sources of the democratic malaise that confronts many Western democracies today” (2009, p. 5). The reasons for this, his argument runs, are twofold.

First, the traditional “gap between responsiveness and responsibility - or between what citizens might like governments to do and what governments are obliged to do” (p. 17) is growing. Whereas responsiveness means that “political governments listen to and then respond to the demands of citizens and groups” (Mair 2009, p. 11), responsibility implies that “leaders and governments are expected to act prudently and consistently and to follow accepted procedural norms and practices” (p. 12). More specifically, responsible governments are limited by their traditional constitutional constraints, by prior policy commitments, and by external constraints that accrue primarily from the membership in international organisations such as the EU (Mair 2011a, p. 13). The increasing incompatibility of responsive and responsible government originates, on the one hand, from the fact that public opinion has become more fragmented and volatile, which makes it more difficult for governments to read what their citizens want, as Mair explains. On the other hand, governments face a growing number of external constraints and legacies inherited from previous governments, which reduces governments’ scope to be responsive to the citizens. For Mair (2009), external constraints accrue primarily from countries’ membership in international organisations and the associated Europeanisation and internationalisation of the domestic realm (p. 14). Figure 1 summarizes the constraints of responsible governments that affect their scope to be responsive.



*Figure 1 Peter Mair: Constraints on governments’ scope to be responsive*

The second reason for political parties falling short of reconciling their governing function with that of representing is, as Mair (2009, 2011a) argues, the declining capacity of parties to bridge or manage the gap between the demands of responsibility and responsiveness. The argument of parties' declining representing capacity, which he attributes to "changes in their organizations and in their relationship with civil society" (Mair 2009, p. 5), captures what he has referred to elsewhere as failure by parties "in their capacity to engage ordinary citizens" (Mair 2005, p. 7).

However, while several authors have raised justified objections to this latter argument, contending that parties have changed but not necessarily grown weaker (see e.g. Dalton et al. 2011, pp. 12–14; Farrell 2014, pp. 441–443, Kitschelt 2000), Mair's thesis of the growing tension between responsiveness and responsibility has been taken up by a number of social scientists addressing issues of democratic legitimacy (see e.g. Bosco & Verney 2012, Dellepiane & Hardiman 2013, Regan 2013, Schmidt forthcoming, and the numerous contributions in *West European Politics* 37 (2)). Some of its popularity is surely attributable to the fact that the dichotomy of responsive and responsible government captures a classic problem of democratic theory in a catchy, straightforward, but at the same time, flexible way. As mentioned above, responsiveness and responsibility are widely seen as the key characteristics of democratic government. Similar to the distinction between *input* and *output legitimacy* (Scharpf 1970, 1997, 1999), responsiveness and responsibility can be understood as two distinctive dimensions of democratic legitimacy.<sup>2</sup> What seems

---

<sup>2</sup> Although Mair's (2009, 2011a) main arguments revolve around the tension between responsiveness and responsibility, it needs to be acknowledged that he distinguishes also a third dimension of democratic legitimacy, namely *accountability*. Accountability, "whereby political leaders or governments are held to account by parliaments and voters" (Mair 2009, p. 12) can partly compensate for a lack of responsiveness, as Mair argues.

most appealing about Mair's distinction, however, is that it presents an approach to democratic legitimacy that keeps with the times. Ascribing importance to the "increasing number of principals, many of whom are not located within the domestic realm and most of whom are difficult to control" (Mair 2009, p. 14), which governments are accountable to, Mair's framework succeeds in accommodating the contemporary challenges and complexities of multilevel governance as well as of political, economic and financial interdependence.

The potential contradiction between governments being responsive to the demands of their voters, public opinion and interest groups and being, at the same time, responsible towards internal and international systemic constraints is anything but new. Yet, several researchers, including Mair himself, point out that the tension between these ideals has been exacerbated by the recent economic crisis (see e.g. Bardi, Bartolini & Trechsel 2014, p. 244, Morlino & Quaranta 2014, p. 331, Laffan 2014, p. 271, Bosco & Verney 2012, Mair 2011a). Basically, an increase in this tension "may be due either to the growing weight of external constraints on party action or to the declining capacity of parties to read, control, and shape public opinion moods and demands" as Bardi et al. (2014, p. 245) note. In the case of the crisis, however, the growing incompatibility between the demands of responsiveness and responsibility is due to the increased salience of external constraints, as Mair finds. Taking the example of the Irish government's decision in September 2008 to guarantee the liabilities of the troubled Irish banks, he illustrates that "the range of principals who oblige governments to behave in a particular way, and who define the terms of reference of responsibility, has expanded enormously" (Mair 2011a, p. 12). More precisely, financial limits and external constraints emanating from external lenders, bondholders, and supranational authorities become much more powerful in



the context of economic crisis and fiscal austerity, making it harder for political parties to be responsive to the electorate in policy terms (Mair 2011a, pp. 12 and 15). This argument leads us to three hypotheses: first, *the weight of demands for responsibility has grown in the context of the crisis*, second, *the increased demand for responsibility has reduced party government's ability to respond to the citizens*, and third, as a consequence of this development, *responsiveness has decreased in the wake of the crisis*. To understand what role constraints emanating from the European economic governance system play in this development and to investigate how this development has played out in the case of Ireland and Spain, the following section introduces a conceptual framework of responsiveness and responsibility in the context of constrained choice.

### **1.2.2 Conceptualising responsiveness and responsibility in the context of the euro crisis and European economic governance: The politics of constrained choice**

One important reason why national governments in the EAMS are increasingly being torn between the demands of responsiveness to citizens and responsibility towards partners is the rule-based system of economic governance that is evolving within the euro area in response to the crisis, as Brigid Laffan (2014) argues. However, different from authors who largely confine their argument to the role of external constraints in fiscal and economic policy making (e.g. Scharpf 2011, Armingeon & Baccaro 2012, Kumm 2012), Laffan (2012) insists that, even in a context of constrained choice, party politics and politicians' agency matters in reconciling the demands of responsibility and responsiveness (p. 283). Against this backdrop, and given the objective of this project to investigate the role of both the emergent European economic governance system and political parties' agency in fiscal policy choices and their legitimisation, in the remainder of this chapter, I conceptualize

*responsiveness, responsibility and political parties' agency* in the context of constrained choice.

#### **1.2.2.1. Responsiveness – Keeping one's word and taking public preferences seriously**

In order to investigate the impact of external constraints on national governments' ability to be responsive to their citizens, first of all, a nuanced understanding of responsiveness is indispensable. The question therefore is what it exactly means that governments "listen to and then respond to the demands of citizens and groups" (Mair 2009, p. 11). I propose to conceptualize responsiveness along the lines of Andrew Roberts' concepts of *mandate responsiveness* and *policy responsiveness* (2010). The benefit of this approach is that the two notions put forward by Roberts specify the meaning of responsiveness so that it can be operationalised, with preserving the basic meaning of responsiveness as conceptualised by Mair.

Based on and corresponding to Mair's work, Bardi et al. (2014) define responsiveness as

the tendency, and indeed the normative claim, that political parties and leaders – for reasons that range anywhere from self-interest to re-election, organisational discipline, ideological commitment – sympathetically respond to the short-term demands of voters, public opinion, interest groups, and the media. (p. 237)

This conception concurs with what Roberts calls *policy responsiveness*, which "implies that governments both pay attention to issues the public cares about and do what the public wants with regards to those issues" (Roberts 2010, p. 39). According to Roberts (2010), policy responsiveness requires that "policy follows public preferences" (p. 40), that is, that policy decisions are determined by public preferences. Yet, to reveal the nature of the tension between responsibility and responsiveness in crisis-ridden Ireland and Spain, it is less important whether "public policy was adopted because of citizens wanted it or because of a myriad of other

factors” (Roberts 2010, p. 91). Instead, it seems sufficient to learn whether policy decisions *coincide* with public preferences or not. In any case, when assessing political parties’ performance in this respect one needs to keep in mind that public opinion may be unstable, incoherent, or even manipulated, which subverts the ideal of informed *rule by the people* on which the concept of policy responsiveness is based.

However, responsiveness does not only entail the concurrence of public policy and short-term public preferences. As Mair (2009) specifies, responsiveness

may also be associated with the traditional understanding of party government and party democracy, in which parties and their leaders acquire a mandate through elections and go on to implement the chosen policies while in government. (p. 11)

This aspect of responsiveness captures what Andrew Roberts (2010) calls *mandate responsiveness*, referring to a linkage between citizens and policy-makers according to which elections operate as a selection mechanism through which citizens choose policy makers which seem to best represent their preferences. Yet, elections can function as proper mechanism to select future policy directions only if three conditions are hold, as Roberts (2010) explains: First, parties present clear and distinct programmes (programmaticness); second, voters understand campaigns and chose based on them (issue voting); third, governing parties do their best to follow through on their promises made before the election (promise fulfilment) (p. 38). One might object that it is naïve to expect politicians to keep their electoral pledges. Moreover, mandate responsiveness does not give an answer to the questions of how to deal with unexpected events and may be impeded by them, as for instance in the case of economic crisis. However, David Farrell and Jane Suiter (2011) justifiably oppose: “[e]ven if parties are not able (or not willing) to keep all their promises,

manifestos thus guide post-electoral policy-making” (55).<sup>3</sup> Another advantage of the concept of mandate responsiveness is that it brings, corresponding with the purpose of this paper, the agency of political parties into focus. Considering all this, this study assumes that politicians strive to introduce policies that, even if not identically equal to their pre-election promises, principally conform to the overall political position they had expressed before.

Another possible way to conceptualise responsiveness is to link it to public confidence in political institutions, satisfaction with democracy, or satisfaction with the national economy, as Leonardo Morlino and Mario Quaranta (2014) propose. As they acknowledge, however, this approach captures perceived responsiveness rather than the level of actual responsiveness. Since this paper assumes that responsiveness is one factor determining the level of public trust and satisfaction, it appears inadequate to conflate the two concepts. Furthermore, conceptualising responsiveness in the way Morlino and Quaranta (2014) propose sheds light on whether citizens see democratic legitimacy to be at stake, which is indeed an important consideration for the assessment of democratic legitimacy but which does not tell us anything about the agency of political parties, one of the key concerns of this project.

To sum up, within this project responsiveness is conceptualised as two-dimensional. While policy responsiveness describes the tendency of political parties in government to adopt policy decisions that correspond to public preferences, mandate responsiveness implies that political parties present distinct and clear party programmes which guide their policy-making after the elections when coming into power. Furthermore, this project assumes that the level of ability to be responsive should translate into similar, even if not identical, levels of responsiveness. The next

---

<sup>3</sup> For empirical evidence in support of this statement see Dalton et al. 2011, chapter 8.

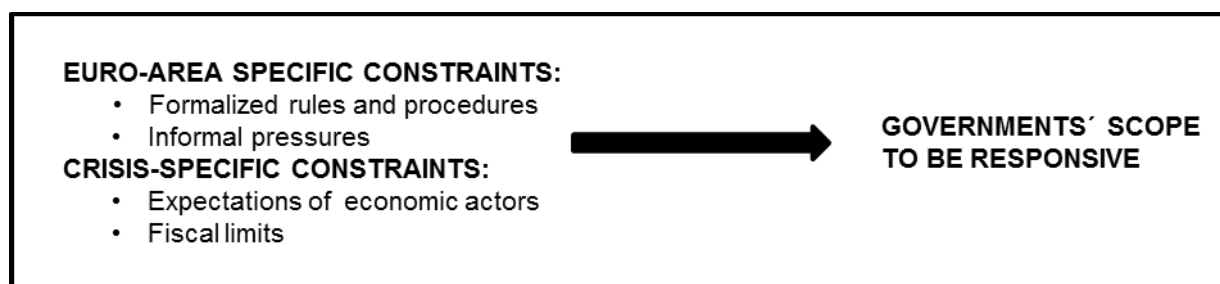
section discusses the constraints to governments' ability to respond to their citizens that have become manifest in the context of the recent crisis.

#### **1.2.2.2 Responsibility in the context of the euro crisis and the emergent system of European economic governance**

The room governments have for manoeuvre has significantly shrunk since the outset of the recent financial and fiscal crisis, with the countries that were hit hardest by the crisis being particularly affected (Schäfer & Streeck 2013, p. 1, Armingeon & Baccaro 2012, pp. 162–163, Armingeon & Guthmann 2014, p. 2). This development can be especially observed in the realm of budgetary and economic policy making as well as in policies that are strongly affected by budgetary decisions, such as social policies. However, the growing responsibility ensuing from EMU membership and the emergent European economic governance system is not the only reason for this trend. Next to euro-area specific constraints on policy discretion, there are purely crisis-specific ones. Since the former are closely interrelated with the latter, this section discusses them jointly.

To recap, according to Mair's conceptualization, responsibility implies that "leaders and governments are expected to act prudently and consistently and to follow accepted procedural norms and practices" (2009, p. 12). As mentioned above, in the context of the crisis and the emergent European economic governance system, the burden of responsibility increases. More precisely, national governments in the EAMS are with increased salience expected to play by the rules of both the international financial markets and the monetary union. Assuming relative stability of internal constitutional constraints and policy commitments, the constraints of responsibility that significantly determine governments' scope for responsiveness in the context of the emergent European economic governance system and the euro

crisis thus fall into two groups, namely euro-area specific and crisis-specific constraints, as summarised in Figure 2.



*Figure 2 Euro-area and crisis-specific constraints on governments' scope to be responsive*

As to crisis-specific constraints, national governments “are required to be ever more attentive [...] to the preferences of transnational economic actors, such as international lenders, corporate investors, and big businesses.” (Dellepiane & Hardiman 2013, p. 8) The extended role of economic actors is due to the fact that “prohibitively high interest rates on sovereign debt compel national policy makers to implement ambitious reform and austerity measures that enable them to retain (or regain) the trust of and access to private capital” (Armingeon & Guthmann 2014, p. 3). Another crisis-specific constraint that reduces governments’ ability to respond to the electorate is that of cash-strapped government coffers, which is a frequent concomitant of economic downturn as tax revenues go down while social expenditures go up. Since “mandatory expenditures will tend to consume almost the entire budget” (Schäfer & Streeck 2013, p. 2), “it is more difficult to accept modifications to the allocation of resources” (Morlino & Quaranta 2014, p. 331). Put simply, if state coffers are empty, there is little to distribute. This implies not only that policy changes, “at least if they imply redistribution of resources from old purposes to new ones” (Schäfer & Streeck 2013, p. 1), become more complicated but also that governments are urged to make tough and unpopular decisions such as spending cuts, which are typically at odds with citizens’ short-term needs and aspirations.

Furthermore, tax hikes and the introduction of new taxes are often used to compensate for the crisis-specific reduction of tax revenues. However, in conceptual terms this type of constraint represents some kind of natural limit rather than European responsibility and is directly affected by prior policy commitments.

As for euro-area specific constraints, political leaders in the EAMS are increasingly required to accommodate the expectations of policy-makers at the European level, such as the European Commission, the European Central Bank, and the political leaders of other countries as represented, for example, in the European Council or the Eurogroup, whereby “[t]hose countries with the most economic resources are in a significantly stronger bargaining position to get other member states to comply with their interest” (Regan 2013, p. 9). While the requirements of EMU membership, most prominently the Maastricht criteria, had tied national governments’ hand already in the years before the crisis, the institutional arrangements that have been established on the European level in response to the euro crisis confront national governments with a wide range of both reinforced and new constraints. Laffan (2014) argues:

the nature and depth of the external constraints agreed in the euro area since 2010 represent a step-change in the possibility of intrusion by external actors in domestic government and politics. Within the euro area, the frame of reference of responsible governance has shifted. (p. 273)

In fact, the EU’s and the EU Member States’ response to the crisis has significantly altered the nature of the EMU regime. Most prominently, we observe the priority of fiscal consolidation over alternative policy options. The maxim of austerity has been increasingly institutionalized by the rules of the Six Pack, the Two Pack, the Fiscal Compact and the Euro Plus Pact. Due to the introduction of the European Semester, prescriptions in the realm of macroeconomic and budgetary policies have significantly grown. At the same time, recommendations, as for example in the context of the Excessive Deficit Procedure (EDP), have become much more specific and detailed

(Dawson 2014). Probably most controversially, the conditions of EU/IMF financial assistance, laid down in the so-called Memoranda of Understanding, include the introduction of specific fiscal measures and structural reforms. With regards to the Spanish and Irish case, however, it needs to be acknowledged that the financial assistance programmes to which the two countries were subjected to differed with regards to the policy fields they covered. The EFSF/EFSM programme which Ireland entered in December 2010 included specific conditions on budgetary and economic policies, which were laid down both in the Memorandum of Understanding (MoU) signed with the European Commission and the European Central Bank, and in the Memorandum for Economic and Financial Policies (MEFP) signed with the IMF. By contrast, the conditions of the financial aid to Spain via the ESM, which targeted the recapitalization of the Spanish banks, were basically limited to the banking sector. Yet, reference to the compliance with the recommendations made in the context of the EDP and the European Semester were made. As Laffan (2014) outlines, all these institutions and instruments add to the “emergence of responsibility to the collective as a central norm in the system of economic governance that is evolving in the euro area” (p. 273). In addition to these European constraints which emanate from formalized rules and procedures, constraints may also accrue from European leaders or institutions exerting pressures on their European partners via informal, non-institutionalised channels, as will be seen in the analysis.

Having the interrelation of crisis-specific and euro-area specific constraints in mind, let us further specify the concept of responsibility as it will be used in the analysis, which requires identifying concrete constraints that the emergent European economic governance system imposes on democratic government in the EAMS. I propose to conceptualise responsibility by the requirements that emanate from the following



instruments of euro area governance: a) the financial assistance programmes EFSF, EFSM and ESM, b) the European Semester, including the Macroeconomic Imbalance Procedure (MIP), and c) the Excessive Deficit Procedure (EDP). These three instruments were selected as they are widely seen as those instruments of EU economic governance that mostly affect domestic economic and budgetary policy making (Dawson & Witte 2013, Dawson 2014, Laffan 2014). While the financial assistance facilities and the European Semester are genuine “children of the crisis”, the EDP has been forming part of European governance since 1997, when it was laid down in the SGP. However, the rules of the EDP were relaxed in the context of the 2005 reform of the SGP but were reinforced in the wake of the euro crisis in 2011 in a way that far exceeds their rigour as compared to the original mandate of the EDP. Another benefit of the selection is that it contains instruments that apply to the EAMS in a three-stage manner. First, the coordination within the European Semester holds for all EU member states; second, both the EDP and the MIP are employed on countries that display economic or fiscal irregularities; and third, financial assistance programmes are made available to countries that are seen to face such huge economic difficulties that endanger the integrity of the euro area. As the instruments’ criteria for application clearly indicate, the emergence of euro-area specific constraints is closely linked to that of crisis-specific constraints: the more precarious the economic situation, the greater the weight of constraints from the European economic governance system.

#### **1.2.2.3. Agency of political parties and the reconciliation of demands for responsiveness and responsibility**

The increasing responsibility emanating from the emergent euro regime significantly reduces the room for discretion of which national governments dispose of when it

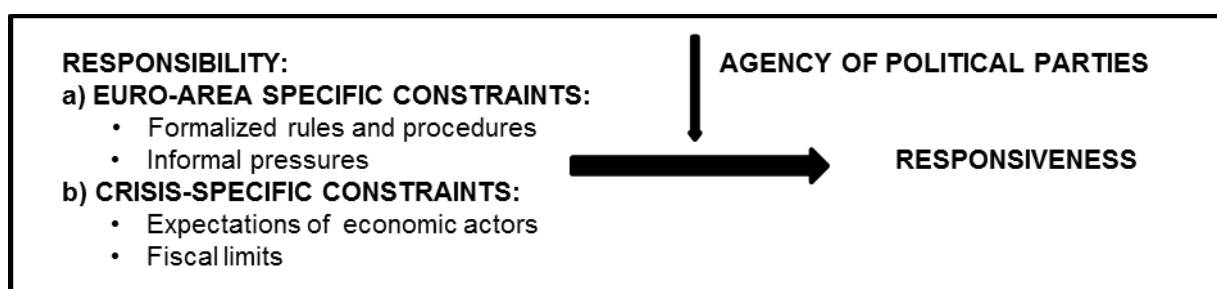
comes to economic and fiscal policy making. As outlined in the literature review, opinions differ on whether significant choices remain to be made at the national level under the condition of constrained choice. If parties in government do not retain any significant policy choices, they become *de facto* unable to respond to their citizens' wants and demands in a substantive way. In such a situation, their attempts to build legitimacy for the fiscal and economic policies they adopt are confined to the rhetorical level.

Indeed, there are "subjects which are not within government's powers to decide and where, being unable to differentiate themselves, ruling parties are condemned to suffer buffeting from hostile forces", as Jean Pisani-Ferry (2013) points out. According to him, these are, most notably, "monetary policy, the rules governing public finances, trade policy, competition, [and] financial regulation" (s.p.). National budgetary policy, and thus taxation, by contrast, falls under the area of constrained choice (Pisani-Ferry 2013, Laffan 2014, p. 283), where "[i]t is up to the politicians to make sense of these choices and offer the voters an alternative between two versions of identically rigorous policies (Pisani-Ferry 2013, s.p.). For Pisani-Ferry (2013), responsibility in budgetary policy-making manifests itself as follows:

Under the pressure of markets and with the tougher European rules, any incoming government must aim to eliminate the deficit over the next parliamentary term. This does not imply, however, that the policies to achieve this must be identical. (s.p.)

This raises the question of what budgetary policy choices remain in the hands of political parties in government, especially in programme countries, which are under the most severe restriction. Agreeing with Pisani-Ferry that "[t]here is no set formula that must be followed in a process of fiscal consolidation", Laffan points out that in the realm of constrained choice "[t]here are choices about the balance between spending cuts and tax increases and within both categories about where to cut and

where to raise taxes. (p. 283) Also, there is scope for differentiation with regards to the speed, the scale and the distributive effects of fiscal effort (p. 8), as Dellepiane and Hardiman (2012) add, highlighting that “all these choices are politically mediated” (p. 5). That is, policy choices does not happen in a political vacuum but are affected by political considerations regarding the terms of public debate, dominant ideas, economic interests, coalition building, partisanship etc. (Dellepiane & Hardiman 2012). Based on these arguments, the agency of the main political parties appears to be an important intervening variable that should be included into the analysis. Figure 3 schematically outlines the conceptual framework of responsibility, responsiveness, and political agency that has been developed within this chapter.



*Figure 3 Responsibility and responsiveness in the context of constrained choice*

Finally, the question arises of what values the variables of this framework have in the case of taxation policies in Spain and Ireland in the period 2008-2013. Before answering this question empirically, the next chapter presents the methodological strategy pursued for this purpose.

## CHAPTER 2: RESEARCH METHODOLOGY

The objective of this project is to investigate the impact of the emergent European economic governance framework on fiscal policy choices made in the realm of taxation as well as political parties' role in creating legitimacy for these choices. For this purpose, I conduct a case study pursuing the method of structured, focused comparison as theorised by Alexander L. George and Andrew Bennett (2005, pp. 87–124). Following a most-similar case design, I analyse taxation policies adopted in Spain and Ireland in the period 2008-2013. Based on a fixed set of questions, a broad body of primary and secondary sources was analysed. Specifying the research strategy applied, section 2.1 addresses issues related to the case selection while section 2.2 describes the methods used for data collection and data analysis.

### ***2.1 Taxation policies 2008-2013 in Spain and Ireland - Case selection***

Investigating taxation policies in **Spain** and **Ireland**, the project follows the strategy of comparative political analysis. The two countries were selected based on a most-similar case research design, which is deemed an adequate approach for paired comparison, the comparative analysis of two cases (see e.g. Tarrow 2010, p. 231, Gerring 2007, chapter 5). For the purpose of this study, Spain and Ireland appear to be well-matched cases for various reasons, providing a fruitful field for the systematic and comparative empirical analysis of the phenomenon of the politics of constrained choice.

First, with regards to *responsiveness* and *responsibility*, which are the variables of main concern, the two countries performed not only similarly but also well in the years before 2008. Different from most EAMS, between 2000 and 2007, Spain and

Ireland consistently featured a government budget surplus and a gross government debt-to-GDP ratio well below 60 per cent, meeting the deficit and debt rules of the SGP, which represent the two most significant requirements of pre-crisis euro-area specific responsibility (for a good summary of the data see Scharpf 2011, p. 198). Notably, Spain and Ireland are the only countries among the EAMS subject to financial assistance from the EU/IMF that were in compliance with these convergence criteria up to the crisis. Furthermore, the two countries performed quite well in terms of *mandate responsiveness* and *policy responsiveness*. Analysing the policy responsiveness of Spanish governments, Chaqués Bonafont and Palau (2011) find that “for the last 15 years Spanish policymakers have followed public priorities” (p. 727). Furthermore, in a later study they ascertain for the period between 1982 and 2008 a high correlation between party manifestos and laws in the area of economic and fiscal policies (Chaqués Bonafont, Palau & Muñoz Marquéz 2014), testifying a good record in mandate responsiveness. While for Ireland there are no longitudinal in-depth studies of responsiveness, several cross-country analyses (Mansergh & Thomson 2007, Dalton et al. 2011, chapter 8) attest Ireland fair levels of *mandate responsiveness*. Using satisfaction with government as a proxy for *policy responsiveness*, Spain and Ireland belong to the group of European countries that perform best, as the European Values Study reveals. In 1999, 50% of the respondents in Spain and 52% of those in Ireland thought that the system of government in their country was functioning well (European Values Education 2011).

Second, Ireland and Spain appear to be the two EAMS “with the most similar experience of crisis” (Dellepiane & Hardiman 2012, p. 6). Not only the roots and the nature of the Irish and Spanish crises are very similar but also the problems which the countries had to face. At the heart of Spanish and Irish crisis experience is a

severe banking crisis and the burst of the property bubble (for a detailed account see e.g. Hardiman 2012, Whelan 2013, Royo 2013, Fishman 2012), resulting in high financial sector and private indebtedness as well as plummeting property-related receipts, which had traditionally accounted for a large proportion of public revenues. As a consequence, Ireland and Spain witnessed an enormous reduction in public revenue and a huge fiscal deficit increase, with both surpassing the levels in the vast majority of the EAMS (Conde-Ruiz & Marín 2013, p. 21). At the same time, due to the resembling fiscal conditions up to 2007, Spain and Ireland had started into the crisis with “comparable levels of fiscal headroom” (Dellepiane & Hardiman 2013, p. 4). All this implies that the crisis-specific constraints affecting governments’ ability to be responsive were very similar in the two countries selected, which allows for laying the focus of the survey on euro-specific constraints.

Third, Spain and Ireland were subject to similar euro-area specific constraints. In April 2009, an EDP was launched against both countries, imposing considerable demands for fiscal consolidation. Furthermore, Spain and Ireland were subject to a financial assistance programme until end-2013, after they had felt constrained to request financial assistance from the EU in July 2012 and November 2010, respectively. The analysis will show how the programmes differed from each other in practice.

Last but not least, both countries saw early general elections in 2011 where the incumbent governments suffered defeats at an unprecedented scale.<sup>4</sup> As public opinion data reveals, the electorate in Spain and Ireland deemed the Spanish Socialist Workers’ Party and the conservative Irish Fianna Fáil responsible for the

---

<sup>4</sup> For a comprehensive account of the election see Martín, Urquizu-Sancho 2012 and Kennedy 2012 for Spain, and Mair 2011b, Hutcheson 2011 and Little 2011 for Ireland.

crisis and regarded their crisis management as inappropriate (Kennedy 2012, Marsh & Mikhaylov 2014) although the parties' contribution to the countries' economic success in the early 2000s had traditionally been recognized by the people. This implies that the terms of political debate and conditions for party competition were akin in both countries, involving, despite the distinctness of the two party systems, similar dilemmas, challenges and opportunities to the agency of the main political parties.

The focus on **taxation** is motivated by the policy field's central role in budgetary policy-making, which is a policy area of constrained choice par excellence (Pisani-Ferry 2013, Laffan 2014, p. 283). Given the general priority of fiscal consolidation in the new EMU regime, formalized by the reinforced deficit and debt rule, and the focus of the new instruments of EU economic governance, particularly the European Semester, on fiscal policy coordination, national budgetary policy making is significantly constrained by the European level. As documents of the European Commission (2011c, 2013c) reveal, rendering the tax system effective and efficient is seen as vital element of deficit reduction in the EAMS.

At the same time, the field of taxation offers a wide range of choices with regard to the question of which sector and which segment of the society to put the burden of adjustment on. For this reason, and given its relative flexibility and comparatively low degree of inertia, taxation has traditionally been a policy area that offers political parties a wide range of choices to differentiate themselves. Against this backdrop, it is interesting to see to what degree taxation, a least-likely case of "no choice", has retained its potential for party differentiation in the context of the politics of constrained choice.

Last but not least, taxation is a subfield of budgetary policies that is not only highly visible but also relevant for the sweeping majority of the citizens. While particular cuts in social services and social policies usually affect only certain segments of the population, changes to indirect and direct taxes are typically felt by the large majority of the people, as studies on the distributional effects of austerity measures reveal (Callan et al. 2011, Avram et al. 2013). Furthermore, tax credits and exemptions are often used as a tool of social policy, incentivizing certain behaviour or bringing financial relief to certain groups of society. In short, due to its direct effects on household income, taxation matters for citizens in their everyday lives and thus is important for democratic legitimacy.

With regards to the **time span** chosen, the policy measures I analyse are limited to those adopted in the period 2008-2013. This implies that different stages of the crisis are included: from 2008 when the crisis started to spread over Europe; via 2010 when the crisis culminated in both countries and led Spain to introduce emergency measures and Ireland to request a bailout from the EU, the EAMS, and the IMF; through to 2013 when the economic crisis had calmed down and it became conceivable that Ireland and Spain would exit the financial assistance programmes by the end of the year. Furthermore, the time span includes the taking place of general elections, which allows for examining how parties differentiated themselves during the election campaign and whether they were able to introduce policy changes and keep their promises after taking office.

## ***2.2 Data collection and analysis***

To investigate the impact of the emergent European economic governance framework on domestic policy making and its implications for democratic legitimacy, I perform a comparative case study of tax policies in Spain and Ireland. Based on the



conceptual framework I have developed in Chapter 2, and following the method of structured, focused comparison (George & Bennett 2005, pp. 87–124), I analyse the dynamics of tax policy making for the variables *responsibility* (independent variable), *responsiveness* (dependent variable), and *agency of political parties* (intervening variable) (see Figure 3).

For this purpose, I perform a qualitative text analysis that draws on a broad corpus of primary and secondary sources.<sup>5</sup> The analysis of the cases is guided by a set of standardized questions. First, what concrete policy measures have been introduced in the realm of taxation? Second, what role did external constraints, especially those emanating from the emergent European economic governance system (*responsibility*), play in the design and adoption of these measures? Third, to what degree are these measures consistent with both the pre-election pledges of the political parties (*mandate responsiveness*) and public preferences (*policy responsiveness*)? And finally, what role did the main political parties play in creating legitimacy of these measures (*agency of political parties*)? In addition to the text analysis, I conducted five expert interviews to maximize familiarity with the two cases, inquiring details as well as insider and background information.<sup>6</sup>

The analysis proceeds in two steps. As a first step, I draw up an overview identifying the taxation measures adopted in the fields of personal income tax (PIT), value added tax (VAT), environmental and wealth/property tax, and corporate income tax (CIT). Subsequently, I assess the value of the variables for each domain of taxation, positioning them on a continuum from “none” to “very high”. To gauge the degree of euro-area specific *responsibility* to which the Spanish and Irish government were

<sup>5</sup> An exhaustive list on the primary sources used for the text analysis can be found in Appendix B.

<sup>6</sup> A list of the interviewees is provided in Appendix A.

subject to, I survey press releases, newspaper articles as well as the relevant documents that have been issued by both EU institutions and national governments in the context of the three instruments of European economic governance in focus, namely the European Semester, the EDP, and the financial assistance programmes. The extent of *mandate responsiveness* performance is assessed on the basis of party manifestos, programmes for government as well as key speeches of, interviews with, and debates between the leading national politicians, whereas the evaluation of *policy responsiveness* rests upon data of opinion polls conducted by Eurobarometer, CIS (Centro de Investigaciones Sociológicas), and Millward Brown Lansdowne. Based on this assessment, the *agency of political parties* is brought into focus, enquiring how national governments make use of their remaining policy discretion over taxation policy choices to build electoral support and to implement their policy preferences.

### CHAPTER 3: TAX POLICIES IN IRELAND AND SPAIN

Given its revenue-raising function and its pivotal role in determining societal burden sharing, taxation is at the heart of national sovereignty. Nevertheless, national governments in the EU are constrained to abide by certain common rules on taxation. The Council's competence for harmonisation of indirect taxes to avoid obstacles to trade and to free competition, for example, is clearly anchored in Article 113 of the Treaty on the Functioning of the European Union (TFEU). In accordance with this provision, a large number of directives and regulations have already been agreed on by the EU Member States, especially with regards to the value added tax (VAT), excise duties, and in the area of environmental and energy taxation. The field of direct taxation, by contrast, is not specifically regulated by European law. Yet, although the Lisbon Treaty lacks any explicit call for the harmonisation or even coordination of direct taxes, based on Article 115 (TFEU), direct taxation may become subject to coordination and harmonised standards as far as it is deemed necessary to ensure the proper functioning of the common market. Following this, "some recommendations and legislation have been adopted in the personal tax, company tax and capital duty areas." (European Commission 2014b)

Since the onset of the crisis, however, the EU has steadily heightened its sphere of influence over taxation matters outside this legal framework. Namely, the emergent European economic governance system puts EU institutions increasingly in a position to address tax-related recommendations to the Member States. As Suzanne Kingston (2013) summarizes:

Member States will remain competent to set their own taxes, and decide upon the structure and detail of their national tax rules, as long as the rules not only comply with the EU's internal market law [...], but also on a macro level meet the requirements of the EU's new, far stricter economic governance rules. (p. 13)

This implies that taxation has become a policy area of constrained choice par excellence. Most notably, the increasing influence of the EU on taxation in the Member States seems to be motivated by tax policies' prominent role in the management of public finances and their considerable macroeconomic impact, e.g. on growth and job potential. That is, national tax policies set parameters that considerably affect the viability of the EMU. Within the framework of the European Semester, for example, the 2012 Annual Growth Survey places special emphasis on growth-friendly tax policies in the Member States, calling for enhanced "tax cooperation to develop more efficient tax systems in order to emerge from the crisis in a better and faster way" (European Commission 2011a, p. 2). And yet, of course the design of national tax policies is not only central to the EMU's proper functioning, it is also a pivotal element of national-level governance. Financing public expenditure, taxation is an indispensable basis for the welfare state. At the same time, tax credits and exemptions present important tools of social policy. Moreover, due to its scope and relative flexibility, taxation typically offers political parties a wide range of choices to differentiate themselves.

Against this backdrop, the question arises to what degree taxation, in the context of the emergent European economic governance system, remains a principally national responsibility with choice about the structure of taxation and the balance between tax increases and spending cuts. Approaching this question, this chapter sets out to investigate first, how national-level policy making in the area of taxation in Ireland and Spain has been constrained by the European level and second, to what degree parties in government confronted with these constraints have remained responsive to citizens. For this purpose, this chapter analyses in turn the Irish and Spanish taxation policies that were enacted in the period 2008-2013, positioning them between the

conflicting poles of responsibility and responsiveness. Based on this, I ask how successful governments have been in building legitimacy for the changes they introduced to the tax system.

Considering the main developments in both direct and indirect taxation, the analysis focuses on policy changes that occurred in the area of VAT and PIT, which are best suited for direct comparison. Furthermore, property and environmental tax policies are investigated. Given its high salience among the political elite and electorate in Ireland, the corporation tax is included in the analysis of the Irish case.

### ***3.1 From “vampir taxes” and “every little hurts” to a fair tax system? - Taxation reforms in Ireland between 2008-2013***

The Irish fiscal response to the crisis since 2008 has been marked by a steady commitment to fiscal retrenchment. This is even more true since December 2010, when Ireland entered a financial assistance programme under the supervision of the Troika, namely the European Commission, the European Central Bank (ECB), and the International Monetary Fund (IMF). In the run-up to the bailout negotiations, the so-called National Recovery Plan 2011-2014 was drawn up by Irish government officials in autumn 2010. At least since then, “the general position adopted has been that even in the context of increases in revenue, the balance between spending cuts and tax increases is to be in the ratio about two to one”, as Dellepiane and Hardiman (2012, pp. 9–10) point out.

Overall, fiscal policy making in Ireland has become significantly constrained under the EU/IMF bailout. As Suiter and Farrell (2011) illustrate: “All three of the larger parties and the Greens had pledged to broadly implement the EU/IMF deal agreed by the government the previous November and thus none could promise spending hikes

or tax cuts” (p. 39). Nevertheless, the balance between tax and spending in the budget became one of the subjects of the 2011 general election campaign where differences across parties were most pronounced. While the incumbent Fianna Fáil adhered to the 1:2 ratio it had proposed in the National Recovery Plan, Fine Gael (2011) even proposed that tax increases should constitute only 27% of the budgetary adjustment (p. 64). Following the elections in February 2011, which resulted in a coalition government of Fine Gael and Labour, the two governing parties have split the difference with regard to the tax-spending trade-off (D. Farrell and M. MacCarthaigh, personal communication, April 24, 2014).

Expert opinions on the question of to what degree voters’ choice was motivated by policy stances like this, however, differ (see e.g. Farrell & Suiter 2011, p. 56, Marsh 2011, p. 35). Similarly, there is little consensus as to whether the parties offered clear policy differences in the 2011 election (Marsh & Mikhaylov 2014, p. 160, Marsh 2011, p. 35, D. Farrell, personal communication, April 24, 2014). What seems clear, by contrast, is that the Irish citizens have maintained high levels of support for austerity over the course of the crisis. Although the share of people agreeing with the statement “governments need to save more today in order to prepare public finances for the ageing population” has decreased from 94% in 2009 to 87% in 2013, it remains at a high level (European Commission 2007, p. 48, 2013b, p. 62). In line with this, with regard to public support for reducing expenditure and increasing taxes to finance economic reforms, Ireland takes the second place among the EU countries (European Commission 2009, p. 49). However, when asked which of the two strategies they would prioritize, the Irish seem to be divided. As an exit poll shows, 43% of the respondents spoke out in favour of reducing spending while 41%

preferred the government to concentrate on increasing taxes (Millward Brown Lansdowne & RTÉ 2011, p. 46).

To enhance our understanding of the impact of the emergent European economic governance framework on Irish fiscal policy choices made in the realm of taxation as well as of political parties' role in creating legitimacy for these choices, in the following, I analyse the Irish 2008-2013 taxation policies with regards to euro-area specific demands for *responsibility*, governments' performance in terms of *responsiveness* and *political parties' agency*.

### **3.1.1 Taxation of personal income – Widening the tax base**

From 2000, the benefits of the booming Irish economy made themselves felt in the legislation of PIT. As a result of comprehensive reforms, “the proportion of income earners exempt from income tax increased from 34% in 2004 to an estimated 45% in 2010” (Irish government 2010, p. 6), implying a considerably narrow tax base. As part of this trend, a number of personal and other tax credits were increased in 2008. Moreover, the thresholds for liability to both Pay Related Social Insurance (PRSI) and Health Levy were raised. The budget 2009, however, was indicative of a gradual reversal. On the one hand, standard rate tax bands were increased by €1,000, which means that a larger amount of individual income became object to the reduced tax rate of 20%, leaving more money in the taxpayers' pockets. On the other hand, a new income levy was introduced, taxing annual income progressively by 1%, 2% or 3%. In April of the same year, in the context of the 2008 bank guarantee and the rapidly increasing public budget deficit, a supplementary budget was adopted, which doubled the income and health levy rates to 2%,4% and 6%, and to 4% and 5%, respectively. While the year 2010 went by without any changes, a number of tax credits were either reduced or abolished under the 2011 budget. Furthermore, the

income standard tax bands were reduced to levels below those of 2008. Also, a new Universal Social Charge (USC) was introduced, replacing both the Health Levy and the Income Levy. In the subsequent year's budget, the exemption threshold for USC was increased from €4,004 to €10,036, so that a larger number of people with low incomes would not have to pay it. Finally, the 2013 budget made, with exception of a reduction in the Rent Tax Relief, no changes to personal credits, allowances or bands. In return, however, the eligibility criteria for reduced rates of USC were tightened.

Pressure from the European level to broaden the tax base was first put on the Irish government within the framework of the EDP. In the Council's Recommendation from April 2009, the Irish authorities were asked to "broaden the narrow Irish tax base in order to create more sustainable revenue streams and align them to reduced expenditure levels" (Council of the European Union 2009a). In November 2009, the Council (2009b) reinforced its recommendation that "reforms should be geared towards broadening the narrow Irish tax base" (p. 14). Keeping European concerns in mind, the National Recovery Plan, issued by the Fianna Fáil-Greens government in November 2008, acknowledged that the income tax base had been eroded to an unsustainable level, and thus targeted the reduction of 16.5% in the value of the income credits and bands (Irish government 2010, p. 93). Eventually, the requirement to lower personal income tax bands and credits was included in the Council Implementing Decision on granting financial assistance to Ireland, in the the MEFP with the IMF, and in the MoU with the EU, becoming a condition for financial assistance. To meet this demand, the Fianna Fáil-Greens government abolished several tax credits and significantly reduced the income standard tax band rate in



budget 2011, to an extent that more than reversed the increase that it had introduced in budget 2009.

The U-turn to broadening the tax base of personal income imposed on the Fianna Fáil-Greens government was clearly at odds with what the two parties had committed to when taking office in 2007. While the budget measures of 2007<sup>7</sup>, 2008, and partially also those of 2009, went well with the government's declared priority "to use tax credits and bands to keep low income earners out of the standard rate band and average earners out of the higher band" (Fianna Fáil & Green Party 2007, p. 8), the following budgets did not. Hence, Fianna Fáil's and the Green Party's record in *mandate responsiveness* is mixed.

The two biggest opposition parties Labour and Fine Gael, however, traded on the election campaign by railing against the trend of reducing tax reliefs and standard tax band rates. While Labour (2011) guaranteed that "no one earning less than €100,000 will pay more income tax" (p. 5), Fine Gael (2011) pledged that it would not introduce any further increases in income taxes, pointing out that it opposed the "proposal to raise either the standard 20% or the top 41% rate of income tax, and the further reductions to tax credits and bands proposed in the Government's 4-year plan" (p. 65). These positions were included in Fine Gael's and Labour's Programme for Government, which committed the governing parties to "maintain the current rates of income tax together with bands and credits" (Fine Gael & Labour Party 2011, s.p.). And indeed, since Labour and Fine Gael have taken office, so far no changes neither to income-related tax credits, with the exemption of Rent Tax Relief, nor to tax band rates nor to tax rates has been introduced. This implies that *mandate responsiveness*

---

<sup>7</sup> Budget 2007 brought about increases in several tax credits and the standard rate bands (by €1,000) as well as a reduction of the higher rate by 1% to 41%.

of Labour and Fine Gael was strong. However, it needs to be acknowledged that this was significantly facilitated by the fact that the previous government had recently introduced substantive reforms in this area, which means that the pressure on Fine Gael and Labour to broaden the tax based had largely ceased by the time they took office. Similar to the income tax, Labour's and Fine Gael's promise to review the USC, which had been introduced before their taking office, was met. In budget 2010, more low-income earners were exempted from the USC, which corresponds both to Labour's promise to bring relief to those "that have been hardest bit" (Labour Party 2011, p. 13) and to Fine Gael's intention to avoid negative effects of USC on working incentives (Fine Gael 2011, p. 69).

In 2011, when Fine Gael and Labour took office, their position to not further increase income taxes was very much in line with the demands of the citizens. As a Millward Brown Lansdowne (2011a) opinion poll from June 2011 shows, only 20% of the Irish regarded increasing the income tax as the fairest way to reduce the deficit, whereas 31% each considered introducing a water charge and increasing the property tax as the fairest option. Moreover, almost half of the respondents rejected PIT hikes as the least fair way to reduce the public deficit, while only 24% and 28% of the respondents steadfastly refused an increase in the property tax and the introduction of a water charge, respectively. However, a quite significant swing of mood with regards to public attitudes towards the income tax can be observed. Within a bit more than a half year, more precisely by February 2012, support for increasing the income tax as the best way to reduce the deficit had grown from 20% to 32% while fierce opposition to it had decreased from 45% to 37% (Millward Brown Lansdowne 2012). Yet, it still looks like the majority of the Irish citizens are opposed to further increases in PIT. Nevertheless, public contestation remained low (M. MacCarthaigh and A. Regan,

personal communication, April 24 and 25, 2014). This implies that Fine Gael and Labour perform rather well in terms of *policy* responsiveness while Fianna Fáil and the Greens did well before they became constrained by European demands and moderately in the presence of institutionalised and formalised *responsibility* accruing from the emergent European economic governance framework.

As for *political parties' agency*, it seems that Fianna Fáil and the Greens were able to create some legitimacy for their measures to widen the tax base although their stance was not consistent. Acknowledging their fault to “have eroded the income tax base to an unsustainable level” and arguing that “this must be rectified if revenue-raising capacity and fairness are to be restored” (Irish government 2010, p. 91), the two parties seem to have rendered the reversal of the markedly generous income tax policies of the previous years acceptable to the people. Furthermore, carrying out a comprehensive reform of PIT at one go under budget 2011, even in the light of a dooming electoral defeat in February 2012, Fianna Fáil and the Greens spared the succeeding government the necessity to take up the issue of PIT reform again and incur the anger of the citizens.

### **3.1.2 VAT – Zigzag course and unexpected leaps**

Since the 2000s, the Irish standard VAT rate has been slightly above both the EU and the euro area average (European Commission 2011b, p. 135). While consistently held at a level of 21% during the 1990s and the early 2000s, the standard VAT rate in Ireland was raised to 21.5% in December 2008 by the coalition government of Fianna Fáil and the Greens. However, as early as March 2009, several newspapers reported that the responsible Minister of Finance, Brian Lenihan himself, had admitted that the decision to increase the VAT rate in the 2009 budget was significantly contributing to the boom in cross-border shopping to North Ireland and was therefore a serious

mistake (see e.g. Brennan & Stack 2009). Thus, not surprisingly, the standard VAT rate was reduced to its previous level in the next budget. In July 2011, the newly-elected government of Fine Gael and Labour introduced in the context of the Jobs Initiative, the flagship campaign promise of the two parties, a temporary special reduced VAT rate for tourism related activities, including, among others, services in hotels, restaurants and cinemas, hairdressing, and goods like newspapers. Finally, the special rate was maintained also in 2013 and 2014. The most comprehensive change to VAT, however, occurred shortly afterwards: the standard VAT rate was increased by 2 percentage points to 23% with effect from January 2012. Different from the zigzag trend of the standard rate, the reduced rates remained unchanged at the level of 4.8% and 13.5% during the period 2008-2013.

While the 2008 increase in the standard VAT rate as well as its subsequent reversal in 2010 classify as genuinely national decisions, the 2012 standard rate increase to 23% represents a more complicated case. Plans to increase the standard VAT rate were for the first time mentioned in The National Recovery Plan 2011-2014, which was worked out by Irish government officials and published on November 24, 2010. According to the National Recovery Plan, the standard VAT rate was supposed to increase from 21% to 22% in 2013, and from 22% to 23% in 2014 (Irish government 2010, p. 97). This proposal was included in the MoU signed with the EU, where it is listed under the actions to be completed by the end of the first quarter 2012 as follows: “The Finance Bill 2012 will contain necessary provisions to bring into effect the already signalled VAT increases in 2013 and 2014.” (European Commission 2011d, p. 68) Exactly the same wording can be found in the MEFP with the IMF (European Commission 2011d, p. 54), making the VAT increase a central *responsibility*.

Whereas Fine Gael (2011) embraced this proposal in its 2011 manifesto (p. 65), Labour (2011) proposed to limit the change in the standard VAT rate to an increase of 1 percentage point (p. 16). Finally, the Programme for Government of both parties committed them to “limit the top rate of VAT to 23%”. Surprisingly, the Fine Gael-Labour government decided to accelerate the original plan to raise the VAT rate to 23% by 2014, introducing an increase by 2 percentage points at one go already with the 2012 budget. Fine Gael and Labour thus met commitments attached to the EU/IMF bailout well ahead of schedule. The fact that the plans to include the standard VAT rate increase in the budget 2012 were leaked via the German Parliament in October 2011 seems to have spared the government a storm of protest. Instead of challenging the accelerated increase itself, the public was rather outraged to hear that the government’s plans for next month’s budget were distributed to German MPs before they had been debated before the Dáil Éireann, the principal chamber of the Irish legislature (Reilly 2011). Fine Gael Finance Minister Michael Noonan countered the fears that the VAT rise “might crush consumer spending and lead to an exodus of shoppers to Northern Ireland, where VAT is 20%”, arguing that indirect taxes were less harmful to jobs than direct taxes (as cited in Inman 2011, para. 13). Considering Fine Gael’s and Labour’s priority on job-stimulating policies and their commitment to cap the VAT rate at 23%, the VAT increase therefore seems to meet the criteria of *mandate responsiveness*. This applies, even if with certain qualifications, to Labour, who championed a VAT increase by only 1 percentage point during the election campaign. In addition to the departure from the scope of the VAT increase, the accelerated speed with which it was implemented appears in a way to be at odds with Labour’s promise of “less austerity over a longer period” (Leahy 2011, p. 83). Yet, the details of the increase

are in harmony with Labour's overall policy position to ascribe taxes an important role within the budget. As Suiter and Farrell (2011) point out, whereas Fine Gael "put the least emphasis of all the parties on taxation in its deficit reduction strategy" (p. 37), Labour "planned to close the gap in the public finances on the basis of a 50:50 ratio of tax to spending cuts" (p. 38). Also, the VAT hike offered a good opportunity to create the fiscal headroom necessary for the creation of the €500 million Jobs Fund, which Labour envisaged.

As for the special rate for tourism-related activities introduced by the Fine Gael-Labour government in July 2011, the criteria of *mandate responsiveness* appears to be largely fulfilled. In fact, the policy change corresponds to Fine Gael's pre-election proposal to accompany the rise in the standard rate of VAT by a "temporary (2-year) cut of at least 1.5% in the reduced 13.5% rate of VAT on labour intensive services [...] to boost the competitiveness of our tourism sector" (Fine Gael 2011, p. 65). This idea found its way in a slightly modified form into the Programme for Government, which augured that the 13.5% rate of VAT would as part of the Jobs Programme be temporarily reduced to 12% (Fine Gael & Labour Party 2011, s.p.). After all, the introduction of a second reduce rate of 9% for goods and services mainly related to tourism, provided for by the Jobs Initiative, is clearly less ambitious than the original commitment but still consistent with its underlying idea.

The VAT changes introduced by the Fianna Fáil-Greens government, by contrast, feature a rather poor record in *mandate responsiveness*. The 2008 increase in the standard rates was not covered by the commitments made by the parties when taking office (Fianna Fáil & Green Party 2007), though it was repealed soon after. Moreover, the promise to examine the VAT system "with a view to reducing the rate of VAT applied to certain environmental goods and services from 21% to 13.5%"

(Fianna Fáil & Green Party 2007, p. 9) did not materialize. The 2008 suspension of the VAT increase, however, does not only improve the government's record in *mandate responsiveness*. It also seems that the restoration of the 21% standard VAT rate was, at least partially, a consequence of public criticism at the VAT increase (Brennan & Stack 2009), implying *policy responsiveness*.

Correspondingly, the VAT increases perform poorly with regard to *policy responsiveness*. Unfortunately, public opinion data on the trade-off between increasing VAT as opposed to other taxes is not available. However, as an opinion poll published in the Irish Independent in January 2011 reveals, only 7% of the respondents hold that the next government should improve the public finances by increasing taxes, whereas 65% preferred to reduce spending and 18% advocated a combination of spending cuts and tax increases (Millward Brown Lansdowne 2011b).

Whereas the accelerated VAT increase appears at first sight surprising from a perspective of *party agency*, it makes sense in light of Fine Gael's and Labour's overall policy priorities. Namely, it was necessary to find ways to increase tax revenues in order to bring the creation of the Jobs Initiative, a central campaign pledge of primarily Labour but to a lesser degree also Fine Gael, in line with the European demands for enormous fiscal effort. Furthermore, the instance of the special reduced VAT rate for tourism-related activities illustrates that the Irish government retained a fair scope of discretion with regards to the single items of taxation policies as long as the overall target of deficit reduction, as demanded in the context of the EDP and the financial assistance programme, was hit.

### 3.1.3 Carbon tax, property tax, water charge – What's next?<sup>8</sup>

Next to the policy changes in the fields of both VAT and PIT, a considerable agenda of new taxes and household charges was implemented. Most prominently, a carbon tax was introduced, taxation on housing was restored and a water charge was got off the ground. All three taxes fall into the category of “growth-friendly taxes”, which have been forcefully advocated by the European Commission (2011c) within the framework of the European Semester 2012. Furthermore, the introduction of these new taxes and charges measures up the European request to Ireland to broaden its narrow tax base so as to create more sustainable revenue streams, which was repeatedly voiced in the context of the EDP that was launched against Ireland in 2009 (Council of the European Union 2009a, 2009b). Apart from these less specific demands, the increase in the carbon tax as well as the introduction of a property tax and water charges have been part of the macroeconomic conditionality tied to the financial assistance granted to Ireland by the EU, Ireland's European partner countries and the IMF. This implies that the revenue measures discussed in this subsection are characterized by a both similar and high intensity of demands for *responsibility* during the second term and by a low salience of euro-area specific constraints during the first term.

In terms of *mandate responsiveness*, by contrast, the performance differs across parties and taxes. While all four parties that governed in the period 2008-2011 kept their mandates with regards to the carbon tax, the measures adopted in the area of property taxation perform poorly in terms of *mandate responsiveness*, with Labour being an exception in so far as its capacity to be responsive was moderate. In case of the water charge, however, Fine Gael managed to live up to its electoral pledges,

---

<sup>8</sup> For a detailed account of the dynamics around the introduction of these three taxes see Appendix D.



while its coalition partner Labour came off second best, achieving only moderate levels of *mandate responsiveness*.

Given that the introduction of the new taxes was unpopular among the citizens, *policy responsiveness* in the realm of “growth-friendly” taxes remained low. The only exception is the increase of the carbon tax, which by and large seemed to be accepted by the people. The reason for this is not at least that Fine Gael and Labour kept the increase, compared to what was provided for by the National Recovery Plan, at a rather low level.

In comparison to the tax policies introduced in the domain of VAT and PIT, it seems that the governing parties had more difficulties in creating legitimacy for the tax changes they adopted in the field of public water provision and property taxation. Namely, Labour and Fine Gael were torn between the firm European demands to introduce a property tax and water charges on the one hand, and Independents’ and Sinn Féin’s fierce criticism against these taxes on the other hand. It seems that political contestation significantly stood in the way of *agency* that aimed at rendering these measures acceptable to the people. Furthermore, the nature of these taxes might also have played a role in this. Both the property and the water tax were directed at households, featuring high visibility and affecting citizens across the board and thus provoking broad public backlash. The carbon tax, by contrast, hit the rural areas in particular, which made it easier for the parties to counter reactive responses.

### **3.1.4 The Corporation Tax – A sacrosanct institution of the Irish tax system?<sup>9</sup>**

Despite fierce and repeated criticism from EU institutions and European partners in the wake of the euro crisis, the low corporation regime has been maintained by the

---

<sup>9</sup> A detailed account of the dynamics around the maintenance of the CIT can be found in Appendix C.

Irish governments during 2008-2013. The governing parties' adherence to keep the corporation tax at its low level of 12.5% corresponds not only to their firm commitments made in- and outside the context of the election campaign 2011 but also to public preferences. That is, *mandate and policy responsiveness* was high in the case of both the Fianna Fáil-Greens government and the Fine Gael-Labour government. This is somehow unexpected given the high pressures exerted by the French and the German government, who strongly lobbied for making financial assistance to Ireland per se as well as more advantageous terms of the bailout conditional on an increase in the corporation tax. However, against the background of a cross-party consensus on the sacrosanctity of the corporation tax, the governing parties succeeded in creating a hard-line, consistent and credible narrative around the maintenance of the corporation tax both towards the European partners and the citizens. The gain of this agency is twofold. On the one hand, the Irish governments were able to prevent the informal demands of their European partners to increase the corporation tax from becoming institutionalised within any of the instruments of new European economic governance. On the other hand, the governing parties could claim to be the guardian of the economic interest of the Irish nation, increasing their legitimacy in the eyes of the citizens.

### ***3.2 The difficulty of consolidating fiscally without increasing taxes - Taxation reforms in Spain between 2008-2013***

Different from Ireland, the Spanish government's initial fiscal response to the crisis was expansionary. From late 2009, this strategy was gradually shifted towards revenue-based fiscal consolidation. In the context of the Greek crisis, however, pressured by the financial markets and its European partners, the Spanish government under Zapatero found itself constrained to make an orthodox turn in May

2010 (Dellepiane & Hardiman 2012, pp. 18–21). Henceforth, Luiz Zapatero and his Socialist Workers' Party (PSOE) pursued a strategy of fiscal consolidation putting the emphasis on tax increases. His opponent Mariano Rajoy from the People's Party (PP) sharply criticised this strategy, making the pledge to not further increase taxes the central subject of his general election campaign in autumn 2011 (Royo 2013, p. 82). Even if it became clear soon that the ambitious deficit reduction targets set in the framework of European economic governance, more precisely the EDP, could not be met solely on the basis of spending cuts, the priority of fiscal consolidation has significantly shifted towards spending cuts since Rajoy has taken office. This trend corresponds to the recommendations that the European Commission (2010) had voiced as early as in 2010 in the context of the EDP:

Although the consolidation needs of Spain are such that they need to contain both revenue and expenditure measures, it would be advisable further consolidation measures to be focused on expenditure cuts. (p. 49)

Nevertheless, Spain found itself constrained to request financial assistance from the EU in July 2012.

As Eurobarometer data reveals, public support for fiscal consolidation in general has significantly decreased in the course of the crisis. While in 2009 still 86% of the respondents agreed with the statement that "governments need to save more today in order to prepare public finances for the ageing populations", by 2013 it was only 66% (European Commission 2007, p. 48, 2013b, p. 62). Public preferences regarding the tax-spending trade-off, by contrast, are less straightforward. On the one hand, acceptance for tax hikes has increased during the first two years of the crisis. While in 2007% only 17% of the respondents agreed that government should increase taxes to finance economic reforms, two years later it was already 28% (European Commission 2007, p. 41, 2009, p. 49). On the other hand, 36.1% of the

respondents of the 2012 Spanish post-election study found that it was better to improve social services even if this involved higher taxes while only 15% took the view that taxes should be decreased even if this was connected with spending cuts (CIS 2012b).

Overall *mandate responsiveness* is deemed low in crisis-driven Spain. According to a 2012 survey of CIS, only 19.1% of the Spaniards think that the political parties in their country offer distinctive and clear party programmes while less than 10% hold the view that parties really implement the proposal they include in their election programmes (CIS 2012a, p. 6). That is, in the eyes of the Spanish citizens, programmaticness and fulfilment of electoral pledges is low.

Against this backdrop, in this section I analyse the items of recent Spanish tax policies with view to euro-area specific demands for *responsibility* on the one hand, and governments' performance in terms of *responsiveness* on the other hand. Furthermore, I investigate how *political parties' agency* has contributed to the legitimisation of these policies.

### **3.2.1 Personal income taxation – Burdening the rich and the home buyers**

In October 2008, the Spanish government unveiled, “in an effort to compensate for the initial lack of action” (Royo 2013, p. 60), an €11 billion economic stimulus package. The so-called “Spanish Plan for the Stimulus of the Economy and Employment”, aiming at creating jobs and protecting Spain from the percussions of the global economic crisis, included a new personal income tax credit of €400, which was introduced with the budget 2009. Yet, just a year later, the €400 credit was phased out for working and self-employed taxpayers over €12,000 of the tax base. In line with this policy reversal, budget 2011 abolished the so-called “baby cheque”, a

€2,500 personal income tax credit for each child born or adopted, which had been introduced in July 2007. Moreover, two new tax brackets were introduced for top earners, leading to an increase in the PIT rate for annual income above €120,000 and € 175,000 by 1 point to 44% and by 2 points to 45%, respectively. Furthermore, the primary home purchase deduction in personal income tax was eliminated for income over €24,170. Budget 2012 introduced another tax bracket for top earners, so that henceforth annual income above €300,000 would be taxed at a rate of 54%. This time, however, not only the high earners were asked to pay up. From January 2012, PIT rates were temporarily increased for all tax bands (to 24.75%, 30%, 40%, 47%, 49%, 51% and 52%). This supplementary progressive levy was scheduled to cover the years 2012 and 2013 but has been continued based on a decision made in 2013. In return, however, the government re-introduced, with effect from January 2012, the tax compensation for purchasing primary home for all taxpayers regardless of their tax base. Yet, this decision was reversed under budget 2013, which withdrew the tax compensation for purchasing primary home after 1 January 2013 and the mortgage interest deductibility for new mortgages.

European demands referring explicitly to personal income taxation were exclusively but repeatedly voiced in the context of the European Semester. In the country-specific recommendations (CSR) from July 2011, the Council (2011) invited Spain to “explore the scope for improving the efficiency of the tax system, for example through a move away from labour towards consumption and environmental taxes while ensuring fiscal consolidation plans” (p. 4). One year later, the Council (2012) repeated its call, recommending the introduction of “a taxation system [...] more supportive to growth” (p. 5). Pointing to the deductibility of interest on mortgages, moreover, the Council requested Spain to “ensure less tax-induced bias towards

indebtedness and homeownership (as opposed to renting)” (p. 5). These recommendations picked up on the Commission’s in-depth review, which had found fault with the recently introduced increases in direct taxes and the persistence of tax advantages such as the deductibility of mortgage interest payments (European Commission 2012, pp. 5 and 14). The MoU, which was signed on 20 July 2012, makes reference to the CSR 2012, literally iterating their content. One year later, welcoming the elimination of the tax deductibility of interest rate payments on new mortgages under budget 2013, the Council (2013) recommended Spain to “conduct a systematic review of the tax system by March 2014 [and] consider further limiting tax expenditure in direct taxation” (p. 84). As all these documents reveal, since 2011, the European Commission and the Council have closely observed and challenged tax reform in Spain, calling for both a directional change in taxation in general and the adoption of concrete measures in the field of tax deductions. That is, the Spanish government was consistently confronted with European demands for *responsibility* in the second part of the period 2008-2013, complying with them only partially, though. This was possible since the financial assistance for the recapitalization of banks was not directly coupled to the fulfilment of the recommendations made in the context of the European Semester. That is, *responsibility* with regards to specific reforms to the Spanish PIT system was not as stringent as in the case of Ireland.

Since the intensity of the devastating effects of the financial and economic crisis on the Spanish economy was not yet in sight in March 2008, when general elections were held, the policy measures proposed in the party manifestos very much reflected “business as usual”. Both PSOE and PP, the two main political parties, announced that they would introduce reductions in the PIT if they were elected to government.

The PSOE (2008), for its part, not only announced to adjust tax brackets so as to bring off more equity but also promised small reductions in the PIT and a €400 personal income tax credit for both the working population and pensioners (p. 105). Aimed at outbidding the promises of the PSOE, the PP (2008) committed itself to reduce the personal income tax by an average of 16% (p. 120) and to grant an annual tax credit of €1000 to working women (p. 133). Although the economic situation had been on decline during 2008, in 2009, the re-elected Zapatero government introduced the €400 personal income tax credit that it had promised the electorate. In view of the financial markets' shrinking confidence in Spain, however, the Spanish government found itself constrained to repeal it just a year later (O. Molina, personal communication, May 7, 2014). Also, the 2011 withdrawal of the baby cheque ran afoul to the PSOE's policy profile. Similar to the €400 tax credit, the 2011 introduction of additional tax brackets for top earners cut both ways from a point of view of *mandate responsiveness*. Whereas running counter to the PSOE's promise to reduce the PIT, the measure corresponded to the party's commitment to adapt tax brackets in the interest of more equity and to base public revenue rather on direct than on indirect taxation with a view to reducing social disparities (Partido Socialista Obrero Español 2008, p. 107). All in all, however, the PSOE's record in *mandate responsiveness* was rather poor, what is not surprising in view of the fact that the advent of the crisis in the second half of 2008 seemed to have taken the party's leadership fairly by surprise.

Nevertheless, the PP's performance in terms of *mandate responsiveness* occurs to be even worse than that of PSOE, even though the PP in 2011 was far clearer about what economic difficulties the country would have to struggle with in the years to come than the PSOE was back in 2008. The supplementary levy on personal income

introduced in budget 2012, for example, is clearly at odds with Rajoy's promise not to increase any taxes, which he not only repeated several times before the election (see e.g. "Cara a cara" 2011, Moreno 2011, Royo 2013, pp. 97–98) but to which he held even in his inauguration speech in December 2011 (Rajoy 2011). In view of this, it seems difficult to conceive the introduced PIT measures as element of the modernisation of the income tax system which the PP (2011) had announced in the 2011 manifesto (p. 43). Furthermore, the PP abolished the tax compensation for purchasing primary home in 2013 although it had committed both before the election and when taking office to maintain it (Partido Popular 2011, p. 43, Rajoy 2011).

In terms of *policy responsiveness*, by contrast, the reforms to the Spanish PIT system introduced by both governments fare a bit better. Even if the majority of the citizens seem to disapprove of tax increases in general (CIS 2011)<sup>10</sup>, more people seem to prefer an increase in the PIT over one in VAT, as data from the CIS Opinion Poll on Fiscal Policy from 2007, 2009 and 2010 reveals. On average, 36% of the respondents stated that increases in PIT would be worse than ones in VAT, while an averaged 41% of the respondents took an increase in VAT for worse than an increase in PIT (CIS 2007, 2009, 2010).

As for *political parties' agency*, the gradually introduced PIT hikes as well as the flip-flopping regarding the personal income tax credit and the primary home purchase deduction point to a lack of strategy on part of both the PSOE and the PP. However, while the PSOE's inconsistency with its mandate is largely caused by the unexpected deepening of the crisis in 2009-2010 and the consequent turmoil on the financial markets, which forced Zapatero to shift from fiscal expansion to contraction

---

<sup>10</sup> According to a survey conducted by CIS during summer 2011, 70.4% of the respondents disagreed that raising taxes was an appropriate measure to reduce the public deficit, while only 12% agreed.



(O. Molina, personal communication, May 7, 2014; Dellepiane & Hardiman 2013, p. 10), the PP's fiddling about with the PIT system was partially due to European demands for responsibility. Nonetheless, the measures introduced by the PP were not only inconsistent with its unrealistic pre-election promises but also incoherent in themselves. Even if the PSOE could justify the burdening of the rich based on its ideological profile, all in all, it seems that the *parties' agency* rather blocked the enhancement of the legitimacy of the PIT measures introduced in 2008-2013. Campaign pledges that were unrealistic in the case of PP and naïve in the case of PSOE hampered *mandate responsiveness* and were, together with an inconsistent line of actions, not conducive to rendering PIT reform acceptable to the Spanish people.

### **3.2.2 VAT – Widening the tax base**

Standing at a level of 16%, the Spanish pre-crisis standard VAT rate of 16% counted among the lower rates in the EU, and that with only 42% of the consumption basket being taxed at the standard rate (Eurostat 2013b). It is thus not surprising that the share of VAT in GDP in Spain is the lowest among the EU Member States (Eurostat 2013a, p. 145). Against this backdrop, and in an attempt to counteract the continuous decline in tax revenues, the Zapatero government increased, with effect from July 2010, the standard and reduced rate of VAT from 16% to 18% and from 7% to 8%, respectively. The base rate, by contrast, was maintained at 4%. One year later, under the budget 2011, VAT on housing purchases was temporarily reduced from 8% to 4%, compensating for the simultaneous elimination of the primary house purchase deduction in the area of PIT. Eight months later, in August 2011, this measure was extended until December 2012. The budget 2012, one of the first tasks of the incoming PP government under Mariano Rajoy, provided for both an increase in and

an extension of the standard VAT rate: with effect from September 2012, the standard VAT rate would increase from 18% to 21%, whereby several categories of goods previously subject to the 8% reduced rate, such as combined hotel and catering, cinema and theatre tickets, and the supply of receipt of digital television services, were re-classified so that they would come under the new standard VAT rate of 21%. Moreover, the reduced rate of 8% increased by two percentage points. As anticipated, the Rajoy government did not further extend the application of the super-reduced rate to house purchases, which means that they moved to the 10% reduced VAT rate as of January 2013.

European demands to reform the Spanish VAT were primarily made in the context of the European Semester. In the 2011 CSR, Spain was asked to “explore the scope for improving the efficiency of the tax system, for example through a move away from labour towards consumption and environmental taxes while ensuring fiscal consolidation plans” (Council of the European Union 2011, p. 4). One year later, the Commission (2012) stressed in its Staff Working Document of May 2012 that Spain had some room for shifting revenue towards taxes of consumption, in particular VAT, in order to improve the efficiency of the tax system (p. 9), pointing out that the recent tax measures adopted in Spain were not in line with the CSR No. 4 of the previous year (p. 30). This issue was not only taken up but also specified in the 2012 CSR to Spain, which were published shortly afterwards. More precisely, Spain was recommended to “address the low VAT revenue ratio by broadening the tax base for VAT” (Council of the European Union 2012, p. 12). As the Commission’s 2013 assessment of Spain’s implementation of the 2012 CSR implies, the Commission (2013d) deemed both the VAT rate increase and the extended application of the standard VAT rate included in the 2012 budget a step into the right direction, still

insufficient though. Accordingly, in the 2013 CSR, the Council (2013) called on Spain to “conduct a systematic review of the tax system by March 2014 [...] and explore the scope to further limit the application of the reduced VAT rates” (p. 84). As is apparent from both the Commission’s 2013 proposal for a Council opinion on the Economic Partnership Programme and the 2014 in-depth report, which was drawn up within the MIP, for now, hopes are pinned on a forthcoming comprehensive reform of the tax system, which is still under discussion (European Commission 2013e, 2014a). To conclude, from 2011, Spain was repeatedly confronted with European requests to increase the VAT rates and to broaden the tax base for VAT. Since these were most notably made in form of CSRs, we can ascertain quite high levels of *responsibility*. However, responsibility was not as pronounced as in the Irish case, where the increase in VAT was included in the MoU and the MEFP and was made a condition for financial assistance.

With regards to the criteria of *mandate responsiveness*, the VAT rate increase introduced in July 2010 by the PSOE government comes off badly. Except from proposals to tax sport-related construction works and condoms under the reduced VAT rate (pp. 91 and 98) and to eliminate the Catholic Church’s VAT privileges (p. 231), the 2008 manifesto of the PSOE (2008) did not consider any relevant changes to the VAT system (2008). Moreover, the document highlights the priority of direct taxation over indirect taxation, underlining direct taxes’ important role in fighting social imbalances (Partido Socialista Obrero Español 2008, p. 107).

Similar to the PSOE, the PP departed significantly from its mandate. The VAT rate increase introduced with the budget 2012 clearly contradicts Rajoy’s promises made both before and after the general election in November 2011. During the election campaign, the PP’s candidate for the office of the Prime Minister pointed out that he

would not increase any taxes several times (see e.g. Moreno 2011). With regards to VAT in particular, the manifesto of the PP does not say anything, but both in the TV debate with PSOE candidate Rubalca and in his inauguration speech in December 2011, Rajoy assured that he would not increase the VAT rates (“Cara a cara” 2011, Rajoy 2011). The difficult economic situation in 2011 and the fact that Rajoy did not tire to emphasise that he would, different from Zapatero, neither lie to the public nor introduce any measures that were not mentioned in the manifesto of the PP (“Cara a cara” 2011), make the PP’s poor record in *mandate responsiveness* appear even worse.

Similarly, *policy responsiveness* as for the changes to VAT introduced by both governments is in bad shape. An opinion poll conducted by CIS reveals that in 2010, when the reduced and standard rates saw its first increase in the last 20 years, 43.9% of the respondents regarded an increase in VAT as the greater evil than an increase in the PIT while only 34% took the reverse view (CIS 2010). Furthermore, opposition against tax hikes in general seems to be large: in a 2011 opinion survey, 70.4% of the respondents were in disagreement with using tax increases as a measure to reduce the public deficit, while only 12% agreed (CIS 2011). Even if the increases did not meet fierce public opposition, all in all, *policy responsiveness* concerning VAT reforms appears to be rather poor.

When studying *political parties’ agency* in the case of VAT policies one needs to consider the reasons for the governing parties’ poor performance in *responsiveness*. While the PSOE’s VAT-related breach of mandate is basically due to crisis-specific constraints, the PP’s poor record in *mandate responsiveness* appears to be, above all, the result of euro-area specific constraints (see e.g. Reuters 2012). Correspondingly, Zapatero and Rajoy deployed different strategies to create

legitimacy for their actions taken. Prime Minister Zapatero, for his part, repeatedly argued in favour of tax increases across the board, reasoning that Spain's social balance could be none the worse for the economic woes only if every citizen made sacrifices. In one of his speeches, for example, he said, "I am going to ask for a share of people's income out of solidarity and to meet the demands of the most needy" (as cited in Dellepiane & Hardiman 2012, p. 9). That is, Zapatero tried to legitimate his crisis policy agenda by arguing that the design of the overall austerity package was based on the PSOE's socialist fundamental convictions. Rajoy, by contrast, shifted off responsibility to the EU and the IMF, saying: "We Spanish no longer have the choice whether or not to make sacrifices. We no longer have such liberty" (as cited in Evans-Pritchard 2012). Justifying the breach of his key election pledge to not increase VAT by the changed circumstances (see Evans-Pritchard 2012), however, does not appear a good approach to render the increase more acceptable in the eyes of the Spaniards. As Molina (personal communication, May 7, 2014) points out, back in late 2011 it was common currency that Rajoy would not be able to reduce the public deficit without adopting any tax hikes.

### **3.2.3 Towards "growth-friendly" taxation – The introduction of environmental and wealth taxes**

Shifting the Spanish tax system away from its heavy reliance on direct taxes, the reforms that have occurred in the area of environmental and wealth taxation play an especially important role in the overhauling of the Spanish tax system. Contrary to the overall development, the Zapatero government suspended, as part of Spain's 2008 Plan for the Stimulus of the Economy and Employment, the Wealth Tax (*impuesto sobre el patrimonio*), a comprehensive tax on assets including property, bank accounts, cars, bonds, stocks, and shares. In the context of Spain's gradual

fiscal policy shift to revenue-based fiscal contraction, however, the tax on the interest of savings (impuesto al ahorro) was increased from 2010, with the flat rate of 18% being replaced by a progressive system of 19% and 21%. While budget 2011 did not bring any changes, the Zapatero government decided in September 2011, shortly before the general elections, to temporarily restore the Wealth Tax for the years 2011 and 2012. Yet, the former free allowance threshold of €108,182 was significantly raised, namely to €700,000. Despite its promise to not increase taxes, the incoming PP government adopted in December 2011 a budget for the next year that provided for several tax hikes. First, the tax on savings was increased by introducing a third tax bracket of 27% for savings above €24,000 and by raising the former rates of 19% and 21% to 21% and 25%, respectively. Second, a temporary surcharge to the Local Property Tax was introduced for 2012 and 2013, applying to high value real property, more precisely, "immovable properties with an updated cadastral value over the average value in each municipality" (Tax reforms in EU member states 2012, p. 44). And third, the tax on diesel for professional use was hiked. Similarly, budget 2013 relied on both increasing the scope of existing taxes and on introducing new ones. For one thing, the Wealth Tax, which had been temporarily re-introduced by the Zapatero government in 2011, was extended to 2013. Moreover, the previously exempted non-fuel use of liquid petroleum gas was taxed at €15 per tonne as of January 2013. For another thing, a lottery tax was introduced, taxing lottery prizes above €2,500 at a rate of 20%. Furthermore, several taxes on electricity generation were introduced, namely a tax on the sale of electric energy, a nuclear tax, and a tax on the storage of radioactive waste.

European demands concerning environmental taxation and, to a lesser extent, property taxation have been recurrently voiced within the framework of the European

Semester since 2011. In late 2011, the Commission (2011c) recommended the EU Member States a move towards consumption and environmental taxes, highlighting that “increasing consumption, environmental, wealth (for example, high value property) taxation can help to alleviate the tax burden on labour thus making hiring more attractive” (p. 5). In light of dramatically high unemployment rates, this recommendation was of particular importance for Spain. This had been made clear already some months earlier by the Council’s (2011) CSRs from July 2011, which proposed Spain to “[e]xplore the scope for improving the efficiency of the tax system, for example through a move away from labour towards consumption and environmental taxes while ensuring fiscal consolidation plans” (p. 12). One year later, this recommendation was repeated by the Council (2012); however, it was not put in concrete terms till April 2013 in context of the MIP launched against Spain. Pointing out that revenue from environmental taxes in Spain has been amongst the lowest in the EU, the 2013 MIP in-depth review suggested Spain to “further increase the role of environmental taxes, notably as regards energy and fuel taxes” (European Commission 2013a, p. 46). The issue was also included in the Council’s CSRs from July 2013, which asked Spain to “take additional steps in environmental taxation, in particular, as regards excise duties and fuel taxes” (Council of the European Union, p. 84). That is, European demands for *responsibility* have been an issue in the area of environmental taxes, while playing a minor role in wealth taxation. With the Commission (2013c) arguing in favour of a tax shift from labour towards more growth-friendly taxes such as VAT, property taxes and environmental taxes in the AGS 2014, it can be expected that European demands concerning these areas of taxation will not cease in the next few years.

In the electoral campaign 2008, both the PSOE and the PP had advertised that they would eliminate the Wealth Tax when in government (Partido Socialista Obrero Español 2008, p. 107, Partido Popular 2008, p. 123). Thus, with the 2009 elimination of the Wealth Tax, the PSOE fulfilled an electoral pledge, which it breached, however, less than two years later when re-introducing it. However, as the Spanish government of Zapatero stressed, due to the modifications made to the reinstated tax, only about 160,000 people, namely Spain's richest citizens, would be affected (Minder 2011). As the government's spokesmen José Blanco argued, "it is only fair to spread the burden of the crisis" (as cited in Inmalagatoday 2011). While spreading the pain of the crisis to the wealthier classes indeed corresponds to the PSOE's declared objective "to protect core social spending and to shield welfare beneficiaries from the effects of the downturn" (Dellepiane & Hardiman 2012, p. 19), it seems an attempt to appease leftist voters disgruntled with the austerity measures recently introduced. This also applies to the increase in the savings tax, which was not provided for by the PSOE's 2008 electoral programme either. However, critics have referred to both measures "as mere window dressing, pointing out that Spain's super-wealthy tend to invest their wealth in special investment funds that are taxed very lightly" (Inmalagatoday 2011). In sum, with regards to taxation on wealth, the PSOE's performance in *mandate responsiveness* seems to be rather poor. By contrast, *mandate responsiveness* in environmental taxation is high: neither were environmental taxes mentioned in the PSOE's 2008 manifestos (Partido Socialista Obrero Español 2008), nor did any changes occur in the realm of environmental taxation during the term of the PSOE.

By contrast, the PP's record in *mandate responsiveness* is sombre for both wealth and environmental taxes. In light of the fact that some regional governments



controlled by the PP “declared their opposition to collecting what they consider to be a misguided wealth tax” (Minder 2011), the extension of the temporary tax to 2013 appears inconsistent. Furthermore, none of the tax increases and new taxes that have been introduced since Rajoy took office in late 2011 is covered by the PP’s electoral programme (Partido Popular 2011). The 2011 manifesto of the PSOE (2011), by contrast, stresses the need of introducing environmental taxes, calling this area of taxation the one with the most catching-up to do (pp. 20-21).

Since no public opinion data is available on public attitudes towards wealth and environmental taxation, the extent of *policy responsiveness* is hard to tell. However, as the 2012 post-election study reveals, redistribution between different income groups enjoys a great deal of support. The vast majority of the respondents, namely 83.2%, agreed that the government should take measures in order to reduce income disparities while only 6.9% disagreed with the statement (CIS 2012b). This indicates that the taxes introduced on wealth and high-value property should, by and large, find acceptance among the citizens, even if less than a third of the Spaniards seems to support tax increases in order to finance economic reforms (European Commission 2007, p. 49). Thus, overall, *policy responsiveness* seems to be moderate with regards to tax policies adopted in the area of wealth and property.

### ***3.3 The politics of constrained choice - Tax policies in Spain and Ireland by comparison***

As the analysis of Irish and Spanish tax policies has shown, tax reform in Ireland and Spain has occurred along similar lines. Central elements of tax reform in both countries have been the widening of the tax base and the increase in tax rates. While this trend was most pronounced in the area of VAT in the case of Spain, in Ireland it was most significant in the area of PIT. The reason for this difference is that the tax

systems of the two countries differed in terms of their potential for catching-up. Another common feature of the Spanish and Irish tax policies 2008-2013 has been the introduction of environmental taxes and the expansion of taxation on wealth/property. Both developments point to an increasing convergence towards a European model of taxation that builds on a wide tax base and the emphasis on consumption and environmental taxes. As the analysis suggests, the phenomenon of convergence is clearly driven by recommendations made in the context of the emergent European economic governance framework.

However, the survey of taxation reform in Ireland and Spain also reveals that national governments retain discretion over the design of taxation policies as well as over the balance between tax increases and spending cuts. Even in the case of Ireland, where the government was asked to introduce a given set of taxes, the design of the specific terms of taxation remained a national responsibility as the example of the property tax shows. Strikingly, the burden of tax increases was differently spread among the population. While in Ireland tax reform was designed in a way that everybody had to pay his or her share, many of the tax measures introduced in Spain were targeted at the richer segments of the population. In both countries, politicians explicitly justified the particular approach they pursued, which indicates that the direction of the respective reform was no coincidence but planned.

As to enable an overview of the course of tax reforms in Spain and Ireland as well as to facilitate cross-country comparisons, the tax measures introduced in both countries are outlined in Table 1 and Table 2.

**Table 1 Tax measures in Ireland 2008-2013**

2008	<b>VAT:</b>	<ul style="list-style-type: none"> <li>increase in standard VAT rate from 21% to 21.5% (December)</li> </ul>
	<b>PIT</b>	<ul style="list-style-type: none"> <li>increase in several tax credits (personal, employee, home carer) by €70 to €130</li> <li>increase in threshold for liability to Pay Related Social Insurance and Health Levy</li> </ul>
	<b>Misc.:</b>	no changes
2009	<b>VAT:</b>	no changes
	<b>PIT:</b>	<ul style="list-style-type: none"> <li>increase in standard rate tax band by €1,000</li> <li>introduction of a new income levy (rates: 1%,2% and 3%)</li> <li>doubling of Health and Income Levy rates (April)</li> </ul>
	<b>Misc.:</b>	<ul style="list-style-type: none"> <li>introduction of a €200 per annum charge on non-principal private residence</li> </ul>
2010	<b>VAT:</b>	<ul style="list-style-type: none"> <li>reduction in standard VAT rate from 21.5% to 21%</li> </ul>
	<b>PIT:</b>	no changes
	<b>Misc.</b>	<ul style="list-style-type: none"> <li>introduction of a carbon tax for liquid fuels (€15 per tonne)</li> </ul>
2011	<b>VAT:</b>	<ul style="list-style-type: none"> <li>introduction of a temporary special reduced VAT rate of 9% for tourism-related activities (July)</li> </ul>
	<b>PIT:</b>	<ul style="list-style-type: none"> <li>elimination and reduction of several tax credits</li> <li>reduction in standard rate tax bands by €3,600</li> <li>introduction of a new Universal Social Charge (rates: 2%, 4%, 7%)</li> </ul>
	<b>Misc.:</b>	no changes
2012	<b>VAT:</b>	<ul style="list-style-type: none"> <li>increase in standard VAT rate from 21% to 23%</li> </ul>
	<b>PIT:</b>	<ul style="list-style-type: none"> <li>increase in USC liability threshold (from €4,004 to €10,036)</li> </ul>
	<b>Misc.:</b>	<ul style="list-style-type: none"> <li>increase in carbon tax by 5€ per tonne</li> <li>introduction of the €100 per annum Household Charge on principal private residence</li> </ul>
2013	<b>VAT:</b>	<ul style="list-style-type: none"> <li>maintenance of the special reduced rate for tourism-related activities</li> </ul>
	<b>PIT:</b>	<ul style="list-style-type: none"> <li>reduction in the Rent Tax Relief</li> <li>tightening of USC reduced rates eligibility</li> </ul>
	<b>Misc.:</b>	<ul style="list-style-type: none"> <li>extension of carbon tax to solid fuels</li> <li>introduction of a value-related property tax replacing the former charges on private residence (July)</li> </ul>

**Table 2 Tax measures in Spain 2008-2013**

2008	<b>VAT:</b>	no changes
	<b>PIT:</b>	no changes
	<b>Misc.:</b>	<ul style="list-style-type: none"> <li>• elimination of the wealth tax</li> </ul>
2009	<b>VAT:</b>	no changes
	<b>PIT:</b>	<ul style="list-style-type: none"> <li>• introduction of €400 personal income tax credit</li> </ul>
	<b>Misc.:</b>	no changes
2010	<b>VAT:</b>	<ul style="list-style-type: none"> <li>• increase in the standard and reduced rate from 16% to 18% and from 7% to 8%, respectively (July)</li> </ul>
	<b>PIT:</b>	<ul style="list-style-type: none"> <li>• €400 personal income tax credit phased out for employed and self-employed over €12,000 of the tax base</li> </ul>
	<b>Misc.:</b>	<ul style="list-style-type: none"> <li>• increase in savings tax</li> </ul>
2011	<b>VAT:</b>	<ul style="list-style-type: none"> <li>• temporary move of housing purchases from the reduced to the marginal rate (4%)</li> <li>• extension to 2012 (August)</li> </ul>
	<b>PIT:</b>	<ul style="list-style-type: none"> <li>• elimination of the €2,500 “baby cheque”</li> <li>• introduction of two new personal income tax brackets for top earners( 44% and 45% on annual income above €120,000 and € 175,000, respectively)</li> <li>• elimination of primary home purchase deduction for income over €24,170</li> </ul>
	<b>Misc.:</b>	<ul style="list-style-type: none"> <li>• temporary restoration of the wealth tax for 2011 and 2012, however, modified (September)</li> </ul>
2012	<b>VAT:</b>	<ul style="list-style-type: none"> <li>• increase in the standard and reduced rate from 18% to 21% and from 8% to 10%, respectively (September)</li> <li>• standard rate is extended to several goods and services related to catering and culture</li> </ul>
	<b>PIT:</b>	<ul style="list-style-type: none"> <li>• introduction of a new marginal personal income tax bracket (54% on annual income above €300,000]</li> <li>• temporary progressive increase in personal income tax for all tax brackets</li> <li>• reintroduction of the primary home purchase deduction for all taxpayers</li> </ul>
	<b>Misc.:</b>	<ul style="list-style-type: none"> <li>• increase in savings tax</li> <li>• introduction of a temporary (2011-2012) surcharge to the Local Property Tax for high value real property</li> <li>• increase in tax on diesel for professional use</li> </ul>
2013	<b>VAT:</b>	no changes
	<b>PIT:</b>	<ul style="list-style-type: none"> <li>• maintenance of the temporary progressive income tax levy beyond 2013</li> <li>• elimination of the primary home purchase deduction and the mortgage interest deduction</li> </ul>
	<b>Misc.:</b>	<ul style="list-style-type: none"> <li>• extension of the wealth tax to 2013</li> <li>• extension of tax on liquid petroleum gas to non-fuel use</li> <li>• introduction of lottery tax</li> <li>• introduction on several taxes on electricity generation (tax on the sale of electric energy, nuclear tax, tax on the storage of radioactive waste)</li> </ul>

Furthermore, the analysis suggests that constraints emanating from EMU membership have gained salience over the course of the crisis. This finding provides support for the expectation that the emergence of an ever more integrated governance framework for fiscal policies has increased the weight of euro-area specific constraints on national-level fiscal policy making. However, the burden of these constraints has been larger in Ireland, where conditions linked to financial assistance in the framework of the EFSM and the EFSF were not only more stringent but also more specific.

Closely interrelated, and as can be seen in Table 3 and Table 4, another important insight of the analysis is that, overall, high euro-area specific constraints are associated with rather low levels of *mandate and policy responsiveness*.

**Table 3 Irish tax policies between the poles of responsibility and responsiveness**

Party & Period	Variable	PIT	VAT	Property Tax	Carbon Tax	Water Tax
FIANNA FÁIL / GREEN PARTY 2008-2011	<b>European Demands for responsibility</b>	from NONE to HIGH	NONE	LOW	LOW	NONE
	<b>Mandate responsiveness</b>	from HIGH to POOR	RATHER POOR	POOR	HIGH	N/A
	<b>Policy responsiveness</b>	From HIGH to MODERATE	From POOR to HIGH	-	-	-
FINE GAEL/ LABOUR PARTY 2011-2013	<b>Responsibility</b>	LOW	HIGH	HIGH	HIGH	HIGH
	<b>Mandate responsiveness</b>	HIGH	HIGH/ MODERATE	POOR/ MODERATE	HIGH	HIGH / MODERATE
	<b>Policy responsiveness</b>	HIGH	POOR	RATHER POOR	MODERATE	POOR

All indications suggest that the increased burden of euro-area specific constraints has significantly reduced governments' ability to keep their electoral pledges and introduce policies that correspond with public preferences. This finding provides empirical support for the expectation derived from Peter Mair's framework that high

levels of European responsibility result in low levels of responsiveness. While poor mandate and policy responsiveness of the tax policies introduced in the first term of government were primarily due to crisis-specific constraints, the design of taxation reform during the second term of government was considerably affected by euro-area specific constraints. At the same time, constraints from the European level provided a shield to policy-makers and politicians. On the pretext of European responsibility, unpopular measures such as the VAT increase in Spain and the introduction of a property tax in Ireland were justified by explaining that the government had no alternative.

**Table 4 Spanish tax policies between the poles of responsibility and responsiveness**

Party & Period	Variable	PIT	VAT	Wealth taxes	Environmental Taxes
PSOE 2008-2011	<b>European Demands for responsibility</b>	NONE	NONE	NONE	NONE
	<b>Mandate responsiveness</b>	From HIGH to RATHER POOR	POOR	RATHER POOR	HIGH
	<b>Policy responsiveness</b>	MODERATE	RATHER POOR	MODERATE	-
PP 2011-2013	<b>Responsibility</b>	RATHER HIGH	RATHER HIGH	LOW	RATHER HIGH
	<b>Mandate responsiveness</b>	POOR	POOR	POOR	POOR
	<b>Policy responsiveness</b>	MODERATE	RATHER POOR	MODERATE	-

Most notably, however, the analysis has shown that tax policy choices were politically intermediated. *Political parties' agency* appears to play an important role in the legitimisation of policy choices. This seems to partly explain the different record in responsiveness of tax policies implemented in Ireland as opposed to those introduced in Spain. As Table 3 and Table 4 show, overall, mandate responsiveness appears to be higher in Ireland than in Spain. This is mainly due to the fact that the Irish parties offered far less populist and more concrete policy proposals in the election campaign than the PP did in Spain. Furthermore, the Spanish governments seem to have lacked an overall strategy, which resulted in a flip-flopping with regards

to several tax items such as the primary home purchase deduction. That is, it seems that the more sophisticated, credible and consistent agency of the governing political parties is, the better is their performance in terms of both mandate and policy responsiveness.

Finally, the analysis indicates that it is not only the agency of political parties that affects governments' scope to be responsive but that it is also the terms of political competition that determine political parties' ability to act in a way that is conducive to being responsiveness to citizens and to building legitimacy for the policy choices introduced. As the examples of the Spanish tax measures introduced in the second term and of the Irish property tax and the water charge reveal, a hostile political environment is detrimental to political parties' ability to act in a legitimacy-enhancing way.

## CONCLUSION

The objective of this study was to investigate the role of both the emergent European economic governance system and political parties' agency in fiscal policy choices and their legitimisation. For this purpose, the Irish and Spanish tax policies that were enacted in the period 2008-2013 were analysed, positioning policy choices between the conflicting poles of responsibility and responsiveness. As the analysis has shown, governments' ability to both keep their mandate and remain responsive to the demands of citizens has been significantly reduced by the new instruments of EU economic governance. Prescribing both specific tax measures and general taxation trends, the financial assistance programmes, the EDP, and the European Semester have considerably decreased governments' room for manoeuvre as for taxation policies. While the EDP affected policy decisions only in so far as the overall targets of the envisaged deficit reduction needed to be met, it did not provide for specific prescriptions neither on tax reform nor on the balance of taxing and spending. In the case of Ireland, European demands for specific tax reforms were primarily expressed in the context of the EFSM/EFSSF, namely the MoU and the MEFP, and were regularly updated in the CSRs within the framework of the European Semester. Contrary to this, Spanish tax policy making was primarily constrained by the CSRs of the European Semester whereas the MoU did not specify any concrete demands on Spanish tax system reform.

However, the findings also suggest that the constraints emanating from EMU membership did not translate directly into national tax policies. In fact, policy making was politically intermediated. This implies that the level of responsiveness is not only affected by the weight of euro-area specific constraints, that is, European demands for responsibility, but also by political parties' agency. It seems that governments'



scope to be responsive is considerably affected by their capacity to create consistent and credible narratives around their policy choices towards European institutions and partners on the one hand and citizens on the other hand. To this end, consistency, constancy, the issuing of precise and realistic electoral pledges as well as the availability of a sophisticated, mid-term strategy appear to be crucial. Populist appeals as well as the fiddling about with single taxation items, by contrast, creates suspicion and leads to a loss of credibility. More precisely, the hostile atmosphere of the Spanish electoral campaign resulted in unrealistic and populist commitments on the part of the PP that made Rajoy having a hard time in creating legitimacy for the policy choices he had made. In the context of a cross-party consensus on the general strategy of fiscal consolidation, the Irish Fine Gael-Labour government, by contrast, was more successful in creating legitimacy for the measures they introduced. Precise and realistic electoral pledges typically led to fair levels of mandate responsiveness while the drawing up of a consistent narrative around the policy in question created credibility, which in turn counteracted public backlash. This suggests that the quality of political parties' agency is partially contingent on the terms of the political discourse.

All this leads to the conclusion that since the scope of policy discretion considerably hinges on political parties' agency, it is crucial for democratic government that the political parties adapt to the conditions of constrained choice. As the analysis has shown, the choice over the structure of taxation as well as over the balance between tax increases and spending cuts remains a nationality responsibility, with a fair degree of policy discretion remaining in the hands of the Irish and Spanish governments. However, the survey has also revealed that the combination of high levels of European responsibility on the one hand, and poor agency of political

parties on the other hand, is likely to lead to a situation where responsiveness is low and where thus democratic legitimacy is at stake. Therefore, this study calls for bringing political parties' agency in the focus of the analysis of the democratic challenges that arise from the enhanced fiscal and economic integration in the euro area.

The main contribution of the analysis conducted is that it advances our fragmentary understanding of the emergent euro regime's impact on democratic government in the EAMS, shedding light on the dynamics of both policy making and politics in the context of constrained choice. Furthermore, it provides both systematic and comparative empirical evidence on the political implications of the crisis-induced deepening of economic integration in the euro area. All in all, the findings support the line of argumentation that assumes that national governments retain a fair degree of policy discretion even in the context of constrained choice. This indicates that democratic legitimacy might be curtailed but is not eliminated.

Against this backdrop, the question arises as to how far the conclusions of this study may travel to other policy areas and countries. Given taxation's comparatively high degree of flexibility and low level of inertia, it is conceivable that in other budgetary-related areas such as public pensions and health care less room for policy differentiation is left to parties, hampering their ability to build legitimacy for their policy choices. To gain a more comprehensive understanding of the phenomenon of politics of constrained choice, further analysis of policy fields other than taxation as well as of other countries is required. Furthermore, it seems fruitful to investigate the relation between mandate and policy responsiveness on the one hand, and public satisfaction with government and the working of democracy on the other hand. This

would enhance our understanding of the dilemma that democratic government in the EAMS is facing under the conditions of constrained choice.

The new euro regime is still in the making, which means that we cannot yet see its implications for democratic government at its entirety. However, the findings of the explorative study conducted suggest that political parties will play an important role in ensuring the democratic legitimacy of the policies, institutions and political actors in the EU and its Member States.

## **APPENDIX A: LIST OF INTERVIEWEES**

- David Farrell, Head of the Academic and Legal Support Team advising the recent Irish Convention on the Constitution and Professor at University College Dublin. Interview on April 24, 2014, Dublin.
- Muiris MacCarthaigh, Official in the Irish Ministry for Public Expenditure and Reform and Lecturer of Politics at Queen's University Belfast.  
Interview on April 24, 2014, Dublin.
- Niamh Hardiman, Professor at the School of Politics and International Relations, University College Dublin.  
Interview on April 25, 2014, Dublin.
- Aidan Regan: Lecturer at the School of Politics and International Relations, University College Dublin.  
Interview on April 25, 2014, Dublin.
- Oscar Molina, Lecturer at the Department of Sociology, Universitat Autònoma de Barcelona.  
Skype interview on May 7, 2014.

## APPENDIX B: TEXT ANALYSIS: LIST OF PRIMARY SOURCES

### *Responsibility*

	Ireland	Spain
<b>Financial assistance programme</b>	<p>EFSM/EFSF</p> <p>European Commission/ ECB/ Irish Government</p> <ul style="list-style-type: none"> <li>- Memorandum of Understanding on Specific Economic Policy Conditionality (08.12.2010)</li> </ul> <p>IMF/ Irish Government</p> <ul style="list-style-type: none"> <li>- Memorandum of Economic and Financial Policies (03.12.2010)</li> </ul> <p>Irish Department of Finance:</p> <ul style="list-style-type: none"> <li>- Letter and Questionnaire concerning the European Parliament's initiative report on Troika action in euro area programme countries</li> </ul> <p>European Commission:</p> <ul style="list-style-type: none"> <li>- Questionnaire concerning the European Parliament's initiative report on Troika action in euro area programme countries</li> </ul> <p>ECB:</p> <ul style="list-style-type: none"> <li>- Questionnaire concerning the European Parliament's initiative report on Troika action in euro area programme countries</li> </ul>	<p>ESM:</p> <p>European Commission/ ECB/ Spanish Government</p> <ul style="list-style-type: none"> <li>- Memorandum of Understanding on Financial-Sector Conditionality (20.07.2012)</li> </ul>
<b>European Semester</b>	<p>European Commission:</p> <ul style="list-style-type: none"> <li>- Annual Growth Survey 2011 (12.01.2010)</li> <li>- Annual Growth Survey 2012 (30.11.2011)</li> <li>- Annual Growth Survey 2013 (28.11.2012))</li> <li>- Annual Growth Survey 2014 (13.11.2013)</li> </ul>	
	<p>Council:</p> <ul style="list-style-type: none"> <li>- Country-specific recommendations 2011</li> <li>- Country-specific recommendations 2012</li> <li>- Country-specific recommendations 2014</li> </ul> <p>European Commission:</p> <ul style="list-style-type: none"> <li>- The Economic Adjustment Programme for Ireland (February 2011)</li> <li>- In-depth review 2011</li> <li>- Commission Staff Working Paper 2012</li> </ul>	<p>Council:</p> <ul style="list-style-type: none"> <li>- Country-specific recommendations 2011</li> <li>- Country-specific recommendations 2012</li> <li>- Country-specific recommendations 2013</li> <li>- Country-specific recommendations 2014</li> </ul> <p>European Commission:</p> <ul style="list-style-type: none"> <li>- In-depth review 2011</li> <li>- In-depth review 2012</li> <li>- In-depth review 2013</li> <li>- In-depth review 2014</li> </ul>

	<ul style="list-style-type: none"> <li>- Commission Staff Working Paper 2013</li> <li>- In-depth review 2014</li> <li>- Macroeconomic Imbalances Procedure, In-depth review No. 1 (05.03.2014)</li> </ul> <p>Irish Government:</p> <ul style="list-style-type: none"> <li>- National Reform Programme Progress Report 2011</li> <li>- Stability Programme 2011</li> <li>- National Reform Programme Progress Report 2012</li> <li>- Stability Programme 2012</li> <li>- National Reform Programme Progress Report 2013</li> <li>- Stability Programme 2013</li> </ul>	<ul style="list-style-type: none"> <li>- Macroeconomic Imbalances Procedure, In-depth review No. 1 (30.05.2012)</li> <li>- Macroeconomic Imbalances Procedure, In-depth review No. 2 (10.04.2013)</li> <li>- Macroeconomic Imbalances Procedure, In-depth review No. 3 (05.03.2014)</li> </ul> <p>Spanish Government:</p> <ul style="list-style-type: none"> <li>- National Reform Programme Progress Report 2011</li> <li>- Stability Programme 2011</li> <li>- National Reform Programme Progress Report 2012</li> <li>- Stability Programme 2012</li> <li>- National Reform Programme 2013</li> <li>- Stability Programme 2013</li> </ul>
<b>Excessive Deficit Procedure</b>	<ul style="list-style-type: none"> <li>- Commission report (18.02.2009)</li> <li>- Commission opinion on the existence of an excessive deficit (24.03.2009)</li> <li>- Council recommendation to end the excessive deficit situation (27.04.2009)</li> <li>- Council decision on the existence of an excessive deficit (27.04.2009)</li> <li>- Council recommendation to end the excessive deficit situation (02.12.2009)</li> <li>- Commission communication to the Council on action taken (15.06.2010)</li> <li>- Council recommendation to end the excessive deficit situation (07.12.2010)</li> <li>- Commission communication to the Council on action taken (24.08.2011)</li> </ul>	<ul style="list-style-type: none"> <li>- Commission report (18.02.2009)</li> <li>- Council recommendation to end the excessive deficit situation (27.04.2009)</li> <li>- Council decision on the existence of an excessive deficit (27.04.2009)</li> <li>- Council recommendation to end the excessive deficit situation (02.12.2009)</li> <li>- Commission communication to the Council on action taken (15.06.2010)</li> <li>- Commission staff working document - Analysis by the Commission services of the budgetary situation in Spain (06.07.2012)</li> <li>- Council recommendation to end the excessive deficit situation (10.07.2012)</li> <li>- Commission staff working document - Analysis by the Commission services of the budgetary situation in Spain (14.11.2012)</li> <li>- Commission communication to the Council on action taken (14.11.2012)</li> <li>- Commission staff working document (29.05.2013)</li> <li>- Council recommendation to end the excessive deficit situation</li> </ul>

		(21.06.2013) - Economic Partnership Programme (01.10.2013) - Commission communication to the Council on action taken (15.11.2013)
--	--	---

### ***Mandate Responsiveness***

	<b>Ireland</b>	<b>Spain</b>
<b>First term</b>	<ul style="list-style-type: none"> <li>- Programme for Government 2007-2012</li> <li>- (2007 Manifestos of Fianna Fáil and the Green Party not available)</li> </ul>	<ul style="list-style-type: none"> <li>- Manifesto of PSOE</li> <li>- Manifesto of PP</li> </ul>
<b>Second term</b>	<ul style="list-style-type: none"> <li>- Manifesto of Fianna Fáil 2011</li> <li>- Manifesto of Fine Gael 2011</li> <li>- Manifesto of the Labour Party 2011</li> <li>- Programme for Government 2011</li> <li>- PfG Progress Report March 2012</li> <li>- Programme for Government Annual Report 2013</li> <li>- Programme for Government Annual Report 2014</li> </ul>	<ul style="list-style-type: none"> <li>- Manifesto of PSOE</li> <li>- Manifesto of PP</li> <li>- “Cara a cara. Rajoy vs. Rubalca”, TV Debate (07.11.2011)</li> <li>- Interview with Mariano Rajoy (published in El País, 16.11.2011)</li> <li>- Rajoy’s Inauguration Speech (19.12.2011)</li> </ul>

## **APPENDIX C: DETAILED ANALYSIS OF IRELAND'S CORPORATION TAX POLICY**

### **The Corporation Tax – A sacrosanct institution of the Irish tax system?**

A competitive corporate tax regime is one key tenet of Ireland's industrial policy, which, for more than fifty years, has focussed on attracting and retaining Foreign Direct Investment (FDI) (Irish government 2013). Tracing back to the 1956 Export Profits Tax Relief measures that introduced a zero rate of tax on income from export sales of manufacturing goods (Barry 2011), the country's low corporation tax regime is "one of the most commonly cited explanations for Ireland's economic growth from the early 1990s" (Blue 2000, p. 443). At the heart of the current Irish corporation tax strategy is the 12.5% corporation tax on trading income, which was, together with a 25% rate on non-trading income, gradually established between 1998 and 2003, superseding the previous 32% standard rate of corporation tax (Irish government 2013, p. 3). Despite fierce and repeated criticism from EU institutions and European partners in the wake of the euro crisis, the 12.5% corporation tax has been maintained, and appears to be the probably firmest policy commitment of Irish governments since 2010. In the following, I analyse the dynamics of the struggle for maintaining the corporate tax along the lines of responsibility and responsiveness.

In view of a looming bailout, pressure on the Irish government over its low corporation tax increased. In late September 2010, MEPs from both the European People's Party (EPP) and the Green group declared that Ireland would have to raise its low corporation tax in case it requested financial assistance from the EU (Cahill 2010). And indeed, in mid-November, as soon as it was known that the Irish government had entered official bailout negotiations with the EU and the IMF, it



became apparent that a change to the Irish corporate tax regime was on the agenda. However, as several newspapers report, German and French demands to raise the corporation tax were met head-on by Irish government officials, who insisted that the corporate tax regime was “a red line” and “non-negotiable” (McDonald et al. 2010, Heatley & Gotkine 2010). Shortly afterwards, this stance was confirmed in the National Recovery Plan, which was published a few days later, stating that the government remained steadfastly committed to the maintenance of the 12½% rate of corporation tax regime as the cornerstone of industrial policy (Irish government 2010, p. 90). This firm policy commitment corresponds clearly to what the then governing parties Fianna Fáil and the Greens had promised when taking office in 2007, namely “that the 12.5% rate of corporation tax will remain” (Fianna Fáil & Green Party. 2007, p. 8). Ultimately, the Irish government succeeded in defending the corporation tax regime although requesting financial assistance from the EU: no provision on the corporation tax was included either in the MoU or in the MEFP, which were approved in December 2010.

As it became clear in the run-up to the general elections in February 2011, with respect to the maintenance of the 12.5% corporation tax, there was consensus among the large part of the political elite. From Fianna Fáil and the Green Party through to the two largest opposition parties Fine Gael and Labour, the main political parties insisted in their manifestos that the corporation tax had to be retained at its current level (Fianna Fáil 2011, p. 23, Green Party 2011, p. 10, Fine Gael 2011, p. 5, Labour Party 2011, pp. 15 and 88). Even the populist left-wing Sinn Féin did not explicitly urged for an increase. According to the media, Fine Gael’s Leader Enda Kenny told EPP colleague and German Chancellor Angela Merkel during a meeting in Berlin two weeks ahead of the Irish election that “Ireland wouldn’t consider

changing its corporation tax rate as part of the eurozone competitiveness plan championed by Merkel and Nicolas Sarkozy” (Ryan 2011). Having won the elections, Fine Gael and Labour (2011) correspondingly committed in their Programme for Government 2011 to keep the corporate tax rate at 12.5%. And in fact, the corporation tax has been maintained at its level ever since, even if this came at the cost of abandoning another electoral pledge, namely the renegotiation of the EU/IMF bailout package. As it became known after the EU Summit on March 11, the newly-elected Taoiseach Enda Kenny rejected the German-French proposal to Ireland to obtain a lower interest rate on bailout funds from the EU in exchange for either increasing its corporation tax rate or changing its corporation tax base so to exclude income generated outside Ireland (Cahill 2011, “Merkel and Sarkozy to Kenny: agree to change the Irish corporate tax rate/base”). Since then, the Irish government (2011, 2012) has repeatedly confirmed its commitment to the 12.5% corporation tax. Nevertheless, speculation about the future of this tax arrangement has been repeatedly renewed, e.g. in autumn 2013 when it turned out that the Apple group saved millions in corporation tax payments due to tax loopholes in Irish law, leading Germany’s Social Democrats (SPD) to consider putting Ireland’s corporate tax regime on the agenda of the looming coalition talks with Angela Merkel’s Christian Democrats (CDU) (Molloy 2013).

As public opinion data reveals, the Irish corporation tax regime is not only supported by the country’s political elite but also by the Irish citizens. According to a Millwards Brown National Opinion Poll conducted in February 2012, the majority of the citizens support the low tax: 74% of the respondents agree that the “12.5 % Corporation tax should not be increased under any circumstances”, while only 13% oppose this statement (Millward Brown Lansdowne 2012, p. 20).

All this suggests that as for the insistence on the 12.5% corporation tax, all parties governing Ireland in the period 2008-2013 performed well in terms of both *mandate responsiveness* and *policy responsiveness* despite European demands to overturn it. Particularly the French and the German government exerted repeatedly pressure on Ireland to abandon its low corporate tax regime. Thus, demands for *responsibility* existed, but since they were neither formalized nor institutionalized within any of the instruments of new European economic governance, the Irish governments were able to fend them off. This ability clearly seems to be the result of the main *political parties' agency*. Against the background of a cross-party consensus on the sacrosanctity of the corporation tax, the governing parties succeed in creating a hard-line, consistent and credible narrative around the maintenance of the corporation tax both towards the European partners and the citizens. That way, the Irish governments could make a name for being the guardian of the economic interest of the Irish nation, increasing their legitimacy in the eyes of the citizens.

## APPENDIX D: DETAILED ANALYSIS OF IRISH TAXATION POLICIES IN THE DOMAIN OF PROPERTY AND ENVIRONMENTAL TAXES

### Ireland: Carbon tax, property tax, water charge – What's next?

Next to the policy changes in the fields of both VAT and PIT, a considerable agenda of new taxes and household charges was implemented. Most prominently, a carbon tax was introduced, taxation on housing was restored and a water charge was got off the ground. All three taxes fall into the category of “growth-friendly taxes”, which have been forcefully advocated by the European Commission (2011c) within the framework of the European Semester 2012. In the Annual Growth Survey 2012, EU Member States are instructed:

Greater efforts should be made to shift taxation away from labour towards taxation which is less detrimental to growth: for example, increasing consumption, environmental, wealth (for example, high value property) taxation can help to alleviate the tax burden on labour thus making hiring more attractive. (p. 5)

Furthermore, the introduction of these new taxes and charges measures up the European request to Ireland to broaden its narrow tax base so as to create more sustainable revenue streams, which was repeatedly voiced in the context of the Excessive Deficit Procedure that was launched against Ireland in 2009 (Council of the European Union 2009a, 2009b). Apart from these less specific demands that have been made in the framework of European economic governance, the increase in the carbon tax as well as the introduction of a property tax and water charges have been part of the macroeconomic conditionality tied to the financial assistance granted to Ireland by the EU, Ireland's European partner countries and the IMF, as will specified below. This implies that the revenue measures discussed in this subsection are characterized by a both similar and high degree of *responsibility*.

To start with, in 2010 a **carbon tax** was first introduced in Ireland, taxing CO<sub>2</sub> emitted by fossil fuels at a rate of €15 per tonne. While the tax initially applied only to transport (petrol, auto-diesel) and non-transport (different sorts of gas and oil) fuels, in 2013 it was extended to solid fuels (coal and peat) on a phased basis. By introducing this tax, Fianna Fáil and the Green Party (2007) complied with their government commitment to “investigate fiscal measures to protect and enhance the environment including the introduction of a carbon tax” (p. 9). In view of the urgent need to increase public revenue, within the framework of the National Recovery Plan published in November 2010, the government proposed to “increase the price of carbon gradually from €15 to €30 in 4 years” (Irish government 2010, p. 13). Finally, this proposal was incorporated in the MoU signed with the European Commission, which demanded an increase in the carbon tax to be implemented by the end of 2011 (European Commission 2011d, p. 67). Although principally supporting the increase in the carbon tax, in the 2011 electoral campaign both Fine Gael and Labour proposed to limit the planned increase to €25 per tonne, with Fine Gael advocating the exemption of agricultural diesel from additional tax increases (Fine Gael 2011, p. 42, Labour Party 2011, p. 16). Despite the fact that only the exemption found its way into the two parties’ Programme for Government, Fine Gael and Labour so far have kept their pledges with regards to both the cap on carbon tax increase and the farm diesel exemption. Except from a carbon tax increase by €5 to €20 per tonne of CO<sub>2</sub> emitted on fossil fuels in budget 2012, the carbon tax has not been raised. Furthermore, budget 2012 introduced a double income tax deduction for farmers to compensate for carbon tax increases across-the-board. That is, as far as the carbon tax is concerned, the governing parties in the period 2008-2013 did not only live up to the European demands for *responsibility* as laid down in the MoU and expressed in the

context of the European Semester. They also succeeded in implementing their electoral pledges, performing well in terms of *mandate responsiveness*.

Since no data on public opinion on the carbon tax is available, it is difficult to assess the degree of *policy responsiveness*. Although concerns have been raised about the regressive impact of the carbon tax in general (Callan et al. 2009), and its risk to exacerbate fuel poverty in particular (Scott et al. 2008, Irish Rura Link 2009), public opposition against the carbon tax has kept within limits. With that said, and in view of the moderate increase in the carbon tax, overall, *policy responsiveness* appears to be moderate.

As opposed to this, the introduction of the property tax and the water charge has triggered controversy among both the political parties and the electorate, coming to play a central role in the 2014 local elections. Interestingly, none of the two taxes is that new: their predecessors, namely the Residential Property Tax and domestic water charges, were abolished in 1997 in the context of a period of extraordinary growth.

Changes in **taxation on housing** have evolved in three steps. First, budget 2009 introduced a charge on non-principal private residences to support the provision of local services. The charge, payable by the owner, was set at a flat rate of €200 per year. In 2012, this charge was complemented by the so-called Household Charge, a property tax of €100 per year to be paid on each principal private residence by the respective homeowner. Exemptions were made to social housing, housing provided by a charity, and to homeowners receiving short-term support to help pay their mortgage interest repayments. From the start, the Household Charge was conceived as an interim measure, bridging the time gap until the introduction of a full property

tax in 2014 (Irish government 2012, p. 34). The property tax took its final shape by dint of the Finance (Local Property Tax) Act, which was enacted in December 2012. The Act introduced a value-related property tax, which came into force in July 2013, replacing the former charges on both non-principal and principal private residence. The initial rate was set at 0.18% and 0.25% of a property's market value up to and over €1 million respectively.

The idea of a property tax was first mentioned in the National Recovery Plan of November 2010, where the government of Fianna Fáil and the Greens committed to introduce a new site value tax in 2012 and complete it by 2013 (Irish government 2010, p. 98). More precisely, the plan proposes the introduction of an interim fixed household charge of €100 per annum in 2012, to be complemented by a value-based addition in 2013. This proposition was taken up by the Troika in the context of the financial assistance granted to Ireland. The MoU contains the request to introduce a property tax in Budget 2012 and to increase it one year later (European Commission 2011d, pp. 67 and 70), whereby the MEFP signed with the IMF simply calls for “establish[ing] a sound basis for sub-national finances through a new residential-property based site value tax” (European Commission 2011d, p. 54). These provisions imply a high degree of *responsibility*.

Overall, the introduction of a property tax was not what the main political parties had spoken for. The 2009 introduction of the €200 charge on non-principal private residence seems to be an ad-hoc measure to reduce the deficit. In their Programme for Government for 2007-2012, Fianna Fáil and the Greens had not mentioned taxation on housing at all, indicating poor *mandate responsiveness*. In the election campaign 2011, the two main opposition parties reacted differently to the commitment that the government had made to the Troika.

The Labour Party (2011), for its part, accepted the introduction of a site value charge as necessary in order to prevent higher taxes on work but emphasised the need to devise a fair basis for such a charge, ruling out its introduction before 2014 (p. 16). In return, Labour (2011) proposed to increase the second homes levy to €300 as an interim measure (p. 16). This latter proposal, however, never materialized. Moreover, Labour had to breach its pledge to introduce no new property tax before 2014. Labour's promise to publish a Green Paper on the efficient and fair design of the property tax, by contrast, was fulfilled with the establishment of an Inter-Departmental Expert Group to consider proposals for a new, more equitable property tax in early 2012 (Irish government 2012). The voluntary deferrals and temporary exemptions that were introduced together with the Local Property Tax in 2013 were not as substantive as expected, though. This deficiency, however, has been partly compensated for by the announcement made by the Minister of Finance Michael Noonan in May 2014 that the scope of reliefs from Local Property tax would be extended to certain disabled and/or incapacitated individuals (Irish government 2014b). All in all, Labour's record in *mandate responsiveness* appears moderate.

Compared to this, Fine Gael performed worse in terms of *mandate responsiveness*. Declaring an annual, recurring residential property tax unfair, Fine Gael (2011) proposed alternatives to solve the funding for local authorities, namely shrinking local services, increasing local user charges for waste or introducing a local "site sales profits tax" (pp. 59-60). In the end, none of these alternatives was realised whereas the disliked annual property charge was adopted, with Taoiseach Enda Kenny describing the property tax as "both progressive and fair" (as cited in Hennessy 2012) when the Budget 2013 was announced in December 2012. The explosive nature of this policy shift was fuelled by several opposition politicians and the media circulating



a 1994 statement of Enda Kenny in which he called the then looming property tax a “vampir tax”. On February 2, 1994, he said in the Dáil Eireann, the principal chamber of the Irish legislature:

It is morally unjust and unfair to tax a person's home, and by so doing grind him into the ground. Indeed in cases it could probably be unconstitutional. It reminds me of a vampire tax in that it drives a stake through the heart of home ownership, through enthusiasm and initiative, and sucks the life blood of people who want to own their own home and better their position. If the Government fails to appreciate the passion with which people will defend their rights to own their home and have it looking as well as it should, it is making a serious mistake. (Kenny 2/2/1994)

With that said, it seems not only that Fine Gael did rather poorly with respect to *mandate responsiveness* but also that Enda Kenny’s swing of opinion came along with a serious loss of credibility.

Based on the commitments made in the Programme for Government, however, both Fine Gael and Labour perform well in terms of *mandate responsiveness*. This document obliges Fine Gael and Labour simply to “consider, arising from the previous Government’s deal with the IMF, various options for a site valuation tax [...] tak[ing] into account the significant number of households in mortgage distress and provid[ing] local government with a reliable stream of revenue” (Fine Gael & Labour Party 2011, s.p.), with which the Local Property Tax is in line.

Nevertheless, the property tax has sparked off public controversy and public resistance, which is illustrated by the fact that by January 2013 there were still half-a-million householders who had not yet paid the Household Charge for 2012 (Reilly 2013), which constitutes almost a third of all Irish householders. As Regan (personal communication, April 25, 2014) asserts, the property tax presents, together with the water charge and the minimum wage, the issue of the Troika programme which has been most contentious with the public. Available public opinion data is less straightforward, though. In a public opinion poll from June 2011, almost a third of the

respondents opted for the property tax when asked whether they thought that introducing a water charge, a property tax, or to increase income tax was the fairest way to reduce the public deficit (Millward Brown Lansdowne 2011a). At the same time, only a quarter of the respondents regarded the property tax as the least fair way to sort out public finances. However, it needs to be noted, that the survey was conducted before the controversial Household Charge was introduced. Furthermore, the success of candidates critical of the property and water tax in the 2014 local elections indicates that resentment over the property tax is growing: Sinn Féin, Anti-Austerity Alliance and Independents all have made significant gains. Therefore, all in all, the policy changes introduced in the field of property tax seem to come off rather badly in terms of *policy responsiveness*.

Given the controversy around the water charge in the period 2008-2013, it will be briefly discussed even though water charges for homes that are connected to the public water supply will commence only from 1 October 14. In 2013, two Water Services Acts were enacted, with one establishing the national water service authority “Irish water” and the other providing for water metering and domestic water charges (Irish government 2014a). According to the Ministry for the Environment, Community and Local Government, the estimated average is €240 per year per household, whereby the final decision on the level of domestic water charges is pending until August 2014 (Citizens Information Board 2014). At the beginning of May 2014, just in time before the upcoming European and local elections, the government ended a two-month row over details of the water charge. Labour managed to reach that there would be no standing charge for householders and that pensioners and people on disability allowances would get relief from water charges (Downing & Sheehan 2014, Collins & O’Brien 2014).

The idea of introducing a charge for domestic water was first brought up in the National Recovery Plan 2011-2014, which provides for domestic water charges to “cover local authorities’ operational costs” (Irish government 2010, p. 78). Shortly afterwards, the introduction of the charges became part of the EU-IMF bailout agreement. While the MEFP simply calls for a “move towards full cost-recovery in the provision of water services” (European Commission 2011d, p. 54), the MoU is more specific, requiring the Irish government in advance of the introduction of water charges to have undertaken an independent assessment of transfer of responsibility for water services provision from local authorities to a water utility [by the end of 2011], and prepare proposals for implementation, as appropriate with a view to start charging in 2012/2013 (European Commission 2011d, p. 68). That is, *responsibility* to introduce charges that would fully cover the expenses of water provision was high.

Different from the case of the property tax, Fine Gael performed significantly better in terms of *mandate responsiveness* than Labour. Framing water charging as “a fair funding model to deliver clean and reliable water” (Fine Gael 2011, p. 43) during the election campaign 2011, Fine Gael supported the introduction of a water charge provided that “a responsibility for water delivery is transferred from 34 local authorities to a single national water company” (Fine Gael 2011, p. 66). Since this proposal materialized par for par, Fine Gael’s performance in terms of mandate responsiveness is high.

The Labour Party (2011), for its part, did not dismiss water charging but stressed that “Labour does not favour water charges, which do not address the immediate needs of those who currently receive intermittent or poor water supplies” (p. 29). However, “in the last week of the election campaign in February 2011, when it looked just like Fine Gael might squeeze an overall majority” (McGee 2014), Labour launched a

spectacular poster campaign warning of a number of cuts and charges that Fine Gael would implement when in government. In the style of a Tesco advert and under the slogan “Every Little Hurts”, the poster highlighted, among other items, a €238 per annum water tax, suggesting that Labour would shield the citizens from it when entering into a coalition with Fine Gael. However, this did not happen. Even so, Labour succeeded in pushing through some modifications to the water tax as designed by the Fine Gael-led Ministry for the Environment, Community, and Local Government. Yet, as the Irish Examiner judges, Labour has failed to make political capital out of the concessions they extracted: while “Fine Gael was keen to look like protectors of middle-income earners by insisting it had faced down a Labour bid to exempt all social welfare claimants from the tax”, what Labour did “was too little and too late to win more than a trickle of appreciation from the electorate for its efforts” (Connolly 2014). Nevertheless, all in all, Labour’s performance in terms of *mandate responsiveness* is moderate.

With view to the Programme for Government 2011, however, the Fine Gael-Labour government performs considerably well in terms of *mandate responsiveness*. As announced, both a new State owned water utility company and a charging system based on use above the free allowance (Fine Gael & Labour Party 2011, s.p.) was established.

Just as the property tax, domestic water charges have become “a key issue in the local election campaign and [...] the focus for attack by Opposition parties and Independents” (Collins & O’Brien 2014). The relative success of these candidates in the local election 2014 seems to indicate growing dissatisfaction of the Irish citizens with water charging. Public opinion data from 2011 and 2012 even suggests that the increasing unpopularity of the water charge is not just a recent development.

Whereas in June 2011 still 31% of the respondents of the Millwards Brown National Opinion Poll (2011a) named the introduction of a water charge as the fairest way to reduce the deficit, in February 2012 it was only 19% (Millward Brown Lansdowne 2012). All this indicates that the launched introduction of the water charge does not meet the criterion of *policy responsiveness*.

In comparison to the tax policies introduced in the domain of VAT and PIT, it seems that the governing parties had more difficulties in creating legitimacy for the tax changes they adopted in the field of public water provision and property taxation. Namely, Labour and Fine Gael were torn between the firm European demands to introduce a property tax and water charges on the one hand, and Independents' and Sinn Féin's fierce criticism against these taxes on the other hand. It seems that political contestation significantly stood in the way of *agency* that aimed at rendering these measures acceptable to the people. Furthermore, the nature of these taxes might also have played a role in this. Both the property and the water tax were directed at households, featuring high visibility and affecting citizens across the board and thus provoking broad public backlash. The carbon tax, by contrast, hit the rural areas in particular, which made it easier for the parties to counter reactive responses.

## REFERENCES

- “Merkel and Sarkozy to Kenny: agree to change the Irish corporate tax rate/base by 25th March or we won’t reduce your interest rate”, 2011). Available online at <http://namawinelake.wordpress.com/2011/03/12/merkel-and-sarkozy-to-kenny-agree-to-change-the-irish-corporate-tax-ratebase-by-25th-march-or-we-won%E2%80%99t-reduce-your-interest-rate/>, checked on 5/30/2014.
- “Cara a cara. Rubalcaba-Rajoy. El debate 2011”, 2011. Rteve, November, 7, 2011. Available online at <http://www.rtve.es/alacarta/videos/elecciones-20-n/cara-cara-rubalcaba-rajoy/1243540/>, checked on 5/29/2014.
- “Tax reforms in EU member states. Tax policy challenges for economic growth and fiscal sustainability: 2012 report”, 2012. Luxembourg: Publications Office of the European Union (European economy, 6/2012).
- Reuters (2012): Spain's Rajoy raises VAT by 3 percentage points. Madrid. Available online at <http://www.reuters.com/article/2012/07/11/spain-economy-cuts-idUSE8E8HD00B20120711>, checked on 6/2/2014.
- Armingeon, Klaus and Lucio Baccaro (2012): The Sorrows of Young Euro: The Sovereign Debt Crises of Ireland and Southern Europe. In Nancy Gina Bermeo and Jonas Pontusson (Eds.): *Coping with crisis. Government reactions to the great recession*. New York: Russell Sage Foundation, pp. 162–197.
- Armingeon, Klaus and Kai Guthmann (2014): Democracy in crisis? The declining support for national democracy in European countries, 2007-2011. In *European Journal of Polit Research*. Available online at <http://onlinelibrary.wiley.com/doi/10.1111/1475-6765.12046/pdf>, checked on 4/3/2014.
- Avram, Silvia; Figari, Francesco; Leventi, Chrysa; Levy, Horacio; Navicke, Jekaterina; Matsaganis, Manos et al. (2013): The distributional effects of fiscal consolidation in nine EU countries. In *EUROMOD Working Paper Series 2/13*.

Available online at <https://www.iser.essex.ac.uk/publications/working-papers/euromod/em2-13>, checked on 4/17/2014.

Bardi, Luciano; Bartolini, Stefano and Alexander H. Trechsel (2014): Responsive and Responsible? The Role of Parties in Twenty-First Century Politics. In *West European Politics* 37 (2), pp. 235–252.

Barry, Frank (2011): Foreign Investment and the Politics of Export Profits Tax Relief 1956. Available online at [http://www.tcd.ie/business/staff/fbarry/papers/Foreign%20Investment%20and%20the%20Politics%20of%20Export%20Profits%20Tax%20Relief%201956%20\\_FINAL%20REV%20Feb%202011\\_.pdf](http://www.tcd.ie/business/staff/fbarry/papers/Foreign%20Investment%20and%20the%20Politics%20of%20Export%20Profits%20Tax%20Relief%201956%20_FINAL%20REV%20Feb%202011_.pdf), checked on 5/30/2014.

Bartolini, Stefano and Hans Daalder (forthcoming): Peter Mair. An Intellectual Portrait. In Ingrid van Biezen (ed.): *On Parties, Party Systems and Democracy. Selected Writings from Peter Mair*. Colchester: ECPR Press.

Blue, Julia R. (2000): The Celtic Tiger roars defiantly. Corporation Tax in Ireland and Competition With the European Union. In *Duke Journal of Comparative and International Law* 10, pp. 443–467.

Bohle, Dorothee (2014): Responsible Government and Capitalism's Cycles. In *West European Politics* 37 (2), pp. 288–308.

Bosco, Anna and Suannah Verney (2012): Electoral Epidemic: The Political Cost of Economic Crisis in Southern Europe, 2010–11. In *South European Society and Politics* 17 (2), pp. 129–154.

Brennan, Michael and Sarah Stack (2009, March 16): VAT hike was a mistake, admits Lenihan. In *Irish Independent*, 2009, March 16. Available online at <http://www.independent.ie/irish-news/vat-hike-was-a-mistake-admits-lenihan-26521345.html>, checked on 5/19/2014.

Cahill, Ann (2010, September 28): Bailout 'should cost Ireland double corporation tax'. In *Irish Examiner*. Available online at <http://www.irishexaminer.com/ireland/bailout-should-cost-ireland-double-corporation-tax-131983.html>, checked on 5/30/2014.

- Cahill, Ann (2011, March 11): Kenny set to clash with Merkel on corporate tax. In *Irish Examiner*. Available online at <http://www.irishexaminer.com/ireland/election-2011/kenny-set-to-clash-with-merkel-on-corporate-tax-147861.html>, checked on 5/30/2014.
- Callan, Tim; Leventi, Chrysa; Levy, Horacio; Matsaganis, Manos; Paulus, Alari and Holly Sutherland (2011): The distributional effects of austerity measures: a comparison of six EU countries. In: *EUROMOD Working Paper Series* 6/11. Available online at <https://www.iser.essex.ac.uk/publications/working-papers/euromod/em6-11.pdf>, checked on 4/17/2014.
- Callan, Tim; Lyons, Seán; Scott, Susan; Tol, Richard S. J. and Stefano Verde (2009): The Distributional Implications of a Carbon Tax in Ireland. In *Energy Policy* 37 (2), pp. 407–412.
- Chaqués Bonafont, Laura; Palau, Anna M.; and Luz M. Muñoz Marquéz (2014): Policy Promises and Government Activities in Spain. In Christopher Green-Pedersen and Stefaan Walgrave (Eds.): *Agenda Setting, Policies, and Political Systems: A Comparative Approach*. University of Chicago Press, pp. 183–200.
- Chaqués-Bonafont, Laura and Anna Palau (2011): Assessing the Responsiveness of Spanish Policymakers to the Priorities of their Citizens. In *West European Politics* 34 (4), pp. 706–730.
- CIS (2007): Opinion Pública y Política Fiscal (XXIV). Madrid (Opinion Pública y Política Fiscal, Estudio nº 2727). Available online at [http://www.cis.es/cis/export/sites/default-Archivos/Marginales/2720\\_2739/2727/e272700.html](http://www.cis.es/cis/export/sites/default-Archivos/Marginales/2720_2739/2727/e272700.html), checked on 6/1/2014.
- CIS (2009): Opinion Pública y Política Fiscal (XXVI). Madrid (Opinion Pública y Política Fiscal, Estudio nº 2809). Available online at [http://www.cis.es/cis/export/sites/default-Archivos/Marginales/2800\\_2819/2809/es2809.pdf](http://www.cis.es/cis/export/sites/default-Archivos/Marginales/2800_2819/2809/es2809.pdf), checked on 6/1/2014.
- CIS (2010): Opinion Pública y Política Fiscal (XXVII). Madrid (Opinion Pública y Política Fiscal, Estudio nº 2841). Available online at



- [http://www.cis.es/cis/export/sites/default-Archivos/Marginales/2840\\_2859/2841/es2841.pdf](http://www.cis.es/cis/export/sites/default-Archivos/Marginales/2840_2859/2841/es2841.pdf), checked on 6/1/2014.
- CIS (2011): Opinion Pública y Política Fiscal (XXVIII). Madrid (Opinion Pública y Política Fiscal, Estudio nº2910). Available online at [http://www.cis.es/cis/export/sites/default-Archivos/Marginales/2900\\_2919/2910/Es2910.pdf](http://www.cis.es/cis/export/sites/default-Archivos/Marginales/2900_2919/2910/Es2910.pdf), checked on 6/1/2014.
- CIS (2012a): Congruencia ideológica entre electores y representates políticos. Estudio nº 2930. Madrid. Available online at [http://www.cis.es/cis/export/sites/default-Archivos/Marginales/2920\\_2939/2930/Es2930.pdf](http://www.cis.es/cis/export/sites/default-Archivos/Marginales/2920_2939/2930/Es2930.pdf), checked on 6/1/2014.
- CIS (2012b): Estudio Postelectoral elecciones general 2011. Avance de Resultados (Estudio nº2920). Available online at [http://datos.cis.es/pdf/Es2920mar\\_A.pdf](http://datos.cis.es/pdf/Es2920mar_A.pdf), checked on 6/1/2014.
- Citizens Information Board (2014): Water charges. Public Service Information. Dublin. Available online at [http://www.citizensinformation.ie/en/environment/water\\_services/water\\_charges.html](http://www.citizensinformation.ie/en/environment/water_services/water_charges.html), updated on 5/23/2014, checked on 5/28/2014.
- Collins, Stephen and Tim O'Brien (2014, April 28): Fine Gael moves to defuse row over water charges. In *The Irish Times*. Available online at <http://www.irishtimes.com/news/politics/fine-gael-moves-to-defuse-row-over-water-charges-1.1775881>, checked on 5/28/2014.
- Conde-Ruiz, J. Ignacio and Carmen Marín (2013): The Fiscal Crisis in Spain. Austerity measures in crisis countries - results and impact on mid-term development. In *Intereconomics* 48 (1), pp. 21–26.
- Connolly, Shaun (2014, May 7): Too little, too late for Labour pressure over water charges. In *Irish Examiner*. Available online at <http://www.irishexaminer.com/ireland/too-little-too-late-for-labour-pressure-over-water-charges-267734.html>, checked on 5/28/2014.

Council of the European Union (2009a): COUNCIL DECISION of 27 April 2009 on the existence of an excessive deficit in Ireland. 2009/416/EC. In *Official Journal of the European Union* 52 (135), pp. 23–24.

Council of the European Union (2009b): COUNCIL RECOMMENDATION to Ireland with a view to bringing an end to the situation of an excessive government deficit. Available online at [http://www.eurozone.europa.eu/media/migrated/596198/ie\\_recommendation.pdf](http://www.eurozone.europa.eu/media/migrated/596198/ie_recommendation.pdf), checked on 5/30/2014.

Council of the European Union (2011): COUNCIL RECOMMENDATION of 12 July 2011 on the National Reform Programme 2011 of Spain and delivering a Council opinion on the updated Stability Programme of Spain, 2011-2014. 2011/C 212/01. In *Official Journal of the European Union* 54 (C 212).

Council of the European Union (2012): COUNCIL RECOMMENDATION of 10 July 2012 on the National Reform Programme 2012 of Spain and delivering a Council opinion on the Stability Programme for Spain, 2012-2015. 2012/C 219/24. In *Official Journal of the European Union* 55 (C 219).

Council of the European Union (2013): Council Recommendation of 9 July 2013 on the National Reform Programme 2013 of Spain and delivering a Council opinion on the Stability Programme of Spain, 2012-2016. 2013/C 217/20. In *Official Journal of the European Union* 56 (C 217).

Dalton, Russell J.; Farrell, David M. and Ian McAllister (2011): *Political parties and democratic linkage. How parties organize democracy*. Oxford, New York: Oxford University Press (CSSES).

Dawson, Mark (2014, March 6): Constitutional Balance in the EU after the Euro Crisis. Central European University. Budapest, 2014, March 6. Available online at <http://publicpolicy.ceu.hu/node/39107>, checked on 5/13/2014.

Dawson, Mark and Floris de Witte (2013): Constitutional Balance in the EU after the Euro-Crisis. In *Modern Law Review* 76 (5), pp. 817–844.

Degryse, Christophe (2012): The new European economic governance. European Trade Union Institute (ETUI). *Brussels Working Paper*, 2012.14. Available

online at <http://www.etui.org/Publications2/Working-Papers/The-new-European-economic-governance>, checked on 2/13/2014.

Dellepiane, Sebastian and Niamh Hardiman (2012): The New Politics of Austerity: Fiscal Responses to the Economic Crisis in Ireland and Spain. University College Dublin. Geary Institute, *UCD Geary Institute Discussion Paper Series*, WP2012/07. Available online at <http://hdl.handle.net/10197/4926>, checked on 2/11/2014.

Dellepiane, Sebastian and Niam Hardiman (2013): The politics of fiscal effort in Spain and Ireland : Market credibility versus political legitimacy. University College Dublin. Geary Institute, *UCD Geary Institute Discussion Paper Series*, WP2013/21. Available online at <http://hdl.handle.net/10197/5117>, checked on 2/11/2014.

Downing, John and Aideen Sheehan (2014, May 6): Hogan confirms €240 water charge – and says non-payment will reduce supply to 'a trickle'. In *Irish Independent*. Available online at <http://www.independent.ie/irish-news/hogan-confirms-240-water-charge-and-says-nonpayment-will-reduce-supply-to-a-trickle-30248181.html>, checked on 5/28/2014.

Enderlein, Henrik (2013): Das erste Opfer der Krise ist die Demokratie. Wirtschaftspolitik und ihre Legitimation in der Finanzmarktkrise 2008-2013. In *Politische Vierteljahreszeitschrift* 54 (4), pp. 714–739.

European Commission (2006-2013): Public Opinion in the European Union Eurobarometer No. 65, 68, 72, 73, 76, 78, 79. Available online at [http://ec.europa.eu/public\\_opinion/archives/eb\\_arch\\_en.htm](http://ec.europa.eu/public_opinion/archives/eb_arch_en.htm), checked on 5/22/2014.

European Commission (2007): The euro area, 2007. Public attitudes and perceptions. Analytical report. In *Flash Eurobarometer*, 216). Available online at [http://ec.europa.eu/public\\_opinion/flash/fl\\_216\\_en.pdf](http://ec.europa.eu/public_opinion/flash/fl_216_en.pdf), checked on 6/1/2014.

European Commission (2009): The euro area, 2009. Public attitudes and perceptions. Analytical report. In *Flash Eurobarometer* 279. Available online at [http://ec.europa.eu/public\\_opinion/flash/fl\\_279\\_en.pdf](http://ec.europa.eu/public_opinion/flash/fl_279_en.pdf), checked on 6/1/2014.

European Commission (2010): Commission communication to the Council on action taken. COM (2010) 329. Available online at [http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/pdf/30\\_edps/communication\\_to\\_the\\_council/2010-06-15\\_be\\_cz\\_de\\_ie\\_es\\_fr\\_it\\_nl\\_at\\_pt\\_si\\_sk\\_communication\\_on\\_action\\_taken\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/communication_to_the_council/2010-06-15_be_cz_de_ie_es_fr_it_nl_at_pt_si_sk_communication_on_action_taken_en.pdf), checked on 6/2/2014.

European Commission (2011a): Growth-friendly Tax Policies in Member States and Better Tax Coordination in the EU. Annual Growth Survey 2012, Annex. COM(2011) 815 final. Available online at [http://ec.europa.eu/europe2020/pdf/ags2012\\_annex4\\_en.pdf](http://ec.europa.eu/europe2020/pdf/ags2012_annex4_en.pdf), checked on 5/19/2014.

European Commission (2011b): Tax reforms in EU member states 2011. Tax policy challenges for economic growth and fiscal sustainability. Luxembourg: Publications Office of the European Union (European economy, 5/2011).

European Commission (2011c): Annual Growth Survey 2012. European Commission. Brussels (COM(2011) 815 final). Available online at [http://ec.europa.eu/europe2020/pdf/ags2012\\_en.pdf](http://ec.europa.eu/europe2020/pdf/ags2012_en.pdf), checked on 5/29/2014.

European Commission (2013a): Macroeconomic imbalances. Spain 2013. Luxembourg: Publications Office. *European economy. Occasional papers* 134, April 2013).

European Commission (2013b): The euro area, 2013. Report. In *Flash Eurobarometer* 386. Available online at [http://ec.europa.eu/public\\_opinion/flash/fl\\_386\\_en.pdf](http://ec.europa.eu/public_opinion/flash/fl_386_en.pdf), checked on 6/1/2014.

European Commission (2013c): Annual Growth Survey 2014. European Commission. Brussels (COM(2013) 800 final). Available online at [http://ec.europa.eu/europe2020/pdf/2014/ags2014\\_en.pdf](http://ec.europa.eu/europe2020/pdf/2014/ags2014_en.pdf), checked on 5/29/2014.

European Commission (2014a): Macroeconomic imbalances. Spain 2014. Luxembourg: Publications Office. In *European economy. Occasional papers* 176, March 2014). Available online at [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2014/pdf/ocp176\\_en.pdf](http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp176_en.pdf).

European Council (2012): Towards a genuine economic and monetary union. Report by President of the European Council Herman Van Rompuy. Available online at [http://ec.europa.eu/economy\\_finance/crisis/documents/131201\\_en.pdf](http://ec.europa.eu/economy_finance/crisis/documents/131201_en.pdf), checked on 6/3/2014.

European Commission (2011d): The economic adjustment programme for Ireland. Brussels: European Commission, Directorate-General for Economic and Financial Affairs (European economy : Occasional papers, 76).

European Commission (2012): Assessment of the 2012 national reform programme and stability programme for SPAIN. Commission Staff Working Document. SWD (2012) 310 final. European Commission. Brussels. Available online at [http://ec.europa.eu/europe2020/pdf/nd/swd2012\\_spain\\_en.pdf](http://ec.europa.eu/europe2020/pdf/nd/swd2012_spain_en.pdf), checked on 5/31/2014.

European Commission (2013d): Assessment of the 2013 national reform programme and stability programme for SPAIN. Commission Staff Working Document. SWD(2013) 359 final. European Commission. Brussels. Available online at [http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/pdf/30\\_edps/other\\_documents/2013-11-15\\_es\\_-\\_epp\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/other_documents/2013-11-15_es_-_epp_en.pdf), checked on 5/31/2014.

European Commission (2013e): Proposal for a COUNCIL OPINION on the Economic Partnership Programme of Spain. COM(2013) 902 final. Brussels. Available online at [http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/pdf/30\\_edps/other\\_documents/2013-11-15\\_es\\_-\\_epp\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/other_documents/2013-11-15_es_-_epp_en.pdf).

European Commission (2014b): The Lisbon Treaty and tax legislation in the EU. Available online at [http://ec.europa.eu/taxation\\_customs/taxation/gen\\_info/tax\\_policy/article\\_6759\\_en.htm](http://ec.europa.eu/taxation_customs/taxation/gen_info/tax_policy/article_6759_en.htm), updated on 4/23/2014, checked on 5/19/2014.

Eurostat (2013a): Taxation trends in the European Union. Data for the EU member states, Iceland and Norway. 2013 ed. Luxembourg: Publications Office of the European Union (Eurostat statistical books).

Eurostat (2013b): Taxation trends in the European Union. The overall tax-to-GDP ratio in the EU27 up to 38.8% of GDP in 2011. Tim Allen, eurostat-pressoffice@ec.europa.eu. Available online at [http://europa.eu/rapid/press-release\\_STAT-13-68\\_en.pdf](http://europa.eu/rapid/press-release_STAT-13-68_en.pdf), checked on 5/30/2014.

Evans-Pritchard, Ambrose (2012): Debt crisis: Spain bows to EU ultimatum with drastic cuts. In *The Telegraph*, 7/11/2012. Available online at <http://www.telegraph.co.uk/finance/financialcrisis/9393818/Debt-crisis-Spain-bows-to-EU-ultimatum-with-drastring-cuts.html>, checked on 6/2/2014.

Fabbrini, Sergio (2013): Intergovernmentalism and Its Limits: Assessing the European Union's Answer to the Euro Crisis. In *Comparative Political Studies* 46 (9), pp. 1003–1029. DOI: 10.1177/0010414013489502.

Farrell, David M. (2014): 'Stripped Down' or Reconfigured Democracy. In *West European Politics* 37 (2), pp. 439–455.

Farrell, David M.; Suiter, Jane (2011): It's the policy, stupid. In Deirdre Mc Carthy (Ed.): *Election 2011 & the 31st Dáil*. Drogheda: RTÉ Publishing (The Week in Politics), pp. 54–57.

Fasone, Christina and Elena Griglio (2013): Can Fiscal Councils Enhance the Role of National Parliaments in the European Union? In Bruno de Witte, Adrienne Héritier, Alexander H. Trechsel (Eds.): *The Euro crisis and the state of European democracy*. Contributions from the 2012 EUDO dissemination conference. Florence: European University Institute, pp. 264–305.

Fianna Fáil (2011): Real Plan, Better Future. Manifesto 2011. Available online at <http://www.rte.ie/news/2011/0207/FFManifesto.pdf>, checked on 5/30/2014.

Fianna Fáil; Green Party; Progressive Democrats (2007): Programme for Government 2007-2012. Dublin. Available online at

[http://www.taoiseach.gov.ie/attached\\_files/Pdf%20files/Eng%20Prog%20for%20Gov.pdf](http://www.taoiseach.gov.ie/attached_files/Pdf%20files/Eng%20Prog%20for%20Gov.pdf), checked on 5/30/2014.

Fine Gael (2011): Fine Gael Manifesto. Let's Get Ireland Working. Available online at <http://www.rte.ie/news/2011/0215/finegaelmanifesto.pdf>, checked on 5/19/2014.

Fine Gael; Labour Party (2011): Programme for Government 2011-2016. Dublin. Available online at [http://www.taoiseach.gov.ie/eng/Work\\_Of\\_The\\_Department/Programme\\_for\\_Government/Programme\\_for\\_Government\\_2011-2016.pdf](http://www.taoiseach.gov.ie/eng/Work_Of_The_Department/Programme_for_Government/Programme_for_Government_2011-2016.pdf), checked on 5/30/2014.

Fishman, Robert M. (2012): Anomalies of Spain's Economy and Economic Policy-making. In *Contributions to Political Economy* 31 (1), pp. 67–76.

George, Alexander L.; Bennett, Andrew (2005): Case studies and theory development in the social sciences. Cambridge, Mass: MIT Press (BCSIA studies in international security).

Gerring, John (2007): Case study research. Principles and practices. New York: Cambridge University Press.

Grauwe, Paul de (2011a): The governance of a fragile eurozone. Brussels, Belgium: Centre for European Policy Studies, CEPS working document, no. 346.

Grauwe, Paul de (2011b): What kind of governance for the Eurozone. In Wim Meeusen (Ed.): *The economic crisis and European integration*. Cheltenham, UK, Northampton, Mass: Edward Elgar, pp. 7–16.

Green Party (2011): Renewing Ireland. Green Party Manifesto 2011 (<http://vote.greenparty.ie/downloads/manifesto.pdf>).

Hallerberg, Mark.; Marzinotto, Benedicta; Wolff, Guntram B. (2012): On the effectiveness and legitimacy of EU economic policies. *Bruegel Policy Brief* 2012/04, 9 November 2012 (brugelpolicybrief, 2012/04), November 2012. Available online at <http://search.ebscohost.com/login.aspx?direct=true&db=edsupe&AN=edsupe.37317&site=eds-live>.

Hardiman, Niamh (Ed.) (2012): *Irish governance in crisis*. Manchester, UK, New York, New York: Manchester University Press; distributed in the U.S. exclusively by Palgrave Macmillan.

Heatley, Colm and Elliott Gotkine (2010, November 29): Battered Ireland Clings to Its Low Taxes. In *Bloomberg Businessweek* 4206, p. 19.

Heffttler, Claudia and Wolfgang Wessels (2013): The Democratic Legitimacy of the EU's Economic Governance and National Parliaments. Istituto Affari Internazionali, *IAI Working Papers* 1313. Available online at <http://www.iai.it/pdf/DocIAI/iaiw1313.pdf>, checked on 9/12/2013.

Hennessey, Michelle (2012, December 5): Taoiseach: Property tax is "both progressive and fair". In *The Journal*. Available online at <http://www.thejournal.ie/article.php?id=704005>, checked on 5/31/2014.

Hutcheson, Derek Stanford (2011): The February 2011 Parliamentary Election in Ireland, *Working Papers in British-Irish Studies* 109. Available online at [http://www.ucd.ie/ibis/filestore/wp2011/109\\_hutcheson.pdf](http://www.ucd.ie/ibis/filestore/wp2011/109_hutcheson.pdf), checked on 4/22/2014.

Inmalagatoday (2011): Spain reintroduces the wealth tax. Malaga. Available online at <http://www.inmalagatoday.com/content/spain-reintroduces-wealth-tax>, updated on 5/29/2014.

Inman, Phillip (2011, November 18): Irish braced for more cuts after budget plans leaked by German officials. In *The Guardian*. Available online at <http://www.theguardian.com/business/2011/nov/18/ireland-budget-leak>, checked on 5/19/2014.

Irish government (2010): The National Recovery Plan 2011-2014. Irish government. Dublin. Available online at <http://www.budget.gov.ie/The%20National%20Recovery%20Plan%202011-2014.pdf>, checked on 5/28/2014.



Irish government (2011): Stability Programme 2011. Update. Irish government. Available online at [http://ec.europa.eu/europe2020/pdf/nrp/sp\\_ireland\\_en.pdf](http://ec.europa.eu/europe2020/pdf/nrp/sp_ireland_en.pdf), checked on 5/30/2014.

Irish government (2012a): Irish Stability Programme 2012. Update. Available online at <http://www.finance.gov.ie/sites/default/files/spuapr2012.pdf>, checked on 5/30/2014.

Irish government (2012b): Hogan announces the establishment of an Inter-Departmental Expert Group to consider Proposals for a Property Tax. Dublin. Press Office. Available online at <http://www.environ.ie/en/LocalGovernment/LocalGovernmentAdministration/News/MainBody,29330,en.htm>, checked on 5/28/2014.

Irish government (2013): Ireland's Corporation Tax Strategy and FDI. Available online at <http://www.finance.gov.ie/sites/default/files/CT-Strategy-Presentation-for-Website-FINAL.pdf>, checked on 5/30/2014.

Irish government (2014a): New era for water services delivery to begin. Dublin. Press Office, [press-office@environ.ie](mailto:press-office@environ.ie). Available online at <http://www.environ.ie/en/Environment/Water/WaterServices/News/MainBody,34963,en.htm>, checked on 5/28/2014.

Irish government (2014b): Extension of Reliefs for Certain Disabled and/or Incapacitated individuals for Local property Tax. Available online at <http://www.finance.gov.ie/news-centre/press-releases/extension-reliefs-certain-disabled-andor-incapacitated-individuals-local>, checked on 5/31/2014.

Irish Rura Link (December 2009): Coping with Carbon Tax, [info@irishrurallink.ie](mailto:info@irishrurallink.ie). Available online at <http://www.irishrurallink.ie/Publications/Coping%20with%20Carbon%20Tax.pdf>, checked on 5/27/2014.

Kennedy, Paul (2012): From Unpopular Socialists to the Popular Party: The Spanish General Election of 2011. In *West European Politics* 35 (3), pp. 673–681.

- Kenny, Enda (1994, February 2): Comments on Financial Resolutions. Dáil Éireann Debate. Dáil Éireann. Dublin. Available online at <http://debates.oireachtas.ie/dail/1994/02/02/00007.asp>, checked on 5/31/2014.
- Kingston, Suzanne (2013): All is Changed, Changed Utterly? The Euro Crisis, the CJEU, and the Changing Nature of National Tax Sovereignty in the EU. University College Dublin, *UCD Working Papers in Law, Criminology & Socio-Legal Studies*, Research Paper Nr. 08/2013. Available online at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2307540##](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2307540##), checked on 2/27/2014.
- Kitschelt, Herbert (2000): Citizens, politicians, and party cartellization: Political representation and state failure in post-industrial democracies. In *European Journal of Political Research* 37 (2), pp. 149–179.
- Kumm, Matthias (2012): Democratic challenges arising out of the euro crisis. In Petr Novak (Ed.): *Challenges of Multi-tier Governance in the EU*. Workshop 4th October 2012. European Parliament, pp. 33–35.
- Labour Party (2011): One Ireland. Jobs, reform, fairness. Labour Manifesto. Available online at [www.labour.ie/manifesto](http://www.labour.ie/manifesto), checked on 5/19/2014.
- Laffan, Brigid (2014): Testing Times: The Growing Primacy of Responsibility in the Euro Area. In *West European Politics* 37 (2), pp. 270–287.
- Leahy, Pat (2011): Campaign Strategies and Political Marketing. In Michael Gallagher, Michael Marsh (Eds.): *How Ireland voted 2011. The full story of Ireland's earthquake election*. Basingstoke : Palgrave Macmillan, pp. 68–88.
- Liddle, Roger; Cramme, Olaf and Renaud Thillaye (2012): Where next for Eurozone governance? The quest for reconciling economic logic and political dilemmas. *Policy Network Papers*, July 2012. Available online at <http://www.policy-network.net/publications/4222/Where-next-for-Eurozone-governance>, checked on 9/19/2013.
- Little, Conor (2011): The General Election of 2011 in the Republic of Ireland: All Changed Utterly? In *West European Politics* 34 (6), pp. 1304–1313.

- MacCarthaigh, Muiris (2013): Reform of Public Policy-Making in Ireland. In *SSRN Journal*. Available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2261003](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2261003), checked on 5/12/2014.
- Mair, Peter (2005): *Democracy Beyond Parties*. University of California. Irvine. Available online at <http://cadmus.eui.eu/bitstream/handle/1814/3291/viewcontent.pdf?sequence=1>, checked on 5/12/2014.
- Mair, Peter (2009): Representative versus responsible government. Max Planck Institute for the Study of Societies, *MPIfG Working Paper*, 09/8.
- Mair, Peter (2011a): Bini Smaghi vs. the Parties: Representative Government and Institutional Constraints: European University Institute: Roman Schuman Centre Working Papers 2011-01-15 (EUI Working Papers RSCAS, 2011/22). Available online at <http://search.ebscohost.com/login.aspx?direct=true&db=edsoai&AN=edsoai.840751766&site=eds-live>.
- Mair, Peter (2011b): The Election in Context. In Michael Gallagher, Michael Marsh (Eds.): *How Ireland voted 2011. The full story of Ireland's earthquake election*. Basingstoke: Palgrave Macmillan, pp. 283–297.
- Mansergh, Lucy and Robert Thomson (2007): Election Pledges, Party Competition, and Policymaking. In *Comparative Politics* 39 (3), pp. 311–329.
- Marsh, Michael (2011): Poll position. In Deirdre Mc Carthy (Ed.): *Election 2011 & the 31st Dáil*. Drogheda: RTÉ Publishing (The Week in Politics), pp. 32–35.
- Marsh, Michael and Slava Mikhaylov (2014): A Conservative Revolution: The Electoral Response to Economic Crisis in Ireland. In *Journal of Elections, Public Opinion & Parties* 24 (2), pp. 160–179.
- Martín, Irene and Ignacio Urquizu-Sancho (2012): The 2011 General Election in Spain: The Collapse of the Socialist Party. In *South European Society and Politics* 17 (2), pp. 347–363.
- McDonald, Henry; Elliott, Larry and Jill Treanor (2010, November 18): Ireland takes hardline stance on corporation tax as bailout talks begin. In *The Guardian*.

Available online at <http://www.theguardian.com/business/2010/nov/18/ireland-bailout-imf-europe-corporate-tax>, checked on 5/30/2014.

McGee, Harry (2014, April 16): Water charges reminds Labour of 'Every Little Hurts' stunt. In *The Irish Times*. Available online at <http://www.irishtimes.com/news/politics/water-charges-reminds-labour-of-every-little-hurts-stunt-1.1764247>, checked on 5/28/2014.

Menéndez, Agustín José (2013): The Existential Crisis of the European Union. In *German Law Journal* 14 (5), pp. 453–526. Available online at <http://www.germanlawjournal.com/index.php?pageID=11&artID=1520>, checked on 5/12/2014.

Millward Brown Lansdowne (2012): National Opinion Poll. Available online at [http://www.millwardbrown.com/Libraries/Ireland\\_Surveys\\_Downloads/MillwardBrown\\_National-Opinion-Poll\\_February-2012\\_Updated.sflb.ashx](http://www.millwardbrown.com/Libraries/Ireland_Surveys_Downloads/MillwardBrown_National-Opinion-Poll_February-2012_Updated.sflb.ashx), checked on 5/30/2014.

Millward Brown Lansdowne (2011a): National Opinion Poll. "100 Days of Government". 22nd June 2011. Available online at [http://www.millwardbrown.com/Libraries/Ireland\\_Polls\\_Downloads/MillwardBrown\\_Irish-Independent-Poll\\_June\\_2011.sflb.ashx](http://www.millwardbrown.com/Libraries/Ireland_Polls_Downloads/MillwardBrown_Irish-Independent-Poll_June_2011.sflb.ashx), checked on 5/30/2014.

Millward Brown Lansdowne (2011b): National Opinion Poll 1st February 2011. *Irish Independent*.

Millward Brown Lansdowne and RTÉ (2011): General Election 2011. Exit Poll. Available online at <http://www.imsl.ie/archived>, updated on 4/30/2014.

Minder, Raphael (2011, September 15): Spain to Reinstate Wealth Tax It Dropped 3 Years Ago. In *The New York Times*. Available online at [http://www.nytimes.com/2011/09/16/business/global/spain-seeking-new-revenue-to-reintroduce-wealth-tax.html?\\_r=0](http://www.nytimes.com/2011/09/16/business/global/spain-seeking-new-revenue-to-reintroduce-wealth-tax.html?_r=0), checked on 5/29/2014.

Molloy, Thomas (2013, October 15): Germans in new attack on corporate tax level. In *Irish Independent*. Available online at <http://www.independent.ie/>

incoming/germans-in-new-attack-on-corporate-tax-level-29661265.html, checked on 5/30/2014.

Moreno, Javier (2011, November 16): Mi prioridad: las pensiones. A partir de ahí, habrá que recortar en todo. Entrevista al candidato popular. In *El País*. Available online at [http://politica.elpais.com/politica/2011/11/16/actualidad/1321476670\\_720434.html](http://politica.elpais.com/politica/2011/11/16/actualidad/1321476670_720434.html), checked on 5/29/2014.

Morlino, Leonardo and Mario Quaranta (2014): The Non-Procedural Determinants of Responsiveness. In *West European Politics* 37 (2), pp. 331–360.

O'Brien, Dan (2013, December 1): Threat of second bailout still has not gone away. In *Sunday Independent*. Available online at <http://www.independent.ie/opinion/analysis/dan-obrien-threat-of-second-bailout-still-has-not-gone-away-29798862.html>, checked on 5/10/2014.

Partido Popular (2008): Las ideas claras. Con Rajoy es possible. Programa de Gobierno Partido Popular 2008. Available online at <http://www.pp.es/sites/default/files/documentos/1191-20090909122124.pdf>, checked on 5/29/2014.

Partido Popular (2011): Lo que España necesita. Más sociedad, mejor gobierno. Programa electoral Partido Popular 2011. Available online at <http://www.pp.es/sites/default/files/documentos/5751-20111101123811.pdf>, checked on 5/29/2014.

Partido Socialista Obrero Español (2008): Motivos para creer. Programa electoral. Elecciones generales 2008. Available online at <http://www.psoe.es/source-media/000000118500/000000118784.pdf>, checked on 5/29/2014.

Pisani-Ferry, Jean (2013): Politics doesn't have to remain in suspended animation. Available online at <http://pisani-ferry.typepad.com/blog/2012/01/politics-doesnt-have-to-remain-in-suspended-animation.html>, updated on 1/23/2013, checked on 5/18/2014.

Poiars Maduro, Miguel; Witte, Bruno de and Matthias Kumm (2012): The Euro Crisis and the Democratic Governance of the Euro: Legal and Political Issues of a

- Fiscal Crisis. In Poiares Maduro, Miguel, Bruno de Witte, Matthias Kumm (Eds.): *The Democratic Governance of the Euro*. Robert Schuman Centre for Advanced Studies; European University Institute (RSCAS Policy Papers), pp. 3–13.
- Puetter, Uwe (2012): Europe's deliberative intergovernmentalism: the role of the Council and European Council in EU economic governance. In *Journal of European Public Policy* 19 (2), pp. 161–178.
- Rajoy, Mariano (2011, December 19): Discurso de Investidura (X Legislatura). Discurso de Mariano Rajoy en la sesión de investidura como presidente del Gobierno. Madrid. Available online at [http://www.lamoncloa.gob.es/presidente/discursodeinvestidura\\_new/index.htm](http://www.lamoncloa.gob.es/presidente/discursodeinvestidura_new/index.htm), checked on 5/29/2014.
- Regan, Aidan (2013): Political Tensions in Euro-Varieties of Capitalism: the Crisis of the Democratic State in Europe. European University Institute. *EUI Working Paper*, MWP 2013/24. Available online at [http://cadmus.eui.eu/bitstream/handle/1814/28177/MWP\\_2013\\_24.pdf?sequence=1](http://cadmus.eui.eu/bitstream/handle/1814/28177/MWP_2013_24.pdf?sequence=1), checked on 3/27/2014.
- Reilly, Gavan (2011, November 18): Revealed: Government's leaked plans for Ireland's austerity budgets. In *The Journal*. Available online at <http://www.thejournal.ie/revealed-governments-leaked-plans-for-irelands-austerity-budgets-282556-Nov2011/>, checked on 5/19/2014.
- Reilly, Gavan (2013, January 6): Unpaid Household Charge will be automatically added to Property Tax. In *The Journal*. Available online at <http://www.thejournal.ie/household-charge-linked-to-property-tax-735542-Jan2013/>, checked on 5/31/2014.
- Roberts, Andrew Lawrence (2010): *The quality of democracy in Eastern Europe. Public preferences and policy reforms*. Cambridge, New York: Cambridge University Press.
- Rose, Richard (2014): Responsible Party Government in a World of Interdependence. In *West European Politics* 37 (2), pp. 253–269.

- Royo, Sebastián (2013): *Lessons from the economic crisis in Spain*. New York: Palgrave Macmillan.
- Ryan, Susan (2011, February 14): Kenny tells Merkel Ireland won't change corporation tax rate. In *The Journal*. Available online at <http://www.thejournal.ie/kenny-tells-merkel-ireland-wont-change-corporation-tax-rate-84231-Feb2011/>, checked on 5/30/2014.
- Schäfer, Armin and Wolfgang Streeck (2013): Introduction: Politics in the Age of Austerity. In Armin Schäfer, Wolfgang Streeck (Eds.): *Politics in the age of austerity*. Cambridge, UK, Malden, MA: Polity Press, pp. 1–25.
- Scharpf, F.W. (1997): *Games Real Actors Play: Actor-centered Institutionalism*. Boulder: Westview Press. Available online at <http://books.google.hu/books?id=2tjZkC5ylmsC>.
- Scharpf, Fritz (2011): Monetary Union, Fiscal Crisis and the Preemption of Democracy. In *Zeitschrift für Staats- und Europawissenschaften* 9 (2), pp. 163–198. Available online at [http://www.zse.nomos.de/fileadmin/zse/doc/Aufsatz\\_ZSE\\_11\\_02.pdf](http://www.zse.nomos.de/fileadmin/zse/doc/Aufsatz_ZSE_11_02.pdf), checked on 2/13/2014.
- Scharpf, Fritz (2012): Legitimacy Intermediation in the Multilevel European Polity and Its Collapse in the Euro Crisis. Max Planck Institute for the Study of Societies, Cologne. Cologne, *MPIfG Discussion Paper* 12/6. Available online at [http://www.mpifg.de/pu/mpifg\\_dp/dp12-6.pdf](http://www.mpifg.de/pu/mpifg_dp/dp12-6.pdf), checked on 2/13/2014.
- Scharpf, Fritz (2013): Monetary Union, Fiscal Crisis and the Disabling of Democratic Accountability. In Armin Schäfer, Wolfgang Streeck (Eds.): *Politics in the age of austerity*. Cambridge, UK, Malden, MA: Polity Press, pp. 108–142.
- Scharpf, Fritz Wilhelm (1970): *Demokratietheorie zwischen Utopie und Anpassung*. Konstanz: Druckerei u. Verlagsanstalt Universitätsverlag, Konstanzer Universitätsreden, 25.
- Scharpf, Fritz Wilhelm (1999): *Governing in Europe. Effective and democratic?* Oxford, New York: Oxford University Press.

- Schmidt, Vivien A. (2009): Re-Envisioning the European Union: Identity, Democracy, Economy\*. In *JCMS: Journal of Common Market Studies* 47, pp. 17–42.
- Schmidt, Vivien A. (2013): Speaking to the Markets or to the People? A Discursive Institutional Analysis of the EU's Sovereign Debt Crisis. In *The British Journal of Politics & International Relations* 16 (1), pp. 188–209.
- Schmidt, Vivien A. (forthcoming): Forgotten Democratic Legitimacy. "Governing by the Rules" and "Ruling by the Numbers". In Matthias Matthijs, Mark Blyth (Eds.): *The Future of the Euro*. New York: University Press.
- Schmidt, Vivien Ann (2006): *Democracy in Europe. The EU and national politics*. Oxford: Oxford University Press.
- Schwarzer, Daniela (2012): The Euro Area Crises, Shifting Power Relations and Institutional Change in the European Union 1. In *Global Policy* 3, pp. 28–41.
- Scott, Susan; Lyons, Seán; Keane, Claire; McCarthy, Donal; Tol, Richard S. J. (2008): Fuel Poverty in Ireland: Extent, Affected Groups and Policy Issues. *ESRI Working Paper* 262. Available online at [http://www.esri.ie/publications/latest\\_publications/view/index.xml?id=2663](http://www.esri.ie/publications/latest_publications/view/index.xml?id=2663), checked on 5/31/2014.
- Solomos, Dionysios K. and Dimitrios N. Koumparoulis (2012): The Recent Reform of European Governance: A Critical Review. In *Intereconomics Review of European Economic Policy* 47 (5), pp. 298–303. Available online at <http://search.ebscohost.com/login.aspx?direct=true&db=ecn&AN=1339247&site=eds-live>.
- Suiter, Jane and David M. Farrell (2011): The Parties' Manifestos. In Michael Gallagher, Michael Marsh (Eds.): *How Ireland voted 2011. The full story of Ireland's earthquake election*. Basingstoke: Palgrave Macmillan, pp. 29–46.
- Tarrow, S. (2010): The Strategy of Paired Comparison: Toward a Theory of Practice. In *Comparative Political Studies* 43 (2), pp. 230–259.
- Wessels, Wolfgang; Rozenberg, Olivier (2013): Democratic Control in the Member States of the European Council and the Euro zone summits. With assistance



of Van den Berge, Mirte, Claudia Heffler, Valentin Kreiling, Laura Ventura. European Parliament; Directorate General Internal Policies. Brussels, updated on 2013. Available online at [http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/474392/IPOL-AFCO\\_ET%282013%29474392\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2013/474392/IPOL-AFCO_ET%282013%29474392_EN.pdf), checked on 3/22/2014

Whelan, Karl (2013): Ireland's Economic Crisis: The Good, the Bad and the Ugly. In *UCD Centre for Economic Research Working Paper Series* 13/06. Available online at [http://www.ucd.ie/t4cms/WP13\\_06.pdf](http://www.ucd.ie/t4cms/WP13_06.pdf), checked on 4/29/2014.

White, Jonathan (2014): Politicizing Europe: The Challenge of Executive Discretion. London School of Economics and Political Science, *LEQS Paper* 72/2014. Available online at <http://www.lse.ac.uk/europeanInstitute/LEQS/LEQSPaper72.pdf>, updated on 5/12/2014.