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commitments made by under the UN Millennium Development Goals, the Maastricht and Amsterdam treaties,[3] various OECD frameworks, etc. More fundamentally, there is also a pressing moral obligation to avoid creating negative externalities in the Global South, which frequently arise as a consequence of economic policies designed without regard for how they might conflict with development issues elsewhere.

Given the overriding case for policy coherence, the question arises as to what causes the lines to cross, and policies to become mutually ineffective? Blouin (2007) notes that policies are especially vulnerable to incoherence when a small, cohesive group of actors have the potential to share large benefits at the expense of a more marginal advantage that might otherwise accrue to a larger, more diffuse group of minority stakeholders. The tighter, better-organised group is in a better position to influence policy than a diffuse and less immediately interested population. This is essentially a version of the *cui bono,* the principle that the probable cause of an event can be detected by establishing who has gained. In cases where persistent or systematic policy incoherence arises, this principle calls into question the commitment of the government or governments to supporting the disadvantaged policies which may favour or protect more marginalized constituencies, and raises the possibility of a more powerful grouping dominating the national agenda. Despite its technical nature, there is no reason to assume that tax policy should be any less political than other national policies. There is also an element of chaos in how tax policies are implemented: the interaction of a complex and ever-changing set of variables which overlap in unexpected ways. As noted by Bird (2013):

> … tax policy is shaped not only by ideas but also by vested interests, changing economic conditions, administrative constraints and technological possibilities, and, especially, by the nature and functioning of the political institutions within which these factors affect policy decisions. (Bird 2013, p9)

While considerable work has been done on the internal consistency and coherence of policies of tax and welfare on a national level, or of aid and trade internationally, far less attention has been paid to date to the impact of tax policies on the welfare of the population of other countries. Perhaps this is because, on one level, the ability to set tax policy is a corner1(ne220i)6(es)]TJET to dat1a8x es are underm of iicicons tng oth hegemonic acceptance of tax rules, and aggressive tax planning by taxpayers and their advisors.

Ireland is an interesting jurisdiction with which to explore these issues for three reasons. Firstly, it has been exceptionally consistent about its corporate tax policy, with a clear single-minded tax focus on attracting foreign direct investment. Secondly, it has an equally clearly-stated commitment to overseas development aid. Thirdly, its success in attracting foreign direct investment means the impact of its policies can be tracked internationally more clearly than, for example, those of a larger economy such as the US or the UKFor these reasons, the country provides an exceptionally clear set of cases which interact in an interesting way.

2. IRELANDÔS TAX HISTORY

As outlined in Killian (2013) Ireland’s tax policy has, since the mid-1950s, been steered towards the attraction of foreign direct investment. Since the introduction in Ireland of Corporation Tax in 1976, special reduced rates applied to exporters and manufacturing firms, which at the time were overwhelmingly foreign-owned. Export Sales Relief (ESR) applied a tax rate of 0% to the profits on goods made in Ireland and exported from the country expired in 1990, and was widely availed of by multinationals locating manufacturing and exporting subsidiaries in Ireland. Parliamentary records show that the cost of tax foregone to Ireland from profits on exported goods came to approximately £337 million[4] per year in the late 1980s (Oireachtas 1988), but the strategy was successful in making Ireland an attractive location for foreign direct investment. At this time, the zero rate also applied to a designated zone around Shannon Airport in the South West, provided the companies located there were licenced by the government to avail of what was known as ‘Shannon Relief’. When ESR expired, it was succeeded by Manufacturing Relief, which reduced the tax on profits from the sale of manufactured goods to 10%, a fraction of the rate applying at the time to non-manufactured goods. Because of the liberal court interpretation of the meaning of ‘manufactured’, the latter relief applied to a wide range of processes including, famously, the artificial ripening of fruit, the grading of coal and the inclusion of a red dye in commercial diesel. At around this time, a 10% rate also applied to Shannon companies, and to financial services firms operating in the International Financial Services Centre on Dublin’s docklands.

Towards the end of the 1990s, Ireland came under increased pressure from the EU, to abolish these favourable tax rules. Up to the mid-1990s, the standard rate of corporation tax in Ireland was 40%,[5] a marked contrast with the 10% rate. This ring-fencing of a favourable rate to one industrial sector breached the OECD (1998) guidelines on harmful tax competition, as well as several EU codes. As described in Killian (2006), the sustained pressure from Germany in particular made the status quo untenable. At the same time, it was accepted in Ireland that the low rate on manufacturing was key to retention of the c– û . ᴀ c] ᵐ i я rirs] ъ ro- ѫ M ѫ " business, the mainstream corporation tax rate on trading profits was reduced to 12.5% on a phased basis from 1 January 2000, and this rate was applied to all companies resident in Ireland.

In terms of attracting foreign direct investment, the strategy seems to have been extremely successful. Gray et al (2009, p43) document Ireland's disproportionate share of the US investment made into the EU, observing that in 2009, the total stock of US investment in the country was $166 billion, or almost 5% of all US foreign direct investment worldwide. Since its initiation, the 12.5% has acquired a totemic national significance, and over time the four main political parties have come around to supporting the rate[6]. It has become routine for the Minister for Finance to preface the annual national budget speech by a statement of continued commitment to maintaining this rate. Despite difficult negotiations with the Troika of EC, IMF and ECB, successive Irish governments have maintained an unswerving loyalty to the policy of low and predictable corporate taxes. A good example is the striking display of cross-party solidarity that greeted a motion proposed in the national parliament[7] in November 2010 by the current Minister for Finance, Michael Noonan, reaffirming Ireland's commitment to the 12.5% rate which, despite being proposed from outside t70084(s)9(i)-82Tm[700B65currench(axe firms. The response of both government and opposition has consistently been to defend the sovereignty of Ireland's tax rate, and the transparency of the system.

However, although domestic political support for Ireland's corporation tax policies is overwhelming, and public support is strong, the way in which the Irish tax system has been used by some companies is incongruent with another key national commitment. In order to understand how Ireland's tax policy conflicts with its approach to overseas aid, it is important to understand the significance of the latter in the national psyche. Ireland scores very well on international measures of overseas development assistance. For example, the Centre for Global Development (CGDEV)'s annual Commitment to Development Index (CDI) ranks Ireland in the top ten in four of the past eleven years. This is driven by what CGDEV (2013) describe as ' way in which the Irish company was used was at clear cross purposes to Ireland's overseas aid objectives.

More generally, aggressive tax competition on the part of Northern countries including in Ireland and subject to tax at the then rate of 50% could extend S.84 loans to Shannon companies, by ensuring that the interest rate on those loans varied in some small way with the profits of the Shannon firms. Interest paid on those loans was not deductible for corporate tax purposes, which made no material difference to a Shannon borrower whose rate of corporation tax was zero. In the hands of the bank, however, the interest was received as a dividend, which rendered it tax free. At the same time, the banks could borrow to finance the loan, and claim a full corporation tax deduction on the interest they paid. With the prevailing rate of tax being 50%, this essentially allowed banks to lend to Shannon companies at half the 'normal' rate, and still make the 'normal' rate of profit.

Like any arbitrage opportunity, this was soon pushed to its limits. First, it was quickly realised that the bigger the loans made, the bigger the profits, which led logically to the growth of an industry which depended on very large levels of borrowing: big ticket leasing.

for aircraft finance. A measure intended to make it easier for the state to tax profits by preventing tax avoidance at a domestic level actually had the effect of inhibiting Ireland's ability to tax the profits of lending banks, and reduced the overall tax take in the country. It also spurred the creation of a massively successful aircraft finance industry, based on an unquantifiable level of occluded support from the Irish taxpayer.

4. CONCLUSION

The examples above show two very different kinds of policy incoherence. The first example of Ireland's tax competition and overseas aid is closer to the dominant theoretical frame on policy incoherence. The beneficiaries of Ireland's overseas

> fitting in with established ways of doing things in each particular governmental context. (ESEU 2007, p27)

Regrettably, such pragmatism, and acceptance of the established ways of doing business may be at the root of both forms of tax policy incoherence highlighted above, supporting the notion that Ireland's successful record in securing foreign direct investment over the last three decades

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