

FORTY YEARS A-GROWING AN OVERVIEW OF IRISH-EU RELATIONS

directed by Aziliz Gouez

*With interviews with Pat Cox,
Lucinda Creighton, Micheál Martin
and Peter Sutherland
and a paper by Tony Brown*

Foreword by Yves Bertoncini

*Postface by Hervé Amoric
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TABLE OF CONTENTS

EXECUTIVE SUMMARY	4
THE EU AND IRELAND: A LOVE-HATE RELATIONSHIP? Foreword by Yves Bertoncini	9
INTRODUCTION Aziliz Gouez	14
STABILITY TREATY – THE IRISH REFERENDUM OF MAY 2012 Tony Brown	28
INTERVIEW WITH PAT COX "I hope that (...) the Stability Treaty is a comma and not a full stop"	36
INTERVIEW WITH LUCINDA CREIGHTON "It is sometimes easier to lead a successful Presidency as a small Member State"	55
INTERVIEW WITH MICHEÁL MARTIN "The ECB's mandate should (...) include a growth mandate"	64
INTERVIEW WITH PETER SUTHERLAND "European integration actually increases (...) our sovereignty"	79
WHAT TYPE OF EUROPE DO THE IRISH WANT? Postface by Hervé Amoric and Gwendal Sousset	87
ON THE SAME THEME	90
AUTHORS	91

EXECUTIVE SUMMARY

The interviews gathered in this Study – with Pat Cox, Lucinda Creighton, Micheál Martin and Peter Sutherland – all provide essential keys to grasp the specificity and subtleties of the Irish debate on Europe, both historically and in its most recent developments. This executive summary gives an overview of some of the issues which the interviewees identified as having shaped Irish perceptions of Europe over the course of the last forty years, and of the rupture introduced by the unfolding crisis.

1. Structuring features and key milestones of the Irish debate on Europe

1.1. Peace and prosperity: two great European promises that find specific resonance in Ireland

In Ireland, the **notion of peace does not allude primarily to the Second World War**, an event that has more to do, in the Irish context, with the shaping of a national tradition of military neutrality than with the imperative of supranational cooperation between yesterday’s foes. Nevertheless the European narrative of peace and reconciliation has been an inspiring one for the resolution of the conflict between Republicans and Unionists in the northern part of the island.

The second European promise which Ireland fulfilled in a most spectacular way is that of prosperity. Ireland, especially in its “Celtic Tiger” incarnation, has been held up as a **model for its ability to make blossom the economic benefits of European integration**, with European officials emphasizing the role of the Common Agricultural Policy and structural funds, and Irish analysts rightly reminding them of the equally important role played by an industrial policy tailored to attract foreign investment into the country.

1.2. Ireland's corporate tax rate: a bone of contention with European partners

The reform of the Irish taxation system played a crucial role in the shift from an “isolationist past” to an era of intense integration into European, and even global, trade networks. The **four interviewees unanimously make a case in favour of holding on to the current corporate taxation policy**, noting that federalisation may not necessarily rhyme with harmonisation.

Yet, current discussions at European level around fiscal union, and the Commission's proposals on the Common Consolidated Corporation Tax Base (CCCTB) bring the spotlight back on to the Irish corporate tax rate. And there may well be a **contradiction between Ireland's integrationist stance on some of the euro area's dossiers - e.g. on the banking union - and its reluctance to revise its position on corporate taxation.**

1.3. A special relationship with the USA and the UK

Economic relations with America, which are of huge importance to the small island, do not account for the full depth of Irish-American relations: there is also a strong, constitutive identity dimension to this connection. For all the benefits of membership in the EU, **a European equivalent to the American dream hasn't yet arisen in the Irish collective psyche.**

By granting the Irish new partners and giving them freer access to a wider space, EU integration has **loosened the exclusive, mirror-like relation between Ireland and Britain. Yet British influence remains significant** insofar as the media treatment of EU-related matters is concerned - the high penetration of eurosceptic tabloid British media does play a role in shaping a segment of the Irish public opinion on Europe. And the consequences for Ireland of its nearest neighbour's current hardening stance towards the EU remain to be fully measured.

1.4. The Irish method: pragmatism

The term “pragmatism” often comes up to characterize the Irish approach to European integration. In the first instance, the word can be used to describe

the **weight of material, rather than ideological, arguments in the Irish debate on Europe**, especially during referendum campaigns.

The term “pragmatic” is also commonly used to describe the approach of Irish Presidencies of the Council of the EU and, more broadly, of Irish diplomats in their daily dealings with Brussels and their European counterparts. Currently **in Ireland the “f” word is simply “fix it.”**

2. The debt crisis: a shift in Ireland’s relations with EU institutions and its European partners

2.1. The return of “sovereignty” in the Irish political debate

In 1973, to get a say equal to that of any other Member State – including Britain – at the European negotiation table meant much to the Irish. **The notion that EU membership gave Ireland a voice did play a role in shaping Irish people’s favourable opinion of European integration.** But this feeling was somewhat shattered by the succession of events which led the Irish State to accept an EU-IMF “Programme of Financial Support” conditional on implementation of a number of structural reforms.

The **tight supervision of domestic policies by outsiders has breathed new life into “sovereignty” as a category of the Irish political debate on Europe.** But Irish opponents to foreign-imposed ‘austerity’ have failed, so far, to convince a majority of voters that there is a credible alternative to the state’s funding by the EU and IMF until it can stand on its own feet again and get back to credit markets.

2.2. Increasing Irish concerns over the balance of power between small and large EU Member States

The notion that **core European States can tend to impose their will onto smaller countries** has been aired in Ireland ever since the two successive replays of the referendums on Nice and Lisbon, when those on the ‘no’ side argued that the will of the (small) Irish people was disregarded. These

suspicions have been soured by the financial crisis, with some Irish media invoking the “Merkozy” diktat.

Much of the resentment at the way the Irish sovereign debt crisis has been handled at EU level focuses on the European Central Bank.

There is a widespread feeling, including among government officials, that the ECB applies “double standards” and that Ireland has been treated more harshly than larger countries such as Spain or Italy are currently. By putting pressure on Ireland to pay back bondholders, the ECB arbitrated in favour of protecting the banks of bigger European countries, thus placing the entirety of the banking debt burden on the Irish taxpayers. The ECB is also said to have strong-armed Ireland into accepting the EU-IMF rescue programme.

2.3. A test for notions of solidarity and cohesion at national and European level

In Ireland, political leaders have yet to articulate a discourse that can convey a sense of cohesion and collective progress, now that the powerful narrative of the Celtic Tiger years has deflated. In the meantime, **portrayals of Ireland as the “best performing programme country” are not of a nature to sway popular enthusiasm and faith in the future.** Irish political leaders have to answer a question that has a Europe-wide resonance: how are political and social expectations reframed when the future is no longer indexed on notions of “progress”?

The developments underway at national level – notably a polarisation between the richer and poorer segments of society – feed a negative inflexion of Irish views on the EU, the notion that the current European status quo favours an unfair deal for the Irish people. There is, first of all, a sense that the **money generated by cuts to public expenditure and the introduction of new taxes is used to reimburse holders of Irish banks’ bonds.** Thus Irish people are seen as footing the bill for European banks’ imprudent lending to reckless Irish banks.

2.4. The Irish have shown solidarity, and they expect European solidarity in return, in the form of a debt restructuring

The idea that by socializing bank debts, the Irish people have rescued not only their own domestic banks but also the entire euro-system is at the core of the government's strategy to obtain a debt restructuring. This strategy has focused on two main options:

The **first option was direct bank recapitalisation by the ESM**, the key objective being to obtain the use of the ESM for "legacy debt", i.e. *retroactive* bank recapitalisation. But the Irish government efforts along this line are strongly opposed by 'triple A countries.'

The second line of Irish diplomatic action is seeking **relief from the ECB on 30.6 billion euros of promissory notes** that were issued by the government to bail out Anglo Irish and Irish Nationwide Building Society. Without such restructuring, it is feared, market suspicions over the sustainability of the Irish debt will not be lifted.

In this context, there has been an upsurge of national stereotyping in the Irish debate on Europe, with Germany and Commissioner Rehn featuring prominently on the side of those who are insensitive to Ireland's bid for a gesture of European solidarity.

In Ireland as in many other European countries, the **conflict of interpretation** – on whether spendthrift welfare states or ruthless financial speculators are to be blamed for the crisis, **on who is responsible for what, and who should pay what – is far from settled.**

THE EU AND IRELAND: A LOVE-HATE RELATIONSHIP?

FOREWORD

by Yves Bertoncini

While located at the periphery of Europe, Ireland has long been at the core of many key debates regarding European integration. This is especially true today, and explains why *Notre Europe - Jacques Delors Institute* publishes this Study, which will help its readers put into perspective the complex relations between Ireland and the EU. Before you can read insiders' views on the way the EU is perceived in Ireland, let me share with you some personal thoughts on the way Ireland was and is seen from the EU.

1. A “success story”

During the last two decades, Ireland was the “success story” so often told when highlighting the fertile combination between the European single market and EU structural funds¹ - not to mention the CAP funding, equally important for the country. As a former official of the Directorate General of the European Commission in charge of Regional Policy, I remember that the impact of the structural funds on the transformation of the Irish economy was the primary example taken to illustrate how European integration could bring a rapid and impressive convergence of living standards up to EU level (from around 60% of the EEC average in terms of GDP/capita in 1980 to more than 120%, including in the recent period).

I also remember a Brussels' working dinner with Commissioner Charles McCreevy in 2005, in which I participated as a representative of the business sector. At that time he was praised as a key actor in the “Irish economic miracle,” which was not only based on CAP and structural funds' contributions, but also on a range of other causal factors, among which are tax and fiscal reforms, wage agreement and structural measures, particularly in the education and

1. Yves Bertoncini, “European solidarity in the Eurozone crisis: another Irish success story?”, *Tribune, Notre Europe*, May 2012.

training areas. McCreevy was then perceived as an influential leader, including in his position of Commissioner in charge of the Internal Market and Financial Services, promoting “better” – i.e. less – regulation.

The recent crisis has shown that part of the “Irish miracle” was based on problematic choices as regards the deficient regulation of the banking sector and the development of a real estate bubble. The economic and financial crisis hit Ireland so violently that the Irish authorities had to take on the huge debts of the country’s banks, which led the public debt to jump suddenly from around 40% of GDP to more than 110%... The time when the low Irish public debt was held up as an example of good compliance with the Stability Pact provisions has vanished. This Stability Pact has now been reformed so as to take into account private debts as well, and this reform is partly due to the Irish “failure story”.

2. A “programme country”

Even if the roots of the Irish crisis are far different from the Greek’s ones, both countries have been treated in quite a similar way by the EU, on the basis of a solidarity-control dialectic. After having lost access to bond markets, Ireland could indeed benefit from a 67.5 billion euros “bail-out programme” co-financed by the Eurozone countries, the IMF, Britain, Denmark and Sweden: it is this three-year aid programme that enabled Ireland to face its financial commitments, and to have more room for manoeuvre to find its way out of the economic and social turmoil. In return, Ireland has also “received” clear demands for in-depth structural reforms, the detail content of which was formalised by a so-called “Memorandum of Understanding,” with the implementation of this being followed up periodically by the “Troika.” In this context, three political facts particularly struck me when I last came to Ireland, in May 2012, right before the referendum on the so-called “Fiscal Compact”.

The first one is that, when dealing with the actors responsible for such a difficult situation, the Irish people are partly tempted to blame the EU but, all in all, a large majority of them tend rather to blame national actors, be they private – the banking sector – or public – their political representatives. When meeting members of the government and department officials, I was

frequently reminded that the financial crisis was the outcome of previous policy choices and preferences which were now being firmly revised: many underlined that the crisis had forced Ireland to change its vision and practices on a number of economic points, but that this was not yet clearly perceived by other Europeans.

Another political fact is certain, which may also be underestimated: the economic and social costs of the adjustments undertaken by the Irish authorities and people are extremely substantial in terms of wage reduction, jobs redundancies, pensions cuts, etc. And the results of such efforts are impressive: new jobs are being created in Ireland, even if unemployment remains a serious matter of concern; Foreign Direct Investment started flowing in again; Irish exports have slowly begun to rise up; more importantly, Ireland's growth prospects are no longer negative... Ireland's situation is encouraging when compared with that of other "programme countries" as well as with that of other European ones. Ireland could become a "success story" again, and a source of motivation and inspiration for other struggling countries, but also for the EU as a whole – even if the current recovery signs still need to be confirmed.

A third striking fact is that having its policies and efforts regularly assessed by the Troika and, more indirectly, by the other EU Member States, is costly for Ireland in political and psychological terms. One episode has been particularly challenging for the country: some "Bundestag" members are reported to have expressed their views on Ireland's 2012 draft budget before it was officially examined and approved by the "Oireachtas" (the Irish National Parliament). Even if the "countries under programme" have temporarily and *de facto* lost part of their sovereignty,² this episode shows how sensitive it remains to establish a more rigorous monitoring and more automatic sanctions over the national economic and social policies of the Eurozone Member States. This lesson from the Irish case must be drawn in Brussels and in other European capitals, even though the situation of countries that are "not under programme" is substantially different in terms of sovereignty.

2. Yves Bertoncini, "Debt crisis, sovereignty crisis", *Notre Europe's Viewpoint*, November 2011.

3. A country saying 'no'

The Irish people were the only ones in the EU to vote for the ratification of the “Fiscal Compact”, which confirmed that civic control over the European integration process is particularly extensive in this country. Even though they were asked to vote ‘no’, including by opponents from other European countries wishing to vote by proxy, the Irish opted to vote ‘yes’: they thereby accepted the legal and symbolic link established between the disciplines deriving from Eurozone membership and the possibility of benefiting from EU solidarity devoted to help its struggling members. Will this recent ‘yes’ change the image of Ireland, often perceived as “the country saying no?”

The reaffirmed opposition of the new Irish government to any substantial change of the emblematic 12.5% corporate tax rate has confirmed a clear will to resist European pressure when some national “red lines” are under threat. The Irish authorities are right when claiming that there are many economic reasons to explain such a low level of taxation, as well as when underlining the fact that the comparison of effective taxation rates shows up less substantial differences between countries. This being said, the Irish fiscal strategy remains quite negatively perceived abroad, even more so when there is objection to the way some companies may optimise their profits through their Irish location.

When the Irish people refused to ratify the Treaty of Nice, they were asked to vote again, and they finally accepted it. The same “double vote” was organised to ratify the Lisbon Treaty... I often wondered whether these ‘no’ were not also a way for the Irish voters to say that they like European integration as it is, and hence don’t want any substantial changes – a kind of conservative ‘no’. And I still wonder if there isn’t a need to revisit the relations between Ireland and the European integration process, going back to the debates around the country’s accession to the EEC, which was also led on rational grounds, because Ireland’s major economic partner – the UK – was doing so, and not only because the Irish wanted to start a passionate “love affair” with Brussels.

4. A transformed country?

The national stereotypes that are proliferating with the ongoing crisis (*e.g.* “Greek = lazy”, “German = nazi”, etc.) confirm that it takes a long time to modify the European image of a country in our “Federation of nation states”. The “Irish success story,” the “programme country” and the “country saying no” are three phrases which can only partially and superficially describe the complex relationship established between Ireland and the EU over the course of the last forty years. If a fourth phrase were to be added at this stage, it could be that of the “transformed country”, which had to desperately struggle with its grave banking crisis, and which could then become the first “programme country” to recover - but the details of this new story remain to be told...

In this context, this Study’s aim is to present much more precise elements of analysis and to shed light on the main issues structuring the perception of Europe in Ireland. To this end, Aziliz Gouez has gathered the insights of four major Irish actors and observers of the “European political life” of their country, by asking them a series of questions covering these issues. She added her own analysis of the current situation, marked by the grip of debt, and she also solicited the views of an Irish analyst on the May 2012 referendum campaign on the Fiscal Compact, as well as those of three non-Irish observers of the European debate in Ireland, including the author of this foreword.

What comes out of this collection of articles is that, due to the debt crisis, something has happened in Ireland as regards Europe. But has something happened in Europe as regards Ireland? Or is this country still looked at as the Cheshire cat of *Alice in Wonderland* - the animal has gone, but the smile is still there. Given the crisis, the smile has probably disappeared in Ireland, together with the flash image of the “Celtic Tiger” across Europe. But a new smile is about to appear, and maybe a new “Tiger”: let us read on to know what smile and which tiger this is all about.

INTRODUCTION

by Aziliz Gouez

The opening of the seventh Irish Presidency of the Council of the European Union coincides with the 40th anniversary of Ireland's formal accession to the European Economic Community, on 1st January 1973. This coincidence in time invites us to cast a gaze, both retrospective and prospective, on Ireland's relation to Europe. Not because of some fetish for dates. More fundamentally, the contemporary historical moment corresponds to a critical juncture in the trajectory of both the Irish State and the European project. By putting an abrupt end to a solid trust in the strength of the common currency and to two decades of professed faith in the virtues of the financial sector as an engine of prosperity, 'the crisis' introduced a breach in time, the opening up of a different future. For the Irish people, the collective horizon now hinges upon a capacity to sustain long-term debt repayments. And for Europeans at large, the continuation of the integration process depends on the ability of their leaders to agree on the common rules necessary to consolidate the euro area's architecture and invigorate economic growth, as well as on their persuasiveness in winning popular support for these further steps.

The interviews gathered in this publication – with Pat Cox, Lucinda Creighton, Micheál Martin and Peter Sutherland – all provide essential keys to grasp the specificity and subtleties of the Irish debate on Europe, both historically and in its most recent developments. They are primarily targeted at a non-Irish audience, but Irish readers may equally learn from the insights offered by these four prominent actors and thinkers of their country's European life. Without disclosing the detail of the interviewees' arguments, I shall present, in the first section of this introduction, an overview of some of the main issues which, in retrospect, they identified as having shaped Irish perceptions of Europe over the course of the last forty years. The second section is dedicated to assessing the rupture introduced by the unfolding crisis. Building upon the elements of analysis put forward in the interviews, it outlines the ways in which the question of debt informs the present and likely future of Ireland's relations with EU institutions and its European partners. This assessment also draws on the paper

written by Tony Brown, of the IIEA,³ on the 2012 Irish referendum on the ‘Treaty on Stability, Coordination and Governance in the Economic and Monetary Union’ (or so-called Fiscal Compact), which provides useful hints of the trends coalescing in today’s Ireland, suggesting the emergence of a new class divide in the Irish vote on Europe. This paper, and the four interviews that follow, help us address a question that has a Europe-wide resonance: how are political and social expectations reframed when the future is no longer indexed on notions of ‘progress’?

1. Constants and variations in the Irish debate on Europe

There is a deliberately repetitive character to the questions I put to my four interlocutors: going back, with all of them, to the accession referendum of 1972, and then moving through the successive treaties, up to the recent discussions on the Fiscal Compact, the goal was to unveil constant trends as well as turning points in the relations between Ireland and the EU. Even though Minister Creighton and Messrs Cox, Martin and Sutherland, who are all fervent proponents of the European idea, broadly identify the same milestones and structuring features of the Irish debate on Europe, each of them sheds light on distinct aspects of every key element in this debate – be it military neutrality, the question of abortion, or the role of structural funds. Therefore I invite readers to delve into the interviewees’ subtle analyses and shall content myself, here, with emphasising a few points.

1.1. European promises

Two great European promises find particular resonance in Ireland. The first one is that of peace, a notion which in the Irish context – quite uniquely for a European country – does not allude primarily to the Second World War. As Pat Cox notes, Ireland had only an ‘Emergency’ when the rest of Europe had a war. For the Irish, the meaning of WWII has more to do with the shaping of a national tradition of military neutrality than with the imperative of supranational cooperation between yesterday’s foes that guided the core European countries’ first steps towards institutional integration. Nevertheless

³. Institute for International and European Affairs.

the European narrative of peace and reconciliation has been an inspiring one for the resolution of the conflict between Republicans and Unionists in the northern part of the island. The success of the peace process in Northern Ireland is to be credited primarily to the will of the actors in the conflict themselves and the actions of the Dublin and London governments, with the assistance of the American administration. But the European Union did play an important role in facilitating negotiations, in rendering the border between the North and the Republic more porous, and in making available structural and cohesion funding that helped develop the border region's depressed economy.

The second European promise which Ireland fulfilled in a most spectacular way is that of prosperity. Éamon De Valera's⁴ post-War of Independence autarchic visions had not sufficed in liberating his country from Britain's economic grip and, on the eve of accession to the EEC, in 1973, Ireland was still highly dependent on the British market for its mostly agricultural exports. Britain at the time had a slow growing economy (it had to ask for an IMF loan in 1976), and a policy of low food prices, which had the knock on effect of keeping Irish wages stagnant and emigration soaring. All changed with Ireland gaining access to the European common market: after two decades of slowly catching up with the rest of Western Europe and a painful fiscal crisis in the 1980s, the Irish economy took off dramatically in the mid-1990s. There is no need to dwell on this transformation, for word has been spread of the Irish 'success story' well beyond the shores of the island. Ireland, especially in its 'Celtic Tiger' incarnation, has been held up as a model for its ability to make blossom the economic benefits of European integration, with European officials emphasising the role of the Common Agricultural Policy and structural funds, and Irish analysts rightly reminding them of the equally important role played by an industrial policy tailored to attract foreign investment into the country.

1.2. A bone of contention: Ireland's corporate tax rate

One instrument in particular has been of critical importance to Ireland's competitiveness over the course of the last four decades: its low corporate tax rate. The reform of the country's taxation system played a crucial role in the

4. Éamon De Valera was the founder of the Fianna Fáil party and the tutelary figure of Ireland's first decades as an independent state. In his vision, a central role was assigned to the self-sufficient Irish farmer as the nation's backbone.

shift from what Micheál Martin calls an “isolationist past” to an era of intense integration into European, and even global, trade networks. Initially designed to attract foreign companies into the country, as Ireland was preparing for free trade under the impulse of Seán Lemass, in the 1960s, Ireland’s corporate tax rate was progressively lowered, down to its current level of 12.5%, and extended, to encompass all types of companies, including domestic ones. This issue has become a bone of contention in the relations between Ireland and its European partners. The Irish have sometimes been caricatured as begging for money in Brussels, while at the same time pursuing a policy of fiscal dumping and playing on their relative poverty in order to obtain the European institutions’ tolerance on the matter.

Non-Irish readers will find it most instructive to hear what our four interviewees have to say on this subject. They unanimously make a case in favour of holding on to this taxation policy, and they have powerful reasons to so argue. Their arguments may be of particular interest to French readers – not only because France is a country where the loud crusade of President Sarkozy against Ireland’s corporate tax rate gave the issue a lot of publicity, but also because French minds, with their taste for normative equalisation, have a distinct difficulty in accepting that federalisation may not necessarily rhyme with harmonisation. Yet, as emphasised in the postface by Hervé Amoric and Gwendal Sousset, current discussions at European level around fiscal union, and the Commission’s proposals on the Common Consolidated Corporation Tax Base (CCCTB) bring the spotlight back on to the Irish corporate tax rate. And there may well be a contradiction between Ireland’s integrationist stance on some of the euro area’s dossiers – *e.g.* on the banking union – and its reluctance to revise its position on corporate taxation. There are difficult negotiations ahead for the Irish government, who are likely to defend their position all the more wholeheartedly as the 12.5% rate is of even starker importance in the current dire economic context. The Irish economy is today characterised by a two-tier regime: exports have started rising again, the balance of trade is positive, but domestic activity is very flat, as the gap between GDP and GNP reveals. More than ever, Ireland relies on the activity of foreign companies based on its territory, the first amongst these being American multinational corporations.

1.3. Between Boston and London

Quoting a statement made by the US Secretary of State Hilary Clinton during her last visit to Ireland, in December 2012, the postface to this Study provides striking facts and figures on the level of American Foreign Direct Investment in Ireland. The economic relations with America are of huge importance to the small island and, as emphasised by Lucinda Creighton in her interview, of the eleven informal Councils organised by the Irish Presidency between January and June 2013, one will be dedicated specifically to EU-US trade. But these economic links do not account for the full depth of Irish-American relations: there is also a strong, constitutive identity dimension to this connection. For all the benefits of membership in the EU, a European equivalent to the American dream hasn't yet arisen in the Irish collective psyche. In Ireland's popular culture - in its songs, stories and novels - the memory of post-famine emigration to America by far supersedes the faint trails of the Wild Geese across Catholic Europe. This is not to say that cultural links with continental Europe haven't been strengthened over the course of the last four decades: tourism (facilitated by low cost airlines), participation in Erasmus programmes, Irish investment in property in the sun-drenched Southern European regions, or the arrival to Ireland, from 2004 onwards, of tens of thousands of workers hailing from Poland and other Central and Eastern European countries, are but a few of the developments that have brought the Irish closer to their continental neighbours. But now that emigration has resumed in post-Celtic Tiger Ireland, people first think of the US, Canada, and other Commonwealth countries as possible destinations. This can be explained by the linguistic commonality and the economic dynamism of these countries, but also by the fact that places like Australia or New Zealand more readily catch the imagination of young Irish people.

When reflecting on the relations between Ireland and Europe, one has to take into account a third term in the equation - the UK. Ireland has for long been locked up in a binary relationship with Britain: it defined its modern identity in opposition to the colonial power. By granting the Irish new partners and giving them freer access to a wider space, EU integration has loosened this exclusive, mirror-like relation between Ireland and Britain. Yet British influence remains significant insofar as the media treatment of EU-related matters is concerned. There is no deep-seated hatred of Europe in Ireland as there is among certain

portions of the British population but, as noted by both Tony Brown and Pat Cox, the high penetration of eurosceptic tabloid British media (*e.g.* the Sun, Sky News) does play a role in shaping a segment of the Irish public opinion on Europe. Finally, as highlighted by Peter Sutherland, the consequences for Ireland of its nearest neighbour’s current hardening stance towards the EU remain to be fully measured, and the Irish are – more than any other European people – awaiting impatiently Mr Cameron’s ‘Big Speech’ on the UK’s vision for Europe.

1.4. Methodological pragmatism

‘Pragmatism’ is a term that often comes up to characterise the Irish approach to European integration. There are several layers to this Irish pragmatism. In the first instance, the word can be used to describe the weight of material, rather than ideological, arguments in the Irish debate on Europe. According to Pat Cox, this was true already in the 1972 referendum campaign, and particularly blatant in the way the Maastricht Treaty was presented to the Irish electorate by the government of the time: “‘vote for the money’ was the simple, even vulgar equation,” he explains. This persuasiveness of European funding is also reflected in the Irish farmers’ support for European integration. And it played a decisive part again in the recent discussions surrounding the referendum on the Fiscal Compact, with both Peter Sutherland and Lucinda Creighton qualifying the vote in favour of this treaty as a “rational” choice, the realisation by Irish voters that it was important to ensure access to the European Stability Mechanism (ESM) because their country would need to be funded by the EU until it can get back to the international credit markets.

There is another, more positive meaning to Irish pragmatism on European matters, referring to the sphere of “high European politics,” as Pat Cox puts it. The term ‘pragmatic’ is commonly used to describe the approach of Irish Presidencies of the Council of the EU and, more broadly, of Irish diplomats in their daily dealings with Brussels and their European counterparts. Irish Presidencies have in the past been praised for their skilfulness at striking deals, due to their particular style and method. It is reported that the Irish civil service gets ready well in advance for these important European *rendez-vous* (this was the case for this 2013 Presidency, for which preparations started in

early 2011, with the Department of the Taoiseach⁵ employing new specialised staff, despite drastic constraints weighing on public service recruitment under the terms of the EU-IMF programme). The importance of bilateral informals is another specificity of the Irish method which commentators noted: Irish officials make sure to meet individually all important actors, at both national and European level, in order to establish bonds of trust, clarify positions, and assess the margins for manoeuvre. Finally, Irish Presidencies have a reputation for pushing forward the collective agenda rather than their own interests. As highlighted by Minister Creighton, being a small country can be an advantage when trying to reach consensus, as other Member States are not so suspicious of one's motivations. Despite this good track record, the Presidency which opened on 1st January 2013 will probably be Dublin's most challenging one to date: following the failure of the 23rd November 2012 summit, the Irish will have to preside over difficult negotiations on the Multiannual Financial Framework for 2014-2020, as well as dealing with the most severe crisis in the history of the European project. Thus, as Brigid Laffan argues in a recent paper for the ECFR, although the need to complete the euro entails the prospect of a step change in integration, hence bringing back the 'f' word (federalism) onto the European agenda, in Ireland the 'f' word is simply "fix it."⁶ The Irish government is far more preoccupied with finding immediate, practical solutions to the country's difficulties than with reflecting on long-term institutional developments in the EU.

2. Debt and the future

In order to understand the current ailments of the Irish nation, one has to go back to the so-called Celtic Tiger period of 1994-2007, when an unprecedented spell of prosperity enlivened the pulse of the island. The first phase of that period was characterised by a 'healthy' economic growth, which then mutated into a bubble driven by the construction sector. Driving this building craze was another boom, in bank lending. This was part of a wider global process of financial liberalisation, which saw a lowering of the banks' reserves ratios and a dismantling of capital controls and of former constraints on interest

5. The Taoiseach is the Irish Prime Minister.

6. Brigid Laffan, 'Reinventing Europe: Ireland – from interdependence to dependence,' ECFR, December 2012.

rates. Benefiting from the credibility of the euro as an international currency, Irish banks started borrowing heavily, and (newly for them) at low rates, in wholesale credit markets in order to distribute loans to property developers and house buyers back home. As Michéal Martin puts it, joining the common currency was like “pouring petrol on a fire,” and the credit bubble was further accentuated by deficient regulation of the financial sector (which some in Ireland blame on the collusion between politicians, bankers and property developers). Signs of a downturn on the Irish housing market were already obvious in 2007 but it took the global ‘credit crunch’ of September 2008 to precipitate the Irish financial collapse. Faced with the dive of Irish banks’ shares and the risk of a run on the banks, the Fianna Fáil government decided to offer them a near-blanket guarantee, thereby ‘socialising’ private banking debt – without accurate knowledge of the abysmal level of the banks’ losses – and springing a giant hole in the nation’s public finances. Suspicions that the Irish State might have extended itself beyond its fiscal capacity meant that the government lost access to international credit markets in autumn 2010. It subsequently had to negotiate a ‘bailout agreement’ with the EU and the IMF: the banking collapse had effectively been turned into a ‘sovereign debt crisis’, and we shall now examine briefly the extent to which this crisis reshuffles the terms of the Irish debate on Europe.

2.1. Sovereignty and the balance of power between small and large states

In the words of Peter Sutherland, Ireland’s accession to the EEC was welcomed with “considerable pride.” For the small island to get a say equal to that of any other Member State – including Britain – at the European negotiation table meant much to the Irish. Thus the notion that EU membership gave Ireland a voice (and indeed the voice of Irish figures such as Pat Cox, Peter Sutherland or Mary Robinson was heard in European institutions) did play a role in shaping Irish people’s favourable opinion of European integration. This feeling of belonging to a union of equal members was somewhat shattered by the succession of events which saw the staggering Irish State accept an EU-IMF ‘Programme of Financial Support’ conditional on implementation of a number of structural reforms outlined in the ‘Memorandum of Understanding’ which the Irish Minister for Finance and the Governor of the Central Bank of Ireland

signed up to in December 2010.⁷ The quarterly visits to Ireland of its ‘Troika’ of institutional creditors (the EC-ECB-IMF) have been highly publicised ever since they started, in early 2011, even though the Troika’s envoys no longer give a public press conference on their review (following, Irish media suspect, the embarrassingly insistent questions put to the ECB spokesperson by a well-known Irish journalist on the occasion of the January 2012 press conference). Unsurprisingly, this tight supervision of domestic policies by outsiders has breathed new life into ‘sovereignty’ as a category of the Irish political debate on Europe. Of all the parties that oppose foreign-imposed ‘austerity’, Sinn Féin are the ones who have proved best able to electorally capitalise on this sovereignty line. Yet one of the lessons of the Irish ‘yes’ vote on the Fiscal Compact is that Sinn Féin have failed to convince a majority of voters that there is a credible alternative to the state’s funding by the EU and IMF until it can stand on its own feet again and get back to credit markets.

The crisis has also rekindled Irish anxieties concerning the balance of power between small and large Member States. The notion that core European states can tend to impose their will onto smaller countries has been aired in Ireland ever since the two successive replays of the referendums on Nice and Lisbon, when those on the ‘no’ side argued that the will of the (small) Irish people was disregarded. These suspicions have been soured by the crisis, with some Irish media invoking the ‘Merkozy diktat’ to describe the way in which the Franco-German couple could be inclined to make decisions without consulting others. An instance of this is highlighted by Micheál Martin, when he recalls how the October 2010 meeting of Chancellor Merkel and President Sarkozy in Deauville, in which they announced that private investors should take some losses on the bonds of insolvent euro area countries, had a catastrophic effect on the markets and precipitated Ireland’s November 2010 bailout. The ‘Merkozy’ couple has exited the Irish media after the May 2012 elections in France, with President Hollande being perceived as more sympathetic to Ireland’s positions than his predecessor. Leaving aside Irish views on Germany, which we will come back to in the next section, it is important to note that much of the resentment at the way the Irish sovereign debt crisis has been handled at European level focuses on the European Central Bank. There is a widespread feeling, including among

7. This Memorandum of Understanding is regularly updated, in pace with the Troika’s quarterly reviews of Ireland’s progress in implementing its programme (due to run until the end of 2013).

government officials, that the ECB applies ‘double standards’ and that Ireland has been treated more harshly than larger countries such as Spain or Italy are currently. The ECB is blamed for having played a crucial role at two fateful junctures of the Irish debt crisis. First in September 2008, when the Fianna Fáil government was ‘told’ that it had to guarantee Irish banks’ liabilities, in line with the ‘no bank must fail’ motto which Governor Trichet espoused after the fall of Lehman Brothers. By putting pressure on Ireland to pay back bondholders, the word goes, the ECB arbitrated in favour of protecting the banks of bigger European countries, thus placing the entirety of the banking debt burden on the Irish taxpayers. This appears all the more unfair as larger European countries are now allowed ‘haircuts’. Secondly, the ECB is also said to have strong-armed Ireland into accepting the EU-IMF rescue programme, and the Irish media have been following closely the freedom of information request made to the ECB by an Irish journalist asking for the November 2010 correspondence between Jean-Claude Trichet and Minister for Finance Brian Lenihan to be disclosed. Again, the fact that, eighteen months later, the Spanish government could get away with formally asking for a comprehensive bailout is interpreted as a sign that European institutions manage the crisis in a way where national size matter.

2.2. Cohesion and solidarity

The unfolding crisis puts to the test notions of solidarity and cohesion at national and European level. At both levels, there is deep uncertainty as to which political economy models are best suited to restore long-term economic growth. In Ireland, political leaders have yet to articulate a discourse that can convey a sense of cohesion and collective progress, now that the powerful narrative of the Celtic Tiger years has deflated. In the meantime, portrayals of Ireland as the ‘best performing programme country,’ ‘the poster boy for austerity policy’ are not of a nature to sway popular enthusiasm and faith in the future. Furthermore, although Ireland’s uniqueness in not having a xenophobic vote must be noted,⁸ the crisis does have a negative effect on national cohesion, which translates primarily as a discrediting of the political class, a polarisation between the poorer and richer segments of society, and

8. There is no far-right, xenophobic party in Ireland but racism does exist in Irish society, directed in particular against Irish Travellers.

a stigmatisation of certain ‘privileged’ categories such as bankers, property developers, high pay civil servants, and tax evaders. The polarisation between rich and poor found a recent illustration in Dáil polemics on top bank executives’ salaries and pensions, with left-wing opposition TDs challenging the government’s professed incapacity to tackle ‘the fat cats.’ It also surfaced in the heated discussions around the 2013 national budget, with public outrage focusing on measures such as the taxation of maternity benefit, cuts to the monthly children’s allowance, and the PRSI reform. In Ireland as in many other European countries, there is a pervasive feeling that middle-income households are taking the biggest hit from the crisis. These developments at national level feed a negative inflexion of Irish views on the EU, the notion that the current European status quo favours an unfair deal for the Irish people. There is, first of all, a sense that the money generated by cuts to public expenditure and the introduction of new taxes is used to reimburse holders of Irish banks’ bonds. In 2012, the unfortunate fact that the due date for the payment of a 3.1 billion euros promissory note on Anglo Irish Bank’s debts fell on the same day as the initial deadline for the payment of a new ‘household tax’ did nothing to dissipate this feeling. Thus Irish people are seen as footing the bill for European banks’ imprudent lending to reckless Irish banks. Moral outrage and dismay at this situation is reinforced by the huge personal debt problem which Ireland is also shackled with (with a worsening of the mortgage crisis looming on the horizon):⁹ ‘decent citizens’ who bear full responsibility for their own outstanding loans find it difficult to accept that bondholders should be insulated from the losses arising from their bad investments.

The crisis is also a crisis of solidarity at European level. It has seen new divisions make their way into the wider European debate: ‘creditors’ vs. ‘debtors,’ ‘AAA countries’ vs. ‘spendthrifts,’ Eurozone vs. the rest of the EU, etc. Whether the testing challenges currently facing European leaders will lead to reinforced integration or to disintegration, it is beyond the scope of this introduction to ponder. Here I only intend to clarify what is understood by ‘European solidarity’ in the Irish context and how this plays out in Dublin’s endeavours to negotiate a reduction of its debt with its European partners. As Pat Cox puts it, the 64 billion bailout which the Irish government granted the banks

9. A worryingly high proportion of Irish mortgage holders are in ‘negative equity’ (when the mortgage loan they contracted exceeds the current market value of the property securing it), and more are expected to go into arrears in 2013.

in September 2008 can be seen as “an act of stupidity,” but it is also “an act of extraordinary solidarity.” The idea that by socialising bank debts, the Irish people have rescued not only their own domestic banks but also the entire euro-system is at the core of the Fine Gael-Labour government’s strategy to obtain a debt restructuring. The Irish have shown solidarity, and they expect solidarity in return. Dublin’s current diplomatic efforts are grounded in the 29 June 2012 euro area summit statement, which affirmed the necessity “to break the vicious circle between banks and sovereigns,” mentioned direct bank recapitalisation by the ESM (conditional on the creation of a single supervisory mechanism), and committed to examining “the situation of the Irish financial sector with the view of further improving the sustainability of the well-performing adjustment programme.” What this entails exactly remains open to interpretation, but the Irish government took it as sanctioning the use of the ESM for *retroactive* bank recapitalisation. These hopes were soon dashed by the trio of triple A countries’ Finance ministers (German, Finnish and Dutch), and Dublin’s efforts are now focused on seeking relief from the ECB on 30.6 billion euros of promissory notes¹⁰ that were issued by the government to bail out Anglo Irish – the property developers’ bank chiefly responsible for Ireland’s financial disaster – and Irish Nationwide Building Society, a second failed lender, which are both being wound down in a single vehicle called the Irish Bank Resolution Corporation (IBRC). Although the government is confident that it can get a deal ahead of the next March 2013 payment deadline, a breakthrough remains to be confirmed on this matter. The Irish media have been reporting on both issues – the use of the ESM for ‘legacy debt’ and the promissory notes’ restructuring – in a saga-like manner. In this saga, the ECB, Germany, and Commissioner Rehn feature prominently on the side of those who are insensitive to Ireland’s bid for a gesture of European solidarity, while the IMF and France are portrayed as more “understanding.” The language of friendship and enmity has long been that of international relations. In the context of the European debt crisis, it goes together with an upsurge in national stereotyping. Olli Rehn – who rejected Dublin’s attempt to defer their March 2012 promissory note payment by reminding the Irish that “the principle in the European Union and the

10. The promissory notes are forms of government ‘IOUs’ with specific repayment terms attached to them. A first 3.1 billion payment was made on 31st March 2011, and the Irish government is due to make further 3.1 billion repayments on March 31st of every year for the next 12 years, and then lower payments until 2031. The notes are issued directly to IBRC, which uses them as collateral to draw down Exceptional Liquidity Assistance (ELA) funds from the Central Bank of Ireland (the ECB doesn’t accept the notes as collateral to access normal ECB liquidity). The government is also due to pay interest on these notes, which adds a further 17 billion to the Anglo Irish-related bill.

long European legal and historical tradition is *pacta sunt servanda*: respect your commitments and obligations” – belongs to the same cultural sphere as Chancellor Merkel, whose firm ‘austerity’ stance focuses so much of the Irish media’s attention. Yet, contrary to what the situation is in some other European countries, in Ireland, the caricaturing of the European neighbours’ national personality entails a measure of humorous self-derision: “Angela Merkel thinks we’re at work,” read a poster held by a group of Irish football supporters at the time of the 2012 European championships. But this humour can also turn sour, as when, in a satirical Irish TV programme, the German Chancellor is regularly represented against the backdrop of an angular black eagle that has shed the soft contours of its post-war silhouette.

In conclusion, it is worth emphasising that Ireland’s present difficulties are similar to those facing many contemporary nation-states in their relation to globalised financial markets. As Mario Draghi likes to highlight, whatever about loss of sovereignty to the EU and the IMF, European governments have yet to acknowledge that they have lost their sovereignty by piling up amounts of debt that make them dependent on borrowing from international credit markets. And the Irish government is very much of the view that no viable solution can be found to the structural misfits between national policy and market logics outside of the collective framework of the European Union. The current configuration of the embeddedness between the capitalist order of the market and the political order of the state is a perilous one for the credibility of both national and European political institutions. In Ireland, the recent episode of fiscal rebellion, (when, in March 2012, half of the 1.6 million Irish homeowners failed to pay the new household tax) can be seen as a refusal to acknowledge their ‘social debt’ to the state. Following this interpretation, one could say that Irish citizens are renegotiating their social obligations in a context where the state is perceived as being permeated by the market and failing to perform its nurturing duties. This is why efforts to break the link between banks and sovereigns, which are at the heart of current European designs for a banking union, are of such vital importance to governments across Europe. Of equally crucial importance to Ireland is the obtaining of a deal on the Anglo-Irish promissory notes, without which market suspicions over the sustainability of the Irish debt will not be lifted. One proposition on the table is to turn the promissory notes into long-term money, by swapping them for a forty-years bond – the underlying assumption being that markets

will always be willing to buy bonds with a maturity of over twenty years. Thus the Irish government is striving to push its debt into the future, to carve out a temporal frame that is beyond the reach of markets (in order to be able to go back to those markets). Finally, it is too soon to fully assess the consequences of the European sovereign debt crises on the state of the Union. The conflict of interpretation – on whether spendthrift welfare states or ruthless financial speculators are to be blamed for the crisis, on who is responsible for what, and who should pay what – is far from settled.

STABILITY TREATY – THE IRISH REFERENDUM OF MAY 2012

by Tony Brown

1. The Treaty

The intergovernmental Treaty on Stability, Coordination and Governance in the Economic and Monetary Union was signed by the heads of state and government of twenty-five of the twenty-seven Member States of the European Union on 2 March 2012.

Under the terms of Article 46 of the Irish Constitution, any change to its terms requires ratification by the people in a referendum. Within the Irish administration it is the task of the senior law officer – the Attorney General – to advise on whether a particular matter requires constitutional affirmation or protection. On 28 February 2012 the Taoiseach (Prime Minister) Enda Kenny informed Dáil Éireann (the lower House of the Irish Parliament) that “at this morning’s Cabinet meeting, the Attorney General conveyed her advice that, as this treaty is a unique instrument, outside the European Union treaty architecture, on balance, a referendum is required to ratify it. On foot of this advice, the government has decided to hold a referendum on this issue in which the people of Ireland will be asked to give their authorisation for the ratification of this treaty.”

2. The Referendum Question

The government published a referendum bill providing for the insertion of the following subsection to Article 29, Section 4 of Bunreacht na hÉireann, the Irish Constitution:

“10° The State may ratify the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union done at Brussels on the 2nd day of March 2012. No provision of this Constitution invalidates laws enacted, acts done or measures adopted by the State

that are necessitated by the obligations of the State under that Treaty or prevents laws enacted, acts done or measures adopted by bodies competent under that Treaty from having the force of law in the State.”

Introducing the referendum bill in Parliament, the Tánaiste (Deputy Prime Minister) and Minister for Foreign Affairs, Eamon Gilmore, described the process whereby “Ireland and our fellow European Member States sat down to negotiate a new and important agreement with the status and weight of an international treaty which committed 25 states, including all Eurozone countries to responsible budgeting and better arrangements on how Eurozone countries work together and help each other. It is that deal which we negotiated, called the Stability Treaty, which I am asking the Irish people to support.” In an important part of his speech the Minister pointed out that “contrary to what some have claimed, we are not inserting the treaty into our Constitution. We are ensuring that our constitutional arrangements enable us to ratify the treaty.”

The Oireachtas (Parliament) Committee on European Union Affairs set up a Sub-Committee to discuss the treaty. The Committee held 24 public sessions at which more than 60 witnesses – the leaders of all parties and groups in Parliament, Irish MEPs, parliamentarians from other EU states, academics, representatives of the social partners and civil society, economists and the ambassadors of EU Member States – presented their views. The Sub-Committee published an extensive report covering the purpose of the treaty, the economic effect of the treaty on Ireland, a detailed analysis of the key elements of the treaty, alternatives to the European Stability Mechanism, and the perceived consequences of a ‘yes’ vote and a ‘no’ vote. The report provided an outline of the positions taken by the witnesses, on both sides of the argument.

3. The Referendum Campaign

3.1. The Yes Side

Under Irish referendum law, campaigning is carried out by the political parties and civil society groups or individuals. The government’s role is limited to the provision of factual information and the main responsibility for this is

given to the Referendum Commission which circulates information booklets and leaflets and carries out media advertising – conveying information and encouraging people to vote.

On the ‘yes’ side in the campaign were the two government parties – Fine Gael and Labour – and the main opposition party, Fianna Fáil, whose leader, former Foreign Minister Micheál Martin, played a prominent part in the campaign. Both Fine Gael and Labour ran high level national media campaigns but with an emphasis on direct contact with voters and key groups, such as farmers and trade union members, by party representatives and branches at local level.

A major role in the ‘yes’ campaign was played by the Alliance for Ireland, an association of business and voluntary organisations and Irish citizens. The Alliance brought together as many as 60 national and regional organisations, including the Irish Business and Employers Confederation, the Irish Farmers Association, the Irish Chambers of Commerce, the Irish Exporters Association and the Irish Tourism Industry Confederation. It also included the Charter Group of trade union leaders and the ‘Generation yes’ group of young professionals and third-level students. The Alliance was supported by a wide range of well known individuals in business, sport, music and the arts. A ‘Famous Faces’ advertising campaign and full-page features in nation papers signed by almost 200 personalities attracted much attention.

3.2. The No Side

The ‘no’ campaign in 2012 was the eighth attempt to reject proposals related to the development and governance of the European Economic Community or European Union since the 1972 vote on Irish accession. While this campaign related to an intergovernmental treaty rather than an agreed amendment of the basic treaties, in terms of its participants, it was largely indistinguishable from previous campaigns to reject proposals negotiated by successive Irish governments in collaboration with the other European democracies.

The ‘no’ campaign featured some 50 political parties, organisations, publications and individuals – Irish and non-Irish – ranging from an all-island political party, Sinn Féin, and some trade unions, to ad-hoc, and often shadowy, groups from the fringes of Irish public life such as the republican group, Eirigi, with its

taste for ‘direct action’. The Libertas group headed by businessman Declan Ganley, which had played a major role in the Lisbon Treaty polls, joined the opposition, arguing that Ireland should vote ‘no’ and then offer a second vote if the EU agreed to pay off Ireland’s bank debts! The individual campaigners had long track records in opposing European treaty amendments.

The ‘no’ side in Irish European referenda has consistently represented a ‘Troika’ of policy positions – nationalist, left-wing socialist and Catholic fundamentalist. Essentially they reject the concept and reality of the European Union on grounds – loss of sovereignty, neo-liberal economics and threats to moral values – which have certain resonance in society and which can be exploited and translated into a significant ‘no’ vote. The essentially economic focus of this campaign meant that the fundamentalist groupings were not in evidence as it was not credible to seek to link the ESFM or ESM to the introduction of abortion, euthanasia or conscription.

The non-Irish players included a familiar lineup of British Europhobes, notably the United Kingdom Independence Party, seeking to use the Irish situation to promote their agenda of undermining the European Union and advancing the project of UK withdrawal. Some voices from anti-EU parties in continental Europe, such as the Greek Syriza Party and Finnish and Danish representatives of the Europe of Freedom and Democracy Group in the European Parliament, were heard yet again repeating their longstanding positions.

3.3. The Campaign

The ‘yes’ side argued simply that the treaty was necessary, in the words of the Tánaiste, Eamon Gilmore, “to save the euro, our currency, to restore our economy, to be able as a sovereign nation to borrow again on the financial markets and to ensure that no future government can ever again bring us to such a sorry state...”. It was essential to approve the treaty as a signal of the country’s commitment to the euro and to EU solidarity in the face of the crisis.

The Alliance for Ireland argued that the treaty was the first half of the equation in getting Ireland out of its current crisis with, as the next step, a pan-European stimulus to kick-start a growth-led recovery. “First you stabilise, then you

grow. This treaty is a necessary condition for growth. It is our stepping stone to recovery.”

In particular it was argued that, if Ireland failed to ratify the treaty, market sentiment would be strongly negative. Ireland would be locked out of the vital new instrument, the European Stability Mechanism, and borrowing, if possible at all, would be prohibitively costly.

On the ‘no’ side, the treaty was described as an ‘austerity treaty’ enshrining permanent austerity through the new, harsh, structural deficit target, forcing Member States to pursue damaging pro-cyclical fiscal policies. It was not necessary as the EU would always provide for a second Irish bailout, should that be needed. The treaty was to be inserted into the Irish Constitution, thereby having the potential to tie the hands of any future government on spending and fiscal policy.

It was further asserted that the treaty drastically limited the ability of an Irish government to make necessary public investments and thus to tackle unemployment. Democratically elected governments were being told that they cannot borrow to invest in jobs but that they must borrow tens of billions to pay off the gambling debts of toxic banks. The treaty was seen to pose a challenge to democracy and national decision-making with enhanced powers being given to the unelected European Commission and to the European Court of Justice. The treaty, it was claimed, does away with Ireland’s right to national freedom and sovereignty.

A significant feature of the campaign was the attempt, on the ‘no’ side, to generate support by linking the treaty to an on-going campaign against taxation changes introduced to cut the budget deficit and, in particular, a 100 euros Household Charge, intended as a step towards a wider property tax. A national campaign by left-wing parties and groups had succeeded in achieving widespread refusal to pay the charge and in building anti-government sentiment. Research by the authoritative RedC polling company showed that, of those who indicated that they had paid the Household Charge, 80% voted ‘yes’ compared with about 20% of those with negative attitudes to the charge.

4. The Referendum Result

On 31 May 2012 the Irish people voted and backed the treaty by a clear majority: 60.3% voted 'yes' and 39.7% voted 'no.' By comparison with the second Lisbon Treaty referendum in 2009, the turnout was lower - reduced from 59% to 51%. The 'yes' vote was down from 1,214,000 to 955,000 while the 'no' vote was higher - at 629,000 compared to 595,000. The 'no' percentage, at almost 40%, was the highest of the seven losing 'no' votes in European referenda and the 629,000 'no' votes cast amounted to the second highest 'no' total. These figures seem to indicate that a significant number of those who might be categorised as 'soft yes' in their attitude to EU matters decided to stay at home on this occasion.

Only five of the country's 43 parliamentary constituencies rejected the treaty. These were in the north-western county Donegal, where Sinn Féin are particularly strong, and in three Dublin areas where the recession had resulted in high levels of unemployment and poverty.

Research findings indicated that the 'yes' vote was strongest in the 55-65 and 65 plus age groups while it fell to 43% among those in the 35-44 group - the group most likely to be affected by the economic crisis, both in respect of unemployment and the pressures of negative equity and mortgage arrears. While 89% of farmers and 66% of the AB social class supported the treaty, the working class groups delivered the highest 'no' votes, with 50% of the DE group rejecting the treaty.

Experienced political commentators have argued that this was the first time that a clear class divide had emerged in an Irish national poll. Majority 'no' votes were registered among those who described their personal economic situation as fairly bad or very bad.

Asked about their reasons for voting 'yes', most voters referred to the economic situation of the country: economic necessity (24%), uncertainty about the implications of a 'no' vote (23%) and the importance of access to funding and future bailouts with the 'no' side failing to identify alternative sources of finance (22%). They also felt that the treaty was good for Ireland (18%) and held pro-EU opinions (12%).

The main reasons cited by those who voted against the treaty were opposition to the government (28%) and distrust of politicians who were ‘misleading’ the people (24%). Other significant reasons related to voter opposition to the European Union (17%) and to perceived loss of political and economic sovereignty (18%). Austerity and economic factors also figured among the main ‘no’ side motivations.

5. Implications

It is clear the EU must make far-reaching decisions in the period ahead to bring an end to the current deep economic and financial crisis and, in the words of the Van Rompuy Report, to develop “a strong and stable architecture in the financial, fiscal, economic and political domains underpinning the jobs and growth strategy” and to seek closer integration which “will require a strong democratic basis and strong support from citizens.” For Ireland, and for all EU Member States, this new architecture will necessitate a further pooling of sovereignty, in areas of policy hitherto seen as entirely within national competence.

Difficult and demanding choices will face the Irish political and administrative system and, ultimately, the Irish people in a referendum which might well be of the same order as those of 1972 - on Irish accession to the EEC - and 1987 - on the ground-breaking Single European Act. It is crucial that all of the issues facing the country, the policy options and their implications are fully researched, assessed and discussed in the period ahead.

However, the outcome of the Stability Treaty referendum leaves no grounds for complacency in the parties and groups on the ‘yes’ side and it is clear that, in any future referendum, the ‘no’ side next time will have substantial, realistic targets. Whatever the precise nature of the proposition, and unless the economic situation has improved dramatically, certain factors which were significant in May 2012 will be crucial again: the personal and communal problems associated with ‘austerity’, personal economic hardship, such as negative equity and unemployment, will influence many voters, including those in the ‘soft yes’ category. An important insight was offered by the Labour Party MEP, Nessa Childers, who argued that the political capital inherent in past

arguments about ‘stability’, ‘progress’ and ‘investment’ has been exhausted with voters looking for concrete prospects rather than mere aspirations. This is very much the case in areas and groups particularly affected by unemployment. Providing or facilitating job opportunities for those at present out of work and for the younger generation of school and college leavers will be a crucial test of government and of politics in general.

The social divide which emerged clearly in the campaign will give encouragement to the ‘no’ side and anticipated developments on property and water taxes or charges will provide a basis for protest campaigns, with an EU referendum as an obvious target for anger and dissatisfaction. Retaining the solid support for the Stability Treaty in the farming community will be dependent on the successful outcome of negotiations on the reform of the Common Agricultural Policy, possibly under the Irish Presidency of the EU Council in the first half of 2013. The progress made on dealing with the cost burden of the Irish government’s bank guarantee will be crucial in persuading voters to maintain support for the evolving shape of EU integration. Antipathy to bankers and bondholders and, however distorted and exaggerated, to the influence of Germany will figure in the debate.

The narrative of austerity can become a powerful stimulus to anti-EU attitudes and to conventional and non-conventional political movements. Ireland, so far, has not seen the emergence of hard-line right wing politics and the more extreme left remains marginal. But the voting patterns seen on 31 May 2012, together with the impact of the campaign against the Household Charge, point to a potentially significant shift in attitudes in some predominantly working-class areas. The remarkable collapse in the 2011 General Election of the broadly populist Fianna Fáil Party, which had been in government for 45 of the past 65 years, may have opened the way for long term changes in political loyalties in Ireland.

It is to be hoped that the lessons of the 2012 referendum will lead to an acceptance of the difficult decisions which must be taken to restore the Irish economy and give hope for the future not least in terms of political debates and choices.

INTERVIEW WITH PAT COX¹¹

"I hope that (...) the Stability Treaty is a comma and not a full stop"

I would like to begin with an exercise in recollection: when did you start developing an interest in European questions, and what were the terms of the Irish debate on Europe then?

The first European question that came up was in 1972, when we had a referendum to join the European Economic Community. I was a student of economics in Trinity College and I voted in that referendum.

The terms of the debate were essentially economic more than political. Ireland had had a long period of isolationist economic policy, followed by a period of preparing for free trade, under the impulse of Seán Lemass. First we had an Anglo-Irish Free Trade Area Agreement, following the 1963 'no' of General de Gaulle to the UK Prime Minister MacMillan. Ireland was so dependent on the British economy, our Irish pound was so linked to the pound sterling, that there was no question of us seeking to join independently of the UK.

When we eventually joined the EEC in 1973, together with the UK and Denmark, I would say that Ireland's attitude resulted from a combination of pragmatism and different experience. Different experience, because we had only an 'Emergency' when continental Europe had a war. Pragmatism, because Ireland was, by the standards of the 1970s, one of the poorest countries in Western Europe. Therefore joining the EEC was seen as a great economic opportunity. I myself have written retrospectively in some speeches that sometimes you wonder whether we married our European bride for love or for money.

11. This interview was conducted at the Library of the Royal Dublin Society (Ball'sbridge, Dublin) a couple of weeks before the Irish referendum on the Fiscal Compact, in May 2012, hence the speculative nature of Pat Cox's comments on the voting patterns in this referendum.

What about yourself? Why did you embrace a European career?

As a young academic, I taught macroeconomics at what is now the University of Limerick. It was a new university, first opened in 1972, and when I arrived there in 1976, one of my contributions was to establish the first undergraduate programme on the economics of the EEC in an Irish university. I remember working on the Werner report, and the Tindemans' report on Economic and Monetary Union and so on. This was part of the fabric of my work.

Then I worked for several years on the main current affairs programme of our national broadcaster, RTE, before I was invited, in the mid-1980s, to become the Secretary General of a new political party, the Progressive Democrats, founded by Desmond O'Malley, who had been a minister in Fianna Fáil governments. I was nominated to be the PD's director of elections for the European election campaign of 1989 and set about building a European network of connections for the party. The Irish Labour Party was with the socialist group; the Fine Gael party was with the EPP; Fianna Fáil, strangely - or maybe not, given their innate nationalism - were with the Gaullists in a separate group. So I made contacts with the Liberal Democrat group, ensuring that if and when we elected somebody, there would be an ideologically compatible partner to associate with in the European Parliament. We then started to try to identify ideal target candidates to contest the elections in Ireland's four Euro constituencies, and some people in the party asked me: "*Why don't you go, you worked on TV and are known?*" We lived in single TV channel land in Ireland at the time. After giving it some thought I presented myself as a candidate, fought the 1989 election and happily won a seat. That was the first time I was ever elected to serve in a political institution.

And in a year which turned out to be *annus memorabilis* for European history...

Yes, 1989 was a period of fascinating activity. There was a whole series of latent geopolitical events about to express themselves. The Single European Act had finally been ratified in 1988; we were now moving on with the Delors plan for the single currency and the single market. I succeeded in being on the Economic and Monetary Affairs Committee, and in my first semester, Alan Donnelly, a British deputy, and I, got to be the Parliament's rapporteurs for

the stage one reports on Economic and Monetary Union. At the time, during a French Presidency of the Council, the Finance Minister Pierre Bérégovoy disagreed with some of our proposals, so we recommended to plenary to refer our opinions back to committee in December 1989. Technically, the Council could not clear a dossier that required a parliamentary opinion to issue in advance, which had been tested before the European Court of Justice some years earlier in a case called ‘the Isoglucose case.’ The referral back to committee delayed the final parliamentary opinion until the subsequent Irish Presidency, which eventually accepted some of the things Bérégovoy had rejected. This was a good introduction to the inter-institutional bargaining process and to parliamentary procedure, and more importantly, a very early start in the growing field of the Economic and Monetary Union.

For a young deputy, it was fantastic to meet and work with people like Leo Tindemans, now a fellow MEP, whose report I had introduced to my students in Limerick just a few short years earlier. My group, the Liberals, was francophone, Giscard was its President, so I spent a lot of time working on French language programmes. But by the time I had reasonably mastered French, *l’Europe était devenue anglophone...*

Finally, 1989 was imbued with a sense of history in the making when, in November, the Wall came down in Berlin. It was also the year when Slobodan Milošević went to Kosovo Polje to make his famous speech celebrating the 500th anniversary of the defeat of the Serbs by the Ottomans, and that began to release all of its dark pent up energies.

What resonance did these European developments you just described find in the Irish sphere?

At the time Europe in Ireland co-existed in what I might call two parallel universes. There was an Irish Presidency in the first semester of 1990, led by Mr Haughey as Prime Minister. It was the time when the inter-governmental conference on political union was added to the anticipated inter-governmental conference on Economic and Monetary Union. As with many of the Irish Presidencies these strategic European issues were, in part, a coincidence as regards timing, but they also summoned our small state to rise to the occasion and manifest our strong capacity for handling such issues, which has been

a consistent hallmark of our contribution to European statecraft. So in this first universe, that of high European politics, Ireland always has managed to play above its weight and to successfully deliver key European goals during its Presidencies, thanks to our excellent, professional diplomatic service and our political capacity for networking.

In the second universe, in the late 1980s, Ireland was going through a period of self-imposed and necessary heavy fiscal adjustment following a period of significant budgetary indiscipline. We were beginning to experience a phase of modest and jobs-free recovery, laying the foundations for what was eventually to become the early phase of the Celtic Tiger. So the Irish domestic debate was very much focused on economic issues, into which practical European assistance, under programmes such as regional, social or cohesion funding, was subsumed.

These separate elements combined by giving to and taking from the European project, but for the public at large it was the practical bottom line, and not the grand vision, that weighed most heavily.

The next big European *rendez-vous* was the Maastricht Treaty, in 1992. Did you play a part in the Irish debate surrounding that further step in European integration?

Yes, I was asked by the Progressive Democrat party to come back to Ireland to be the director of their referendum campaign. I agreed to do that but with a few conditions. One of them was that we should talk about the treaty and its content, and not major on the fact that the structural funds for Ireland were going to double.

Why not?

Because one has to live with the formal content of the treaty which endures, whereas the funds, though significant, are transient. The Irish Prime Minister of that time, Albert Reynolds, came back to Ireland after the Edinburgh summit, which was chaired by John Major in December 1992, saying that we were going to get eight billion euros. We obsessed on the eight billion. We voted for the eight billion. Fair enough: that's pragmatism, with which I have

no issue. But when you are doing something of such considerable substance as the Maastricht Treaty with the single currency, Common Foreign and Security Policy and so on, I think it deserves to be treated differently.

So in 1992 again, as in the debate of 1972, we had discussions that were very economics-orientated, and in this case even very dependency-orientated: ‘vote for this and you’ll get the money’ was by and large the simple, even vulgar, equation.

After Maastricht came the referendum on the Treaty of Amsterdam, and then that on the Treaty of Nice, in 2001, when the Irish voted ‘no’ for the first time. How do you explain this turning point in Irish opinion, and what were the battlegrounds in that referendum?

Ever since Maastricht, there has been a growing ‘no’ vote in every consecutive referendum in Ireland. When we first voted, I don’t have the precise data, but the vote would have been 4 to 1 in favour. For Maastricht, it would have been about 2 to 1. For Amsterdam it was about 60% in favour. For Nice One it would have been 54% against, and then more than 60% in favour for Nice Two. For the Lisbon referendum, we had maybe 53 or 54% ‘no’ the first time, and 2 to 1 in favour for Lisbon Two.

So what were the battlegrounds? One element that was always at play in Ireland was a kind of ‘Christian and sovereignty’ space. The Christian angle in the sovereignty school relies on a presumption that everything international risks, through treaties, corrupting the moral fabric of society. That could be UN conventions, international jurisdiction through international courts, or anything to do with the EU. Largely it would manifest itself in assertions that if you vote ‘yes’ to any given treaty, it will introduce abortion to Ireland. Some even argued, although less vigorously, that it would introduce euthanasia. These things may seem bizarre to the foreign ear, but it became a mountain you had to climb every time you had a debate on Europe in Ireland. So this is one part of the sovereignty argument, based on Christian values of a somewhat fundamentalist type in terms of their political expression. This despite the experience we had over consecutive decades that such questions remained a matter for national choice.

The second part has to do with security and defence, and more specifically with traditional Irish military neutrality. In this particular case the argument was that any given treaty would oblige Irish people to be open to conscription into a European army and to fight all sorts of exotic wars. This school of thought played heavily in each debate – not the very first one, but in every other debate: Maastricht, Amsterdam, twice for Nice, and twice for Lisbon.

So you have the neutrality-military-security space, you have the Christian fundamentalist-abortion-euthanasia space. Then in the context of globalisation, socio-economic arguments increasingly entered the fray through the decade of the 1990s and into the first decade of this century. Denunciations were made of the EU's drift towards a *'libéralisme sauvage,'* more familiar to a French ear, with disputes over workers rights, the minimum wage, the transfer of undertakings, the terms and conditions of cross-border work, the role of competition policy and general economic competitiveness. All these things added some new constituencies to the Irish debate on Europe, and potentially to the 'no' camp.

Finally, in the past decade, more people are getting sensitive to the nature of the balance of influence and power through the institutional architecture, with a significant thread of argument suggesting that the EU is being built increasingly in terms of size counting more than the concept of the equality of states as referred to in the treaties. There is a growing popular unease that smaller states, like Ireland, count for less.

This is not only a matter of popular unease. Governments have also proven to be very concerned with voting weights.

Absolutely! This is a real issue. Why couldn't the Council find an agreement on the institutional architecture in Maastricht? The answer is clear. The states themselves were then too sensitive to the arithmetic of power to find the necessary long-term consensus. And so they remained. That's why some of the Maastricht 'leftovers', to use the parlance of the time, were to be found again in Nice, Amsterdam and Lisbon. And the reason why there were 'leftovers' was because the political class at an elite level had a distinct difficulty in being able to do the numbers, and to find a viable formula to accommodate the balance

of interests and influence of states of different sizes and spaces, such as north, south, east and west.

Would you say that the Irish rule of holding a referendum for every new treaty periodically allows for a truly democratic debate on Europe?

When you are trying to understand Irish public debates on Europe rationally, through the actual content of a treaty, as distinct from the issues discussed in a campaign, you risk to be confused by two separate sets of arguments. Permit me to observe, for example, as I did in the second Lisbon debate in Ireland, that if neutrality were virginity we would have lost it on every consecutive occasion that we voted for a treaty, which of course would be biologically impossible in the case of virginity, though apparently not politically impossible in the case of neutrality. But in each campaign we got the same argument. It was like that American movie called 'Groundhog Day', where the story starts over identically every day. And despite still not having a European Army after all the European Treaties Ireland ratified, and still never having fought and died in a foreign war - in spite of this experience which is lived and real -, those fears can still mobilise people.

In the second Lisbon 'no' campaign in Ireland, people put up posters saying 'If you vote for Lisbon, the minimum wage will be reduced to 1.80 euros per hour.' Where did they get it? Theoretically, by taking the lowest minimum wage in the EU, possibly in Latvia or somewhere, and by insinuating that under EU law Ireland might choose or be forced to introduce the same minimum. There was neither a legal competence, nor a requirement at EU level to cause this to happen. But I can tell you that even on the last week of the campaign, when we, on the 'yes' side, had put out the counter-argument on posters and through media advertising, I went to talk to the staff of a canteen, and their main issue for me was seeking reassurance on this specific point, because they were on the minimum wage, and fear had seeped into their consciousness.

So when you play with the politics of fear, all one needs to do to succeed is to plant a seed of doubt. Planting doubt opens fear, and fear opens caution. And the problem when you have a referendum on a complex treaty that deals with security and defence, justice and home affairs, economic policy, institutional architecture, foreign policy, environment policy, labour market policy

- believe me, the room to do mischief is unlimited. When a government holds a referendum, it owns the question, but the public own the answers to their own questions, which may or may not be the question put by the referendum itself.

So the question is, then, why do the Irish have all these referendums?

The answer is that on the occasion of the Single European Act, the Irish government of the day, in 1987 I think, went to the Parliament and passed the bill that would permit the ratification of the Single Act, believing that it already had constitutional immunity from the accession referendum in 1972. However, part of the Single Act mentioned 'European political cooperation,' which was the then phrase for the emerging foreign policy debate. An Irish citizen who belonged to one of the sovereignty movements took a case to the Supreme Court, and the Supreme Court found that the Irish Constitution protected foreign policy as the exclusive realm of the government and of the elected parliamentarians, and that the original 1972 referendum did not cover any pooling of sovereignty in the making of foreign policy, however tentative. This caused us to have the referendum on the Single Act. I personally would question the extent to which governments since then have relied on this specific case to presume the necessity to hold a referendum in every subsequent case. Politically, it may well be a case of carrying the precautionary principle too far, a kind of triumph of risk aversion over constitutional necessity.

But there is something else I should mention: in the Irish case, two other Supreme Court cases were decided, which make the holding of a referendum particularly challenging. One was a complaint made in the course of a referendum on divorce, if I remember correctly, by a leading 'no' campaigner arguing that the broadcasters did not give a fair amount of time to the 'no' side. The Court decided that there should be *equity* in the distribution of time for the respective campaigns. But the radio and television broadcasters, in their own risk averse way, chose to move towards a practice based more on the principle of *equality*, thus ensuring more or less a fifty-fifty divide between 'yes' and 'no' campaigns, irrespective of the balance of forces, political or societal, arrayed on each side.

In the second instance, a former Member of the European Parliament who was then in the Greens and who was always on the 'no' side of EU referendums,

Patricia McKenna, took a case to the Supreme Court, effectively arguing that the state, as such, had no right to distort voter choice by spending taxpayers' money on a 'yes' campaign only. The result is that, with the exception of a Referendum Commission, which gets state money for, frequently bland, public information campaigns, the government of the day cannot spend state money on what it perceives and wishes to promote as being in the national interest. Instead it falls to political parties or civil society organisations on both sides to independently fund their national campaigns. In general political parties, with their limited resources, prefer to guard their resources for actual electioneering.

Consequently, in addition to campaign issues such as abortion, neutrality and so on, which a lot of non-Irish observers of the Irish debate do not really comprehend as mobilisers of sections of public opinion, one has to add these challenging Court-imposed constraints on the conduct of referendum campaigns. They weigh on the way campaigns are held, as much to the delight of many on the 'no' side of Ireland's EU referenda as to the dismay of many on the 'yes' side.

Finally, it is worth adding that we are an English-speaking country in an Anglo-American cultural sphere, with very significant, deeply Eurosceptic, high-penetration print media outlets from Britain. 48% of the newspapers circulating daily in Ireland are British. And although we still like to watch our national channel, because of satellite and cable penetration, we might just as easily be watching Mr Murdoch's Sky TV. So when we have campaigns about the EU, those parts of the British media that are frustrated at not being able to advance their propositions in practice in the UK, use Ireland for their proxy war of words.

With Lisbon, we even had the spectacle of another first: the party of Mr Nigel Farage, UKIP, set up a website in Ireland - which was not called UKIP, but bore some other name ending with the Irish domain register '.ie'. They published absolutely defamatory material about the treaty and why one should vote 'no', including assertions that it would introduce abortion and euthanasia, and distributed copies of this to every household in Ireland. This was the first time I can remember a party not registered in Ireland contacting every Irish household!

With the Fiscal Compact though, things are different: it does not have clauses about which people could say it is going to bring in abortion or euthanasia.

No, they cannot say that, but who knows? But essentially the Fiscal Compact is different because now that the British and Czechs have opted out, it is an international - not an EU - treaty. Therefore several things follow: number one, the other twenty-four signatory states do not have to wait for Ireland to ratify it; if twelve ratify the treaty it will become law. So Ireland has no veto. It is not that we normally conduct our debates predicated on a right of veto, but given the necessity for unanimity in the case of previous EU Treaties, if Ireland said 'no', the legal effect was to block ratification. And crucially, there is a clause in the Fiscal Compact which says that a state which does not ratify the Compact will not be able to access funds from the ESM after 1st March 2013.

Doesn't this also boil down to playing the politics of fear in order to secure a 'yes' vote?

I always feel that it is better to try to find the positives in something and to accentuate them in a campaign rather than to sell one's proposition off a negative. But here is what I can say about the chronology: Ireland is in an EU/IMF rescue programme, and that programme is due to expire at the end of 2013. It is the preference, and if the circumstances permit, the intention of the Irish government to re-enter the markets in 2013. To be reassured that our country could access funds if needs be is a significant insurance policy, which hopefully Ireland will never need to cash. And so when one assesses the uncertainties that lie ahead, there is no doubt that accessing funds if needed gives Ireland a particular incentive to say 'yes' to the Fiscal Compact. The first hard case if we rejected it could be ourselves, because saying 'no' would be, to borrow a phrase from the credit rating agencies, a 'credit negative event'.

And what is your own judgement of this treaty?

I have at best mixed feelings about it. I have no problem with fiscal stabilisation and consolidation - I think it's a *sine qua non*. But I hope that in the grammar of higher European policymaking this treaty is a comma and not a full stop. We have other issues of mutualisation and solidarity to deal with. And if it is not a

full stop it could be good, because it may be a psychological insurance policy for creditor states – Germany in particular, but not only – which may release in them a willingness and margin of manoeuvre to move from the comma to the full stop.

Finally I would observe that if you follow the implications of the Six-Pack regulations and the European semester, the difference between having the treaty or not is very marginal, since the Six-Pack already demands a much higher level of surveillance and discipline than was there before.

What do you think of the ways in which the question of debt currently informs the debate on Europe?

In terms of what I call the rational space, as distinct from the things I talked about earlier, I think that debt is a question on which you can have a good debate, raising a very legitimate set of issues.

In that regard, the Irish options come down to the question of whether you look for debt write-off or debt restructuring. And it is clear that the government has decided that the only available option, as they read it, is debt restructuring. And all the political, diplomatic, and institutional effort seems to be dedicated to this end. But there is also a respectable case to be made for debt write-off.

How would you argue that case?

I would do so in several different ways. Let me start with some numbers: when we hit peak debt to GDP figures, in the coming two or three years, we will have a debt to GDP ratio of the order of 120%. That ratio was as low as 24% six or seven years ago. 40% of that, one third of it, is accounted for by the socialisation of private bank debt which was taken on stupidly by the sovereign, when the sovereign argued incorrectly that Ireland had a bank liquidity problem and not a bank solvency problem. That debt is not a debt contracted by an Irish government in the name of the Irish people. It is a debt which was a private banking debt, money that was loaned profitably on wholesale money markets, mostly by continental European banks, and to an extent, British banks. Therefore the Irish taxpayer is in effect taking a big hit to follow an ECB policy logic aimed at avoiding a banking problem somewhere else within the EU.

You mean in Germany, Belgium or France?

Yes, in Germany, Belgium, France, the UK and so on. So in that sense the government guarantee is, on the Irish side, an act of stupidity. But on the other hand it is also an act of extraordinary solidarity. And it seems to me perfectly reasonable to look for some counterpart solidarity and understanding to relieve some of this Irish debt burden.

A second observation I would make is that if you study all of the monetary collapses and financial crises that have occurred over the post-World War II period, the share of socialised bank debt to GDP is higher in Ireland than anywhere else in the world. The next nearest figure I have found is South Korea.

And thirdly, I think that a debt write-off is not only in the Irish interest, but also in the wider European interest. Several euro area economies are currently in intensive care in EU/ECB/IMF rescue programmes. The Irish economy looks like it might be the first one that could stand on its own feet again, but maybe not without some sympathetic understanding and help. Therefore it is in Europe's interest not to pile such a burden of debt on Ireland – without some measure of debt relief, or significant debt restructuring – so that the one country that could be the success story and prove that the policy may work does not sink under the weight of its debt and adjustment programme. So it seems to me that we need from Europe institutional and political understanding. And one notes that the margins of manoeuvre that the European institutions are offering have, so far, been much narrower than the margins being suggested by the IMF.

That said, I understand part of the hard-line logic of some of the creditor states and to an extent the EU institutions. I may not appreciate it, but I can understand it. Greece is meant to be the only state where debt is being written-off. If this is repeated somewhere else, of course it begs the question 'where is the limit?' This in turn risks provoking further negative responses on the financial markets. And that is why I think that full debt write-off, because of the associated moral hazard and market consequences, may probably be a bit too far.

Which is what brings me back to the restructuring option. I mean restructuring where the net present value of part of the debt is measurably and visibly less than it would have been under the current structure. This would mean in effect that Irish debt redemption would cost less over time, making an eventual return to markets more sustainable. In other words the interest burden and the capital cost to Ireland would, over a period of time, be less than the alternative. I do not know whether that will actually happen because, constantly, it seems to be a case of one step forwards and two steps back – a form of policy making and revelation through smoke and mirrors. It is very hard to know in a transparent way what the realistic expectation can and should be.

In any case, this question of debt is a very sore point. It is unsettled; it is unsettling. And it risks to play a serious role in future European campaigns, in terms for which there is no easy answer, no matter which side of the argument you argue, and certainly no easy politics.

And how does this question feed into Ireland's domestic political debate?

There is a wide appreciation here that the previous government made quite a disastrous error in September 2008 in giving an unmodulated blanket guarantee for a series of Irish financial institutions. That decision took a sovereign which was capable of viability into a space where it no longer was viable, and pushed Ireland into a rescue programme.

I think that the annoyance to do with European partners is that the Troika has been unable to find a dynamic to help diminish the part of the debt burden that was never undertaken in the name of the Irish sovereign and on behalf of the Irish citizen. We were lectured about moral hazard by people like the ECB executive director, Mr Bini Smaghi, through the Financial Times. But where is the moral quality of burdening a society with additional austerity adjustments for private banking contracts that were profitable both for the lender and for the borrower at the time of the contract, for people who were meant to do their due diligence in a market place where, when you made your bonus, you did really well and when you make your loss, you make the citizen pay? Where is the moral quality in that argument?

A very significant number of Irish households failed to register in time for the new household tax introduced in March 2012. Could that be interpreted as the beginning of some sort of fiscal rebellion? A refusal by Irish citizens to fulfil their ‘social debt?’

I think that some of it, without any doubt, is explained by how the government has approached the introduction of this new household tax; some is the result of a political campaign against the levy; and some of it may have been a more spontaneous form of civil resistance. In general terms, so far, such resistance has been the exception. We are not Greece: Irish society is quite tax-compliant. We had issues in the 1980s and early 1990s with non-compliance by elites who were putting money offshore. Some of these are the same elites who worked in the crony capitalist space between politics and certain businesses that manifested itself in the collapse of the banking sector and the implosion of the property bubble.

What about the stream of property developers who have recently been seeking bankruptcy in the UK? These are the same people who were praised for working in the ‘national interest’ during Celtic Tiger times...

I have seen those arguments, but I find it hard to get on a moral high horse when it comes simply to the legal issues involved in seeking bankruptcy. When you are running your own business, to the extent that it coincides with the national interest, it is a benefit. But businesses are not run for the national interest as such. It is not to justify Celtic Tiger property excesses, but to try to understand, after the bubble burst, what can cause some to seek remedies in the UK.

I think that, partly, what this is telling us is that the bankruptcy laws in Ireland are a crock, for the following reason: if you go bankrupt, under Irish bankruptcy law, you stay that way for twelve years. That does not make sense if you want a dynamic economy. Look at the American entrepreneurial model, which we claim to want to emulate here. Every American talking about entrepreneurship will tell you the story of how they failed many times and then found the winning formula. Entrepreneurship is a story of failure and achievement. So in a society that invests a lot in innovation and entrepreneurship, you have to allow some dynamism as regards failure as part of discovering success. And in my view, for that reason, twelve years as a bankrupt is the wrong formula.

Then there is a different thing, at a human level. Suppose one was a developer, at my stage of life, facing into an economic disaster but believing one had learned the lessons of failure and could get back into business in a few years: would one deny oneself and one's family the possibility of trying to start over? Once a person is declared bankrupt, the bad news for creditors is that they will suffer heavy losses whether it is an Irish or a British bankruptcy. The difference is that you get back into business nine years earlier if you follow the British rule. That's why Ireland is planning to change its bankruptcy law.

How do you assess the so-called 'austerity' line of approach - based on cutting public spending - as a means to come out of the European financial crisis?

Let me relate a micro experience to make a more macro point on this. I am a coordinator of a transport project, of a *commissione intergovernativa* between Italy and Austria, who agreed to share 50-50 the infrastructural cost of building the most ambitious tunnel project ever in the EU, which is under the Brenner in the Alps. We started the final phase of this in April 2011 and agreed all the details. The EU has 780 million euros available to invest in this project between now and the end of 2015.

Austria lost its triple A rating at the beginning of 2012, and the Austrians now have an austerity programme until 2016 to save 27 billion euros: 9 billion from tax increases and 18 billion from spending cuts. A portion of these spending cuts is part of the originally agreed infrastructure budget for the Brenner. We now need to have a negotiation for Italy to match this cut. This means that the spending from the two governments will go down by 900 million, and that we also risk losing of the order of 400 million matching finance already available from the EU.

I fully respect Austria and Italy for having to follow one European rule, on fiscal consolidation, but as a consequence, they are restricted in drawing down available, and unspent, EU co-funding. During a period of mass unemployment, this doesn't make any sense to me, neither as an economist nor as a former politician. Somehow, without throwing rules out the window, we have to recognise the need for a flexible capacity to deploy resources when faced with economic recession. We have not yet got that right.

I would like to go back to the Irish-EU relation: one particularity with which some of Ireland’s European partners take issue is that of the Irish corporate tax rate. What are your views on this subject?

I can understand your question given the way the debate is presented in France. I have, I would say, a degree of contempt for the nature of some of the polemics. I find it very difficult to reconcile French political leaders coming to Ireland before a vote on Lisbon to reassure us that the unanimity rule applies to our corporate tax and then, after we have voted ‘yes’, telling us that this tax rate is an offence that has to be changed.

I can understand polemics in politics, but I discount it because I rely on the rule of law. And the rule of law in Europe says that any change to our corporate tax rate can only happen with our consent, and our consent will not be given on this in current circumstances.

Let me add moreover that if we were to allow the *Élysée* or somewhere else to rewrite Ireland’s tax contract, the risk of capital flight from Ireland would be very high. The risk of taking the fragile economic patient which we now are and completely traumatising it would be totally predictable. And the probability that that capital would then choose to go somewhere else inside the European Union is an assertion for which there is not much empirical evidence. Much of what we have here is the kind of mobile, high value human capital, international investment that might well then go to Singapore or to other such locations.

Leaving aside political polemics, I would argue, as an economist, that the critical question to base your analysis on is: ‘what is the effective rate of corporate tax of a given country, after you have done all the writing-off that corporations are allowed and then applied the appropriate rate of tax?’ This effective rate of corporate tax is never the percentage of the nominal tax rate. Ireland has a low tax rate of 12.5% and relatively tight write-offs. Other states – France amongst them – have a much higher corporate tax rate, but many more write-offs. So in fact Ireland perhaps turns out to be less exceptional than comparing raw tax rates would suggest. The Netherlands, for example, is a country where elements of tax write-off policy can be negotiated. There you have a state which has a very high concentration of mobile foreign investment – it is the biggest

host per capita in continental Europe - and it does that through very effective tax management capacity, a good deal of which is opaquely negotiated behind the scenes with the authorities, and I hear no French debate about that.

The reason why Ireland is an easier target for polemics may be that it has been, over the years, the recipient of generous amounts of structural funds. And people tend to establish a binary opposition between solidarity transfers on the one hand and ‘unfair’ tax competition on the other.

I will give you a political response and an economic response to that. Firstly I should point out that the volume of structural funds coming to Ireland has radically diminished, for the good reason that Ireland has become radically better off.

Secondly I would make a political point. Whatever funding Ireland got in the European Union - and that indeed has been very considerable in net terms; it has amounted to more than 70 billion euros in forty years, between CAP, which is the bigger share, and then structural and cohesion funds - this came about through the available European public policy and legislation. Ireland fitted the relevant criteria: the funds were not given to us because of our Irishness; they were given to a European region that was relatively poorer.

Furthermore, I would like to observe that it was very good to get those funds but that it would be unwise of anyone to suppose that the availability of European funds comes with a price of subjugation to a centre. They are the fruit of solidarity not a pathway to serfdom. If the funds came because our relative poverty entitled us, under the available rules, to draw them down, this does not require citizens in a sovereign state to bend their knee to their funding master. I have a strong political view about this. And finally, Ireland is not far away from being a net contributor, and once you go into that zone you will stay in it, unless you face a long-term economic disaster. So what goes around comes around.

Now let me move to the economic argument: if someone does an econometric analysis of the variables that caused Irish growth, there is absolutely no doubt that the structural funds assisted. But French polemics and econometrics are

not necessarily closely aligned, and if you look at the data in the peak periods of Irish growth – which was also when we had the peak flow of cohesion and structural funds –, something of the order of one percentage point of the growth was accounted for by the net availability of the structural funds in modelling terms. And that during years when the growth rate was 8 or 9%, which means you have to examine different variables to explain the other economic energy driving growth. So the simplistic assumption one might hear in some political quarters, along the lines ‘we gave them a whole load of our taxpayer money and look how the cheeky bastards respond as regards corporate tax’, this argument doesn’t hold for me. It is good on polemics but weaker on substance, I fear.

But let me reverse this and bring it somewhere else. As a francophone and Francophile I don’t have a hang up about France. Your questions raise a wider issue, to do with the European Union as a whole. Although we do not have it yet in Europe, it is possible to countenance quite a mature federal structure with quite diverse state dynamics. If you look at fiscal federalism in the United States, you will see that there is a radical diversity in the tax bases at state level, as regards direct and indirect taxes, corporate and personal taxes and so on. I think that a more federal Europe does not necessarily require a more homogenised Europe. Most federations allow for diversity within. Take Germany, for instance: there is great diversity between German *Länder*, even as regards the state of their public finance. The big pre-electoral polemics in North Rhine-Westphalia, and all along the Ruhr valley, in Essen, Gelsenkirchen and so on, are related to the fact that most of those cities are now running quite large municipal deficits. And all of them are also, because it is part of the federal structure, contributing significant amounts of money to the solidarity fund for *Ostpolitik*, which still continues in its second phase. At times, the biggest internal German polemic is not about the transfer union between Berlin and Athens – it is about the solidarity pact within Germany itself. I don’t know where all that is going to go, but the point I am making is that even when you have a well-run federal system, you still find great diversity at *Länder* level as to how the dynamics play out.

I think that for Europe that kind of dynamic is in fact necessary. No conceivable EU budget can, for the foreseeable future, carry the development needs of the sum of its poorest regions and states. Their circumstances are very diverse and cannot be addressed by some homogenised formulaic EU, incapable of flexible

responses to different needs. To develop the Eastern periphery of Europe, for example, will require summoning the dynamics and internal energies of those societies themselves if they are truly to succeed. And so it should be, otherwise the expectation of what ‘federal’ means risks to reduce to one of endless fiscal transfers and long-term dependency. And that’s no basis on which to run a sustainable Union.

And how do Irish people perceive the federal impetus that currently seems to animate the EU?

I would say that, partly with a British spill over, the F-word as they call it in Britain, probably is a sensitive one here in Ireland. I think that will be a difficult debate because the recent episodes – the difficulties about debt, about who pays what – have woken people up: they are a lot more attuned and sensitive to what is or is not happening in the EU, to who makes and who takes policy. There will be a much deeper reflection in the future than in the past, I believe, about what we are signing up to. But it also means that if we get through that federal move, if we say ‘yes’, there will be a much deeper connection with it. Time will tell.

INTERVIEW WITH LUCINDA CREIGHTON¹²

*"It is sometimes easier to lead a successful
Presidency as a small Member State"*

How would you describe the broad evolution of the Irish debate on Europe, from the referendum on accession to the referendum on the Lisbon Treaty?

If you bring it back to when we first joined the EEC, in 1973, and on into the 1970s and 1980s, there was almost unbridled enthusiasm for Europe in Ireland. But I am not sure that it was a very well thought out enthusiasm. We were a very poor country, we wanted to be anything but the United Kingdom, and we wanted to be part of that project which was moving forward.

In the 1990s and into the 2000s Ireland's relationship with Europe became much more critical and questioning. People also began feeling a lot more confused about where the European project was going. I think this is a Europe-wide phenomenon. It has to do with the so-called 'democratic deficit', the fact that while European decision-making has a deep impact on our lives, people have a serious lack of understanding about how the European institutions work, how they are legitimised. Although we vote for it, the European Parliament is completely remote from citizens. It is not a scant knowledge of how the institutions work: there is no knowledge of how they work – and I don't mean that in a condescending or negative way about the public...

So you see nothing specifically Irish to that European 'fatigue'?

If you wanted to be very cynical, you could say that it is the money drying up – that there are less funds coming from Europe and therefore we are not as enthusiastic about it. I do not agree with that. Take a look at countries that are currently receiving significant amounts of cohesion funding, and you will find several where support for the European project is alarmingly low – the Czech Republic is one example, and they only joined in 2004. So in my view the

¹². This interview was conducted at her office at the Department of the Taoiseach, Dublin.

concerns that have developed over the last decade are not unique to Ireland. One of the problems I am very conscious of, and again I think you find similar trends throughout all the Member States, has to do with the domestic handling of European affairs: when we have a success, when something deriving from European policy has a positive impact, the national government tries to take all the credit for it. But when things go wrong, we blame Europe.

Ireland hardly receives any cohesion funds anymore and is likely to become a net contributor of the EU budget. How do the Irish feel about that?

We are resigned to that: after forty years of membership, that is fair enough.

Would you say that the current debt crisis rekindles Irish worries regarding the balance of power between small and large Member States in the EU?

Yes, and it is not just between big and small states, because Irish people currently identify with Italy and Spain. It is this idea of the North versus the South, the creditors versus the debtors.

One creditor in particular seems to focus much of the public resentment...

Yes, unfortunately, at the moment it all focuses on Germany and on Chancellor Merkel in particular. It is quite disturbing how negative the views about Germany are. There is a sense that those of us who are in a bailout programme or in a precarious situation – that is Spain, Italy, Greece, Portugal, Ireland, even France to some extent – are being harangued and almost beaten up by Germany. That is the perception propagated by our media on a daily basis, therefore it is really worrying.

Do you think that this polarisation between debtors and creditors could undermine the sense of European identity, or even the future of the European project?

Very much so. There is a complete chasm in terms of understanding between the creditor countries and the debtor countries. When I speak to my colleagues

from Finland, the Netherlands, Sweden, Germany, Austria, I encounter this view – it is almost like an orthodoxy – that the programme countries wouldn't be in the mess they're in, had they played by the rules and not been so spendthrift.

Which doesn't explain the Irish difficulties...

No it does not. It may apply to Greece perhaps, but not to us. We ran a budget surplus before the crisis.

And do you see a way out of this poisonous antagonism?

Firstly I think that political leaders of all countries, from Ireland to Germany, have to start talking in different terms. They should speak the language of European partnership. I get accused of being Little Missy Europhile because I defend Germany: indeed I always try, when I am on radio and television, to explain that the German perspective is different from ours, and that we have to understand where they are coming from if we want them to understand where we are coming from. We would need to see that kind of leadership in all Member States. We need Chancellor Merkel to explain a little bit more to the German public the reality of what has happened in other Member States. One element of that reality being, for example, that by paying unsecured senior bondholders, which the Irish government had no obligation to do, we protected German banks.

But isn't this precisely an issue of contention within Ireland, one that feeds resentment towards the EU? Many commentators argue that it was unwise of the Irish government to extend its guarantee to all bondholders and that it was compelled to do so by the ECB.

Well, I wasn't part of that government... I would certainly disagree with the notion of a blanket guarantee for all bondholders and for all banks, no matter how dysfunctional they were, for example Anglo Irish, which was a zombie bank. I think that in the future, when we look at this question at a European level – which I hope we will do through our new banking union – we will be looking at banks of systemic importance. In Ireland's case that would have been Allied Irish Bank and Bank of Ireland. But unfortunately now that is all history for us: it has happened and we need to move on.

And how do you handle and defend that position, as a member of the current government?

How do I defend it now? Well, quite frankly, private banking debt has become sovereign debt. If we want to continue attracting Foreign Direct Investment to Ireland, if we want to continue providing a safe environment for business to flourish and for jobs to be created, we cannot default on sovereign debt. And I actually think that Irish people understand that. They would like some degree of leniency from the European institutions; they would like the Troika to come forward with a report on the promissory notes' restructuring; they would like to see a hand of friendship from our European partners. But no one expects the debt to be written-off completely.

What role would you like to see a banking union perform?

Mervyn King, the Governor of the British Central Bank, has this famous quote saying that *"banks are international or transnational in their lifetime, but national in their debt."* I think that is true, and I do not think it is a sustainable position.

The June 2012 Eurozone summit stated that it is imperative to break the vicious circle between banks and sovereign states which has been at the centre of the Eurozone's, and of Ireland's, difficulties. The agreement reached by the 13th December 2012 ECOFIN Council on the establishment of the Single Supervisory Mechanism is an important step in that direction. The SSM is key to ensuring confidence in banking supervision across Europe, which will be a prerequisite for ESM interventions. It provides the first element of the package of banking union measures that will facilitate the breaking of the link between banks and sovereigns. We now look forward to speedy progress towards agreement on the other elements: the new proposals on capital requirements (known as CRD IV), a harmonised bank resolution framework, and deposit guarantee schemes. Proposals for a single resolution authority are also to be developed.

Beyond the technical discussions, don't you find that the whole debate on debt has highly moral, even moralistic, overtones?

I do. And I must say that I am myself Germanic in some of my outlook because I believe in good spending; I believe in fiscal prudence; and I think that moral

hazard is a very important question. Could we trust certain Member States, who have broken every single condition of every single agreement, and falsified accounts? We are negotiating the Multiannual Financial Framework at the moment and paying into the European Financial Stability Facility, the European Financial Stabilisation Mechanism, and the European Stability Mechanism. As a German taxpayer I would be asking: *'do we really want to hand over our credit card to the Greek government?'* There has to be a lot of checks and balances put in place before we can arrive at mutualisation mechanisms. But that is where we have to go otherwise this euro crisis will never end.

Talking about mutualisation and coordination: do you think that should apply also to tax rates?

I have no difficulty with moving towards a position where there will be greater coordination of tax policy at the European level. But not to the point where we cede control of setting our tax rates in Ireland. That would be a step too far. Our view on our corporate tax rate is a very basic one: we have a transparent rate that does not change from year to year or from government to government. It doesn't matter if you are a big or a small company, if you are in favour with the government of the day or not - our rate applies to all companies, without bias or favouritism. It is consistent and that makes it a good instrument to attract Foreign Direct Investment.

Moreover, Ireland doesn't have a spectacularly low rate: our 12.5% is higher than in a lot of the Eastern European countries, Latvia and Slovakia for example. And finally, Ireland is a small open economy, and we are not, and never will be, in the industrial hub of Europe. We cannot all be Germany or France. I think the Eurozone crisis is exposing the differences and the imbalances. We have a geographical disadvantage as well as a kind of inbuilt economic disadvantage. This concerns not just Ireland, but a lot of the small peripheral countries, especially the islands - Cyprus, Malta -, who do not have ready access to trans-European rail and road networks. And so the corporate tax rate is hugely important for us. It is not the only element of our industrial policy, but it is a crucial part of it.

What would the other elements be?

Being the only English-speaking member of the Eurozone is very important for us. Also having a traditional and very strong relationship with the United States: there is, per capita, more American investment in Ireland than in the rest of the Eurozone combined. That is because we have a very pro-Atlanticist view, which is ironic, considering we are not in NATO, and are against a lot of the military policy of the US. But we have a very strong cultural link, and a trade link as a result of that as well. Other important elements: we have a skilled workforce, and we have become a hub for technology, so that the tech sector is vibrant in Ireland even in the middle of our recession.

What about the financial industry?

It is small but also very important. We have about 30,000 people employed in financial services in Ireland. That sector is a spin off of the City of London, in the sense that a lot of people working in the IFSC would live in London, a lot of the companies would be offshoots of London-based companies or companies that trade very intensely with London. The back and forth exchange is really strong. It is a delicate balance, which is why when things like the Financial Transaction Tax are being discussed at European level, we want it to apply to all 27 Member States because if it were to apply to just those who signed up to the Fiscal Compact, or just to the Eurozone, we would have a major problem. Many companies would just leave Dublin and go to the City. That is significant in the middle of a very difficult economic period.

Another element at play in the Irish relation to Europe has to do with the Irish State's tradition of military neutrality. What are your views on that?

We have developed this perception of ourselves that to be neutral and to not engage in any sort of common defence is a badge of honour. I don't think that we have ever really thought about 'what if Ireland was attacked,' or 'what if a war broke out in Europe?' How would that impact on us? So that position on neutrality is quite narcissistic: we do not have to worry about its consequences, and we can parade it around the world, go to the United Nations and tell everyone how wonderful we are.

But that has become part of Irish identity and it will be very hard to change. My party published a paper called 'Beyond Neutrality' which talked about us joining a European common defence. I am very supportive of that position but I don't think that we could gain political traction for that in the short term.

Moving on to the last referendum, on the Fiscal Compact: how do you explain the victory in the first round this time, as against what happened in the previous two referenda?

I think firstly, I would say this wouldn't I?, that the government handled it much better. After the Fiscal Compact was signed, even before we knew we would require a referendum, one of the things I insisted on - I lobbied the Taoiseach and the Tánaiste in particular, and all of our officials - was to ensure that we as government would communicate directly with the public. I strongly believe that we need to have a national narrative about Europe as we take steps towards further integration. The government had pretty much agreed to that in any event, therefore when we learned from the Attorney General that the referendum was required, we put that decision into practice. For the first time ever the government sent a copy of the treaty to every household in the country with an explanatory memorandum. We did it ourselves; we did not get the Referendum Commission to do it.

Was that unprecedented?

Yes, it was. I think that it was the biggest information campaign for any referendum in the history of the state. That said very clearly to the public 'we as government are not saying that you cannot understand this, we are providing you with the information and we trust your judgement to take from it what you will.' That was a very important scene-setting decision, which took away any of the arguments about the government trying to hoodwink people into voting. Then we had a very disciplined and a very coherent campaign for five weeks. We coordinated with all of the political parties and civil society organisations who were in favour. If you speak to the Irish Business and Employers Confederation, or any of the other sectoral organisations who came out campaigning, they will tell you that they'd never had such engagement from a government on a European referendum. We took backbench TDs, that is, non-ministerial members of Parliament, and allocated them to different

organisations' committees, to liaise between government, political parties and these organisations. We had spokespeople who knew the detail of the treaty and were able to go on television or radio and just speak, singing off the one hymn sheet. It was really effective.

You said that you endeavoured to articulate a narrative about Europe. What story was that narrative telling?

The narrative was a positive one. We tried to avoid getting sucked into the negative arguments and taking on a defensive stance, which is very hard when you have a loud 'no side.' We wanted to talk about Ireland's relationship with Europe, but from the national perspective. We were saying 'this is good for Ireland, we want confidence in Ireland, we want continued Foreign Direct Investment into the country, we want to create an environment where businesses can prosper, for job creation' and so on.

So it was mainly an economic discourse?

Very much, almost exclusively. We are a country in a bailout programme, we have lost our economic sovereignty – this is all that concerns people. When you read the treaty, it was not about any of the other issues: it was about access to the European Stability Mechanism, about having a safety net. Access to the ESM: that message probably was the most effective. Irish people understood it really well. But they were also responsive to the other elements: putting in place rules that are binding, constraining governments from behaving in a profligate way or in a way that is irresponsible with taxpayers money. I think people liked that message too.

And what did the 'no side' chose as their battlegrounds?

The 'no side' were talking about austerity, taxes, household charge, all of these issues. We were talking about responsible budgeting and security, access to the ESM, which is about saying more of the same in a sense because it is about meeting the targets under our EU-IMF programme, saying that we are committed and responsible. While the 'no side' were offering to burn bondholders and tear up the agreement, a bit like what Syriza had been saying in Greece. So people had a clear choice; they evaluated the two positions and obviously a significant

majority seemed to think that the country was going in the right direction. They may have been frustrated about the slow pace of progress and with some aspects of our relations with the European institutions, or with Germany in particular, but they still preferred that certainty and that security.

You have been chairing a governmental interdepartmental group for over a year now in order to prepare the Irish Presidency programme. What are Ireland's priorities for the upcoming six months?

My main focus, and the focus of all our ministers chairing Councils, will be stability, jobs and growth. In this respect, supporting SMEs and combating youth unemployment are priorities for us. We are going to be looking at driving forward the single market agenda, of which the digital single market will be a big-ticket item. Moreover, we are only going to have eleven informal Councils, and one of them will be dedicated specifically to EU/US trade, which is an area that has stagnated for a while. Achieving progress across the enlargement dossier is another field of specific focus for Ireland. Finally, we will be working to finalise the Multiannual Financial Framework negotiations to secure a European budget that is fit for purpose and which will fully support the EU's return to growth and competitiveness.

Do you foresee any serious difficulty in any particular area?

The Eurozone crisis! President Van Rompuy's report on Economic and Monetary Union sets out some very interesting concepts which could lead to a form of integration enabling the Union, as a whole, to effectively respond to global challenges whilst ensuring stability both economically and socially. Reaching agreement on how to best take forward the four pillars outlined in this report will be a challenge but I am confident that there is a firm commitment among all Member States to further integration.

It is sometimes easier to lead a successful Presidency as a small Member State than if you are a big Member State, because others are not so suspicious of your motivations. I hope that because we have been so successful in implementing our programme for the past eighteen months, there will also be good will towards Ireland. That could also put us in a key position to really make some progress.

INTERVIEW WITH MICHEÁL MARTIN¹³

"The ECB's mandate should (...) include a growth mandate"

You were thirteen years old when Ireland joined the European Economic Community. What did it mean to you at the time?

Jack Lynch, the then leader of Fianna Fáil, is the man who led Ireland into the EEC and signed the accession treaties. My family had an interest in him because he was a native of my city, Cork, and a great sportsman as well as a great politician. Lynch had a record of winning six All-Ireland medals in a row – five in hurling and one in Gaelic football. It gives you an idea of the man: he had huge political charisma, but he was also a humble and modest man. My father would have played Gaelic football with him, so we had that personal kind of connection with him. Therefore when we joined the European Economic Community the feeling in our household was that this was a very positive development for Ireland. We saw it as opening up opportunities for the country – a shift from what might have been termed an isolationist past to a future that would be more integrated with Europe, more engaged with the world.

Jumping more than two decades forward, to the referendum campaign on the Amsterdam Treaty, which you directed for the Fianna Fáil government, had the terms of the Irish debate on Europe changed in any significant way?

There was no issue with the referendum campaign on Amsterdam because it came at the same time as the referendum on the Good Friday Agreement. The fact that everybody was concentrating on the Good Friday Agreement meant that the discussions on Amsterdam were secondary, and it went through without major difficulty.

¹³. This interview was conducted at his Dáil Éireann office, Dublin.

Can you explain briefly what the Good Friday Agreement was?

It was the agreement in relation to the peace process in Northern Ireland, which resulted in two referendums held simultaneously in both parts of the island. On this side of the border we amended Articles 2 and 3 of our own constitution, thus removing our territorial claim over Northern Ireland, and Britain changed the ‘Government of Ireland Act 1920,’ in essence saying that if the people of Northern Ireland wished to join the Republic, it would be facilitated. It is the idea of unity by consent.

The turning point in the history of Irish referenda on Europe was the rejection of the Treaty of Nice. How do you interpret this event?

Whether this was due to domestic complacency in terms of the way the campaign on Nice One was conducted, or to people’s growing unease with the European project, is arguable. My own sense is that the disconnection between citizens and the European elites is a real matter of concern.

Then I became Minister for Foreign Affairs a month into the first Lisbon Treaty, and that referendum too was lost: it was also very badly prepared and followed the same route as Nice One. My very first Foreign Affairs Council meeting was dedicated to explaining the defeat to my European colleagues, but what it really was about was meeting each of them and saying: *“we want no bellicose statements, the voice of the people must always be respected.”* My attitude there was that the initial response of Europe was vital, and I needed to ensure that it wasn’t going to make things more difficult down the line. Indeed there had been earlier comments from some ministers, and even heads of state, which had been fed back very negatively into the Irish debate. In other words, my agenda was to get a very neutral statement from the Council that would acknowledge the voice of the Irish people and call for reflection. The Hungarian Presidency had prepared a first statement which, if issued, would have been disastrous for us.

What was it saying?

It was basically telling us to get our house in order. But we managed to change the wording. To be fair to the ministers, they are politicians: they understand

that, were it their country, they would need a sensible political response, not one that is hectoring and lecturing. We got on very well with President Sarkozy but he saw himself as the man who was going to solve the actual problem, and he came to Dublin when support for Lisbon was at its lowest. So the whole idea of foreign intervention at a high profile level was not conducive. It was counter productive.

And so how did you proceed to organise a second referendum on the Lisbon Treaty without giving the impression that the voice of the people was being disregarded?

We embarked on a very substantive research project, led by Richard Sinnott at University College Dublin, which sought to understand the dynamics of the ‘no’ vote to Lisbon One. A number of issues came out of that: the defence and neutrality issue, the abortion question, and the third item was the corporation tax. Having identified those three issues, we negotiated protocols with President Sarkozy and the Presidency. It was a Fianna Fáil-Green government, and the Greens had issues around neutrality, so we also did some domestic changes, with the European Defence Agency requiring parliamentary approval.

I felt that after twelve months we had a platform to go back to the people. Primarily on the basis that we had listened to what the people had said, we had researched it, and secondly because we had negotiated protocols to give guarantees on the most contentious subjects.

I directed the Lisbon Two campaign, and this time we won a comprehensive victory, 2 to 1. I have to say that our campaign was far better; we involved young people more: in the first Lisbon, the difference of attitude between the various age cohorts was very significant, with the 18 to 24 cohort being very much against it. Basically, the generation who lived through the accession in the 1970s still get Europe – they understand that its impact on the country has overall been positive –, whereas younger people are post-structural funds, post-single market, and they take a lot of that for granted.

What the research also showed us was that the change around in Lisbon Two was not due to a sudden reawakening of enthusiasm for the European ideal. Rather, people saw the economic storm clouds gathering over Ireland. It was

just around the time when you could sense that things were getting worse, and people felt that Ireland was better off inside than outside.

Going back to the three issues you mentioned - defence/neutrality, abortion, and the corporation tax: what is the stance of your party, Fianna Fáil, on each of them?

The low corporation tax rate we are absolutely wedded to. We introduced it in Ireland. The current rate of 12.5% is quite recent but the original policy aimed at attracting foreign investment goes back decades. I suppose the whole modern story of Irish industrial development is from the 1960s onwards. The first economic plan introduced by Seán Lemass in 1959 basically opened up Ireland, getting rid of tariffs and protectionist barriers, making it an export-orientated country. Initially, the low corporate tax rate was meant to attract foreign companies to our peripheral island, but then, because of the restrictions on state aid, we couldn't have anymore one tax policy for one set of companies and another for indigenous companies. So the concept has broadened to the idea of facilitating start-up companies and developing a culture of entrepreneurship.

Have you found it difficult to explain the Irish position on that matter to your colleagues at the European level?

They don't like it, but most of them understand where we are coming from. Other countries have emulated it: many of the East European states would have been visitors to Ireland when they joined, and the British are now saying that they want to lower their corporate tax too. Then there are some of the established countries, who have their ways and means of creating incentives to attract industry. U2 have their facilities in Holland because of the tax regime there, so it is not a one-way street at all...

On the second issue, Fianna Fáil is, historically, the party of military neutrality. Our founder, Éamon De Valera, refused to participate in WWII. You have to recall that the war was only twenty years after Ireland had got independence, there was still tension with the British on the issue of Northern Ireland, and therefore in that context of the partition of Ireland, supporting the Allies was problematic. But Éamon De Valera was also a President of the League of Nations, therefore, although militarily neutral and economically protectionist,

we were internationalist from the beginning as a political party, in the sense of having a position on global affairs.

So neutrality was a Fianna Fáil policy which others have adopted, and even broadened throughout the 1970s and 1980s, to embrace the whole idea of independent foreign policy. The rationale being that Ireland should have the capacity to articulate its own positions on the Middle East, on South America, etc. I think we've had a noble enough role in international affairs since independence. For example we would have been the first signatories of the Nuclear Non-Proliferation Treaty. So the neutrality issue rose from that sense of being a bona fide broker in international affairs, taking positions on the merits and morals of a given situation as opposed to being sucked into big power geopolitics. But it is a difficult tightrope to walk, when Afghanistan happens, or Iraq.

When Ireland let the American military use Shannon airport for the transfer of their troops...

Yes, Shannon airport and all of that. But even during WWII... The argument about WWII is always complicated, and then subsequently you find that Ireland was neutral but on the side of Britain. That kind of pragmatism has followed through, in particular because our relationship with America is very strong.

It is not easy for outsiders to comprehend how neutrality plays in our European referendum debates. The 'no' side put out ridiculous arguments from time to time, like saying there will be tanks on O'Connell Street. Sinn Féin in particular were up to a lot of that. What is a very potent negative campaigning issue is that of conscription. The pro-European side sometimes scoffed at that. But when we did the research afterwards, we realised that people really believed it. And I was amazed, when knocking on doors, that people would ask me if there will be a European Army, and if their sons will be forced to join.

To be fair, Europe has never put pressure on Ireland on the neutrality issue. We work together with other European Foreign Ministers to articulate common positions and we are involved in some of the battle groups that engage in peacekeeping operations around the world. For instance, Ireland led the European Union mission in Chad, which is a difficult and delicate one.

What about the question of abortion?

My party supports the right to life, and would only agree to abortion being introduced under strict control for the rare circumstances where the life of the mother is at risk. We are not the only ones; most parties are in that position. But there is also a strong pro-life movement outside of political parties.

Is that movement organised by the Catholic Church?

No, it is not even Church-based. The Church have a position on abortion, but they don't politically agitate to the same extent. It is a lay civil society movement who are very well networked, and who campaign effectively on the issue.

We have had a series of debates and five referendums on abortion since the 1980s and we put into the Constitution an article guaranteeing the right to life of the unborn from the time of conception. It is a constitutional right. There has been subsequent court cases, in particular the so-called X-case, when the Supreme Court ruled that a pregnant teenager who had threatened suicide was entitled to travel abroad for an abortion, in line with the Constitution, which says that a woman has the right to access an abortion if her life is at threat. That was followed by a referendum, in 1992, aimed at removing the suicide clause as grounds for abortion, which was defeated. There was another attempt to tighten the law on abortion, which was also rejected by the people in the 2002 referendum. We haven't had a referendum since. The current minister has received an expert committee report on issues raised by the European Council for human rights in its ruling on the 'ABC cases.' The recommendations in this report will be discussed at the Health Committee meetings in January 2013. The government have already stated their intention to legislate for abortion in Ireland through regulation. This will also be debated.

Isn't Irish public opinion evolving on that question?

There is no point in denying that societal views towards abortion are changing. So the degree to which it impacts on European votes is arguable. It is probably reducing from what it would have been ten years ago. It is just a component part, but when you add it up with the neutrality and the economic parts, you can get a negative vote on Europe.

What new questions have emerged in the Irish debate on Europe since the outbreak of the financial crisis?

One of the big challenges is the disconnection between the citizen and Europe.

Which is not specific to Ireland...

No, it is not specific to Ireland; it is everywhere. But European leaders really need to engage more seriously with that problem. I was the first to call for a referendum on the Fiscal Compact in Ireland and a lot of pro-European people were annoyed with me. Beyond the legal opinion from the Attorney General, which subsequently proved me correct, my more fundamental point was that if you are saying that future Irish governments will have to abide by certain fiscal rules, then you do need to consult the people. At this stage, we need constant engagement with the people on European matters, otherwise we will lose popular consent.

In Ireland, the idea that the Fiscal Treaty was the lesser of two evils was the motivating factor in the ‘yes’ vote. I campaigned for it as the leader of an opposition party, and I can tell you that it was very much “*we have to, don’t we?*” The argument was a very practical one. We said: whatever your views on Europe, we do need to have access to the European Stability Mechanism funding because the country will need to be funded until 2014, and even onwards if we don’t get back to the international credit markets. We also explained that the basic rules established by the new treaty were very similar to those we signed up to twenty years ago under Maastricht, and then again last year under the Six-Pack. But the overriding sentiment of the Irish people is not one of great confidence in Europe at the moment: they went along the proposed treaty because it is in their self-interest and they have no other choice.

My worry about this recent treaty is also that we invested too much capital in a modest treaty. I would have preferred a more fundamental treaty and a more decisive debate on important issues such as the broadening of the European Central Bank’s mandate.

There is a rising anti-German tone in Irish discussions on Europe. The denunciation of ‘Merkozy’ rule has given way to a maligning of the figures of Angela Merkel and Wolfgang Schäuble. What do you make of that?

Well, most analysts – from Irish economists to Financial Times columnists – would say that the handling of the financial crisis at European level has been quite poor. European decision makers have failed to decisively nip the crisis in the bud, and I think this would have required a change in the mandate of the ECB. It could have been better to recognise the Greek default on day one. And from the perspective of the Irish, the idea of not facilitating a contribution from bondholders at the very beginning was wrong. Imposing all the losses on citizens is not acceptable.

Furthermore, when Merkozy... when Merkel and Sarkozy met in Deauville, and announced, without thinking it through, the prospect of bondholders making a contribution, that really drove the markets wild. Operators on the international markets stopped buying Irish bonds, which pushed Ireland into the bailout.

And if you look back at the various summits, invariably you would have leaders saying that this is the deciding moment, which would prompt a quick rally in the markets, and then within weeks the whole thing would unravel. That has been the story, and that is the sense that people have of it. The same happened with Spain: we’ve had a succession of banks’ bailouts and market rallies followed by collapses, and everyone is now saying that Spain needs a sovereign bailout, instead of maybe acknowledging and dealing with all these things from the beginning.

Now I don’t want to be too critical because that this is an unprecedented collapse. We know by now that it points to a design flaw in the euro and to the lack of pan-European banking regulations.

What role would you like to see a banking union play?

I think everybody agrees that we need to have a deposit guarantee scheme and a bank resolution mechanism. The ultimate idea is to separate the banking debt from the sovereign debt. The linking of the two has been one of the more fundamental mistakes in terms of our policy response to the crisis.

Looking back, how do you assess the Fianna Fáil government’s role in establishing this link by giving a near-blanket guarantee to the banks, rather than allowing some of them to fail?

At the time when that decision was taken, the choice facing the government was: *“do we allow the whole banking system to collapse?”* They feared that there would be a run on Irish banks. And at the time the guarantee was given on the basis that the banks had only a liquidity problem; the solvency issue had not yet emerged onto the table. Banks were hopelessly insolvent but they hid information.

Yet, despite all the criticism about the Fianna Fáil government’s bank guarantee, to the present day there are bank guarantees going on in Europe. And Trichet’s mantra, after the fall of Lehman Brothers, was ‘no bank must fail.’ And ‘no bank must fail’ became the European mantra. The EU, and the ECB, have been very resistant to breaking the link between sovereign debt and bank debt, even recently when they insisted that Spanish bank debt should go on the Spanish balance sheet. So the Irish policy, whether you agree or disagree with it, was in line with the broader European position.

Again, the whole thing goes back to the design of the euro and the lack of mechanisms to deal effectively with asymmetric shocks within the Eurozone. Ireland was doing quite well when the euro was introduced, and joining the common currency gave a further boost to our exports. But it was like pouring petrol on a fire because it also opened the tap for a lot of cheap money to come into the country, on top of the economic growth we were already experiencing at the time. Ireland had always had high interest rates, but with the euro, interest rates came down to historic lows, so people were able to borrow money very cheaply. We liberalised the banking sector: German banks came in, and other foreign banks, and they all lent on property, not on industry or high technology companies, and thus contributed to creating the bubble.

If I understand correctly a point you made earlier in our conversation, one of the lessons to be drawn from the European banking crisis is the need to redefine the mandate of the ECB?

If you have a single currency, you have got to have one Central Bank with the regulatory authority and the power to deal with it. I believe that the ECB’s

mandate should go beyond a policy of inflation containment to include a growth mandate, somewhat like the Federal Reserve. The EU's resources are actually stronger than Britain's or America's, yet these two countries have answered to the financial crisis more effectively. They have their own problems, but they are not the same.

The issue of fiscal union also has to be debated: people have different ideas as to what constitutes fiscal union. So far the general idea seems to revolve around everyone having balanced budgets, but if you look at America, a fiscal union is much more than that: it involves transfers from wealthier states to states that get into difficulty from time to time.

Are you confident that Ireland can come out of its Troika-funded programme in the near future?

Ireland has an economic profile that lends itself to recovery: we have a modern, export-orientated industry and we are implementing fiscal consolidation reforms that aim at restoring our financial situation. So if the European and world markets pick up, Ireland will do well. But we are in trouble on the domestic front - really it is very stagnant. So we do need a wider European growth.

We came out of a debt crisis already, in the eighties. We were 120% of GDP in debt then, and we grew our way out of it by cutting public spending from 1987 onwards. But we grew on the back of an expanding export economy. The problem now is that the exports may not do it for us because of the sluggish international economic context. In other words, we are locked into the wider European future.

Fianna Fáil got an awful hammering in the last general election: when an economic collapse of this scale and severity occurs, it has huge political repercussions. But in fact we implemented very draconian budgets in advance of the 2011 election: we reduced public sector pay, we reduced pension levies - and that helped Ireland regain credibility in terms of its capacity to come out of the crisis. The projected correction was around thirty billion from about 2008 to 2015, and we had already affected twenty-one billion before the election. Therefore - although they won't admit it - the present government have to a

certain extent ridden on the piggy back of that. If you look at what happened in other countries, like Greece, the present Irish government didn't inherit the wrong trajectory; they actually inherited something that was on the path to recovery.

The one issue that remains however is debt sustainability: is the scale of the Irish sovereign debt manageable? Serious economists say that if a debt restructuring deal happened, particularly over the Anglo Irish promissory note issue, the markets would be satisfied that there is a sustainable pathway. These are the key issues, and how that plays back to your core point of Europe is that we need to be very careful and ensure that Europe isn't perceived to be overly insensitive to the domestic ailments and just lecturing us to do this or that. There needs to be flexibility because we are in this crisis together. In other words, a sort of respectful solidarity must be demonstrated at some stage if we are to retain a critical mass of support for the EU.

I think Gordon Brown is right when he says that this is probably the first crisis of globalisation. Globalisation is the big issue: has Europe really dealt with that question? I'm not so sure. The challenges also relate to the decline of the European middle classes, the rise of the migration issue and the fact that far right parties are gaining traction in many countries.

Not in Ireland though...

There is some of that subterraneanly. You will hear some people complaining about displacement in jobs, and workers in the construction sector were very annoyed for a while with Poles coming in. But there is no history of extreme right wing politics in Ireland. Always remember that, in the 1930s, we were one of the few countries in Europe that managed the democratic transition after a war of independence and a bloody civil war without fascism. Fascism never took root here. Is it something in our DNA, in our history, that doesn't lend itself to extreme right wing positions? I don't know. Maybe it is a sense of humanity coming out of the famine experience. We were a very poor country for a long, long time...

Don't you think that the Celtic Tiger has displaced the Old Ireland and its memories of the Great Famine? Or would you say that this history lives on in the imagination of younger Irish generations?

I am not sure, I am just wondering. A certain sense of humanity comes across in Ireland that rails against injustice. Irish people harbour a strong egalitarian feeling despite what you hear about the Celtic Tiger. We would have been very strongly opposed to apartheid for example: ordinary workers, Dunnes Stores supermarket workers, did the famous boycott of South African goods. And I remember meeting Thabo Mbeki, who said to me that the place he loved coming to in Europe was Ireland, because he felt there was passion in the anti-apartheid debate over here. So that history I think may be a factor in dampening down any prospect of racist politics. I am not trying to be rosy...

What is your outlook on the rise of Sinn Féin as an important player on the Irish political scene?

If you look at the current figure, Fine Gael and Fianna Fáil have been in decline for quite a while. They are the two dominant parties of Irish politics, at one stage collecting 80% of votes. That is down to 50% now. The crisis has only accentuated a trend, but it has also opened up the ground for Sinn Féin, and populist parties in general, to be against everything: oppose every cut, oppose every tax and just mop up the votes basically. Now the degree to which Sinn Féin will try and mainstream itself is open to interpretation.

Independents have been another vehicle for voter disquiet; they have about 20% at the moment. The honest truth is that voters don't have a great trust in politics, irrespective of what political party you look at. My party has to adapt to that, and start again basically.

Is your party engaged in a self-critical assessment of its practice in power?

We are having a very fundamental review of where we are going as a political party. I think we have to change our political system. With the present government, it is more of the same to be frank. They haven't altered any of the economic policies, despite saying, during the campaign, that they were

going to burn bondholders, that they would never increase university fees, etc. Unfortunately for them they have had to break their promises, which really annoyed the electorate and added to the distrust in politics.

As far as Fianna Fáil is concerned, there are both policy and structure changes underway. We have decided to give every member of the party a vote on fundamental decisions. Up to now, if you had twenty members in a branch in a village, three people only could vote to select the candidate. It was a poor system that allowed a concentration of power because the parliamentarian would control this unit and wouldn't allow it to grow. We are also moving away from corporate donations.

So no more Fianna Fáil tent at the Galway Races?

That went four years ago, we drew the lessons from what happened. People don't like the idea that you can buy influence, and rightly so. We now have one national draw – it is fifty euros a ticket – and we have a national collection, people still do church gate collections in Ireland. These are the two big fundraisers for the party now, which means that 90% of all our fundraising is below one hundred euros.

When it comes to Europe, what is the party's agenda for the near future?

Fianna Fáil is fundamentally a pro-European party, and I reaffirmed the party's commitment to European integration in the context of the Fiscal Treaty debate, when our deputy leader wanted us to go against the government on that. He had to resign as deputy leader. The next important phase will be if the EU decides to take a fundamental leap in the next few months, whether towards fiscal union or towards drafting a new treaty. All Irish political parties will need to reflect on how they respond to that.

We are coming to somewhat of a crossroads in terms of the design of the Eurozone and its articulation with the rest of the European Union. That challenges all the Member States – that is, the big states as well as the small states – to revisit their vision for Europe. My views have not changed: in a globalised world, it is a no-brainer that European countries should act in union on so many fronts. But I also think that we need to be more flexible, more

nimble. And I think that Europe needs to realise that it is no longer a dominant power, or no longer will be, in the world.

My experience of being a minister at the European tables for thirteen of fourteen years gave me a sense that Europe is very inward-looking: it tends to focus on state aids and all that, but it is not looking at what our real threats are, in particular in terms of world trade. States like China haven't really got rid of all their protectionist tools and they are very centrally controlled. Europe needs to be more outward looking.

On the other hand, as you said yourself, this is also a globalisation crisis. And this crisis exposed the limits of certain political economy models that relied on the capacity of the financial sector to replace industrial production as the engine of economic growth. Before 2008, many decision-makers, including in France, were talking of emulating the British approach towards market deregulation and financialisation of the economy, whereas now, most seem to be looking at Germany as a model...

That is true. There is deep uncertainty nowadays as regards what the right model is. Ireland did not go the British route entirely though, because the British allowed manufacturing to come down very low, and so did the Yanks to a certain extent. Our manufacturing output is quite strong and we have hi-tech, modern manufacturing plants.

I sense that a reordering of priorities is beginning to take place in European countries. Even Britain was recently celebrating the fact that their manufacturing output went up for the first time in a long period, and they are hoping to get to the tens again as a percentage of GDP. That is also what is happening in Ireland post-crisis: we are looking for a different kind of approach in terms of the balance between the economy and society.

There was a very neat and powerful narrative of Celtic Tiger Ireland, of which word was spread well beyond the shores of this island. It seems to me that no new narrative has yet been formulated that replaces the previous one.

Absolutely correct, there is no sense of the future at the moment in Ireland. Some of the Celtic Tiger narrative was overblown, and we need to formulate a new narrative, moving towards a more communal-based society. The new government have not provided that kind of discourse yet. It is one of my tasks. It is one of the tasks of people in politics.

INTERVIEW WITH PETER SUTHERLAND¹⁴

"European integration actually increases (...) our sovereignty"

Going back to the referendum of 1972, how would you characterise, in broad terms, the meaning of European membership for the Irish people?

The general feeling coming up to the accession was one of considerable pride. Joining a larger economic entity was seen, in many ways, as a means to achieve independence from the United Kingdom, which had not been an economic reality after 1922, and as an expression of our separate identity as a people.

Tom Kettle, an Irishman who died in the battle of the Somme in 1916, fighting for the freedom of small nations, once said that Ireland cannot find its destiny other than in the context of Europe – which is very similar to what was said by de Madariaga in regard to Spain: Europe provided a connection with a broader space.

Therefore there was an overwhelming majority in favour of accession, and the general positive view has remained since. But Ireland has also been quite prepared to take exceptional positions on some aspects of the European integration process: for example, we maintained a position in regard to neutrality which inhibited our positive response to aspects of political union in earlier times, which I regret. And we've also had unfortunate outcomes in referendums on Europe, which had to be reversed subsequently by 'replays'.

Taking up on this first 'exceptional position' you just mentioned, how do you explain the Irish attachment to the principle of military neutrality?

I think that neutrality became sacrosanct as a result of our avoidance of participation in the Second World War, when it was widely recognised that whatever the moral imperatives of taking a position, the Irish economy, which

¹⁴. This interview was conducted at his office at Goldman Sachs International headquarters in London.

had been destroyed in the years since independence as a result of the trade wars with Britain, was too weak for Ireland to participate effectively.

And even in the East-West debates that took place subsequently, there were people who would argue that we were better positioned – for example for taking a position in the UN on disarmament – as a neutral country. All that left a residual effect around neutrality as an important concept. This issue was exaggerated in the past when various referendums were presented as posing alleged challenges to neutrality when they were nothing of the sort. I personally believe that Ireland should henceforth participate in all steps to deepen European integration, including in the foreign policy and security area.

What is your judgment on the character of the debates held on the occasion of Irish referenda on European treaties? Do you see them as constructive, democratic exercises?

All sort of things are raised, in referendums, which then prove to be totally without foundation after the ratification takes place. Ireland is no exception in that regard: if you have a referendum on Europe anywhere, every conceivable thing is thrown into the debate in opposition to European integration. It is easy for others to criticise our responses when they don't have a referendum themselves. When France had a referendum on the European Constitution, it was lost. So receiving lectures from others about how, having done well out of Europe, we now reject it, is very irritating, although understandable because we profess to be great believers in European integration and then apparently vote against it.

That said, I think that the principle of having a referendum on important issues, like joining the EU, or joining the Eurozone, is a desirable one. But since the Crotty judgement – in which our Supreme Court is alleged to have imposed the obligation of having a constitutional amendment, and as a consequence a referendum, for virtually every European treaty change imaginable – we've on occasion had referendums on specific issues that were not, in my opinion, fundamental principle issues. Of course you can define 'fundamental principle' issues, and 'sovereignty', in different ways. But we have conceded the principle of shared sovereignty through joining the European Union, and much follows

from this that should not require referendums. In this context, greater clarity should be brought to the issue as to when a referendum is necessitated.

I think that we are going to continue having a stormy ride because there are difficult challenges ahead of us in terms of the movement towards political union. It is also the case that if a referendum is conducted on the basis that you have a power of veto, with no price to pay for your rejection, the likelihood of winning the referendum is reduced, particularly if a government is unpopular at the time. In the case of the Fiscal Compact, it probably would never have passed but for the fact that the ESM and the Fiscal Compact itself were going to come to existence on ratification by twelve countries, irrespective of others not becoming part of it. The access to the ESM was withdrawn if you didn't adopt the treaty, so there was a price for saying 'no.' It is vital that any future referendum should be a question that has consequences, not merely providing you with a veto on everybody else's progress.

This provision making access to the ESM conditional on ratifying the Fiscal Compact has been the subject of much political controversy in Ireland, with some labelling it a 'blackmail clause'...

I disagree with that totally. I turn it on its head by asking: is a country allowed to blackmail everybody else by stopping their progress? I hope that the movement towards European integration continues with as many as are prepared to accept it, and without allowing any one country to have the option of vetoing it.

Not even this country - the UK?

Particularly the UK! I now think that Britain is perilously close to leaving the EU. The British government's intention seems to be to put the result of new repatriation negotiations with the EU to a vote of the people. But there will be no repatriation of powers permitted by the other Member States in my view. The other Member States will not permit members to create an *à la carte* Union and nor should they. This therefore may well lead to an 'in or out' referendum which on current polls could well be lost. This would be a disaster for the United Kingdom and would diminish the EU itself. I do not understand the

strategy that is being adopted by Mr Cameron but in a much-heralded speech to be given in early 2013 it may become clearer.

Coming back to Ireland, the terms of the EU-IMF rescue programme have become the predominant prism through which the Irish today reassess their relation to the EU, with a section of the popular media denouncing “EUsterity”, or even the “German diktat.” Do you fear that the unfolding crisis could irreparably damage the European idea in Ireland?

It is understandable, in a situation where you have a painful discipline being imposed from abroad, that there will be some negative reactions. When a country is suffering pain, it becomes more difficult to obtain a constructive engagement on public policy issues. That’s why governments everywhere, during difficult times, fail. So it’s no surprise that in countries that are ‘programme countries’ – Greece, Portugal and Ireland – there is a certain negativism developing in terms of politics generally, including the European Union. But I still think that overall, if you take Eurobarometer polls, Ireland remains positively pro-European. We understand that our membership of the European Union is a vital positive for our future.

I think that the Irish figures are beginning to improve. These are difficult times, and there are still further difficult budgets ahead of us, particularly the next one. But the Irish government is on the right path, and that seems to be vindicated by the judgment of the Troika and the markets. In fact Ireland has huge advantages that others don’t share: we’re in the Eurozone, we’re English speaking, we’re highly educated, we have a lot of Foreign Direct Investment coming in. The most important policy area for our future has to be education and there are real challenges here, particularly at second and third level, where our rankings by OECD and various indices are not good.

Do you see some currently marginal political parties benefiting from the social and economic difficulties?

Those who say ‘no’ to difficult but necessary decisions obtain temporary uplifts in support, but most people know that we cannot continue to spend significantly more than the revenue that is coming in. This is the bottom line.

We have an unsustainable primary deficit. It is being addressed but there is a way to go still.

Ireland is, politically, quite exceptional in the European landscape in that there is no Irish party that voices anti-immigrant sentiment...

No there's not. That's an amazing testimony. We have about 550,000 migrants in Ireland, most of whom came in over the last fifteen years. And in the last three years, the number of migrants has increased, not decreased. We've had no social conflict. We're more welcoming to migrants than most people in Europe, maybe because we've done so much of it ourselves. I believe that the migrants coming to our country generally enrich it. They work hard and make a contribution just as migrants, including the Irish, have always done.

Yet Ireland, which praised itself on being one of the most globalised countries in the world during the Celtic Tiger era, seems to be rediscovering the appeal of the political categories of 'sovereignty' and 'self-determination.'

I don't think it is! Ireland voted 60/40 for the Fiscal Compact. You tell me what other country in Europe would have voted 'yes' to the Fiscal Compact? Very few I suggest. Because it's too easy to portray it as a treaty for austerity. And that's the way it was portrayed. But Ireland still voted 'yes.' The Irish people, I think, can make discerning judgments. The reality is that European integration actually increases our influence over our own destiny and therefore, in a way, our sovereignty.

I believe that after the next general election, there will still be a fair majority for rationality in the country. The measure of increase in those who say 'no' to Europe and are in denial about our condition depends on how painful things become. But at the end of the day, the Irish people have been consistently centrist in their politics.

To what extent, would you say, can the debt crisis jeopardise the future of the European project?

It is undoubtedly causing change. However the debt crisis was primarily the result of national policies. But the people of Europe, both in the core and the periphery, still support the euro. There is nowhere a desire to leave it. The risk of contagion, however, remains very high if any of the peripheral countries becomes totally politically unstable. At this moment, particularly as a result of Mr Draghi's initiatives around bond support, the OMT (Outright Monetary Transactions), the markets are beginning to feel more secure about the euro's future. For myself I believe that it will survive and I have some sympathy for Mrs Merkel's efforts. She is trying to solve in a lasting way the problems of a continent and to bring her people with her. This is not easy but it is, I hope, at a stage where we may begin to see real progress. The basic issue is that Europe cannot survive in a globalised world without being competitive. Nor can it survive with accumulating debt.

How do you assess the way in which the crisis has been dealt with at European level?

It is understandable that, for a period of time, the 'programme countries' should be required to make structural adjustments, and a sword of Damocles also inevitably had to hang over everybody's head until the Fiscal Compact was agreed. It was understandable that both the commitment to restructuring and the commitment to future discipline had to be accepted before any principle of debt mutualisation could be seriously advanced. But this issue of mutualisation will not go away. It should be accepted that, in a way, the ECB is in fact providing some degree of mutualisation now by taking risk onto its balance sheet – which is ultimately in significant measure onto the balance sheet of the *Bundesbank* and the central banks of the other core Member States.

When you get to a certain stage of danger as we are now, you have to find mechanisms, firewalls and protections against contagion. I am worried that not quite enough has been done yet. The redemption bonds, for example, are an idea which the core countries should be prepared to accept. It is a complicated, but understandable, mechanism allowing for the mutualisation of certain debts on certain conditions, which would allow us to move forward.

Also, the ECB has been and should continue playing a very important role. Some interventions by the President of the *Bundesbank* have not been helpful in this regard. Fortunately these views have not been supported by Mrs Merkel.

What are your views on the deal the Irish government tried to secure in the wake of the June 2012 euro area summit, as regards the use of the ESM for legacy bank debt? Do you understand Germany's rejection of that principle?

I believe that the use of the ESM for legacy bank debt should be allowed in one way or another.

Do you think that Ireland is going to have to make concessions in relation to its corporation tax rate as discussions on fiscal harmonisation are moving forward?

No.

Why are we talking about corporation tax only? What about the subsidies that richer countries have pumped into their industries for years? Also, if there were to be harmonisation in one tax, it should apply to all others. They all affect competitiveness. I do not see tax harmonisation as feasible.

Ireland was an agricultural economy effectively until the 1960s. It was more or less kept that way by the lack of access to markets for its industrial products, and a certain import-substitute mentality that existed in post-War Europe in many places. So this poor country, situated on the Western edge of Europe, with a GDP per capita which was below 70% of the EU average, an enormous and constant emigration problem, no industrial policy and no natural resources other than agriculture and rain, had to find something to attract industry. And what it found was that it had an English speaking population that was relatively well educated, and a significant diaspora, particularly in the United States, with a special relationship with their country of origin. The potential to attract Foreign Direct Investment was considerable, and the government decided for that option because they didn't have the money to pump into state industries, which was the norm in much of continental Europe. They couldn't subsidise directly, so they did it through tax. And that very significantly improved the

attraction of the country. It is an issue which is of considerable and direct importance to the Irish people.

But do you think that this position is nowadays compatible with the talks about fiscal harmonisation, and the discussions on the Common Consolidated Corporation Tax Base (CCCTB), which the Irish Presidency is going to have to lead?

All of this talk about fiscal union is undefined. Nobody knows what it finally means. All we need, that is consistent with subsidiarity, is a functioning Fiscal Compact and oversight system including budget review allowing governments to raise taxes in the way that they think is appropriate, but also, importantly, it being required that they live within their means. If you start saying that tax raising in particular areas, or the spending of national resources, has to be done in exactly the same way throughout the European Union, the European Union will not survive. The changes required will never be agreed.

And do you think that the notion of ‘political union’ is better defined?

We are on a journey to an undefined destination but one that moves us towards increased federalism. I’m a federalist who believes in subsidiarity. Therefore, on broad issues, such as defence, monetary policy, trade policy, development policy, I would be in favour of joint decision making and acting together as one. We already do so in trade policy and competition policy for example. But in the area of culture, of social systems, education, all of these things should remain national.

If you were to do an exercise in prospective: what do you see as possible scenarios for the future of Ireland in the EU?

I know what I hope. I hope that we are genuinely at the core of Europe. We should be in Schengen and fully participating in Justice and Home Affairs. Unfortunately the British opt outs have enabled us to stay out of vital areas, and in the case of Schengen, virtually require us to do so. I understand why but I would hope that we can do more rather than less in the Justice and Home Affairs area and fully participate in all areas of integration. We should not be a reluctant follower.

WHAT TYPE OF EUROPE DO THE IRISH WANT?

POSTFACE

by Hervé Amoric and Gwendal Sousse

“Yes to co-ordination of economic and fiscal policy... but tax harmonisation, certainly not.” Ireland’s Minister for European Affairs Lucinda Creighton leaves no doubt as to where her government stands, as Ireland takes over the rotating Presidency of the Council of the EU.

While Ireland is against tax harmonisation, the country wants to play an active part in the European economic integration process. Many in Berlin and Paris would see a paradox in this. Not the Irish. On this issue, politicians, academics and employers all seem to tow the same line.

In an interview, the Irish Prime Minister Enda Kenny told us that Ireland understood “the institutions of Europe very well”. “We also understand what enhanced co-operation is,” he stressed, adding that his Presidency would not stand in the way of Eurozone members who seek more integrated initiatives. Accordingly, Ireland will, during the next six months, be taking forward the European Commission’s proposals on a Common Consolidated Corporation Tax Base (CCCTB). But one hardly expects the Irish government to be particularly enthusiastic in bringing these discussions to a close.

The island’s proximity - historic, geographic and economic - to Britain is one key explanation for this timid approach. Similarly, Enda Kenny explained: “We objected to the Financial Transaction Tax on the basis that our financial services base in Dublin is so close to London, that we would be placed at a competitive disadvantage would it apply in Ireland, but not in London.”

“There is no necessary synonym between having more economic integration and having a harmonised tax policy,” Ben Tonra, Jean Monnet Professor of European policy at University College Dublin, said. “You can’t harmonise geographic disparities,” he added. “Ireland is distant from European markets and therefore has to identify other comparative advantages to help maintain

prosperity and build jobs that are not available to, for example, a company based in Paris or Berlin.”

Ireland’s accession to the EU in 1973 coincided with the setting up of the country’s specific economic model, one based largely on supporting the export industry and attracting Foreign Direct Investment (FDI). Between the mid-1950s and the mid-1970s, successive Irish governments reformed the tax system so as to benefit from increasing free trade across Europe. A low corporation tax rate was seen as key to making the island an attractive base to US multinationals and other foreign investors.

Four decades later, Ireland is home to almost 1,000 multinational corporations, representing 75% of the country’s FDI inflow, and employing 100,000 people. Most American pharmaceutical and IT giants have their European base in Ireland. Their annual tax return, at around three billion euros, may be surprisingly low for their size but their spending power is such that, in order to attract these companies, many countries are prepared to make exceptions to their tax codes.

During her last visit to Dublin, in December 2012, the US Secretary of State Hillary Clinton reminded Europe that US companies had invested more in Ireland than in Brazil, Russia, India and China combined.

Ireland’s diaspora is 40 million strong and predominantly Irish American. With obvious historic and cultural links, Ireland is a natural bridge between Europe and America. And Dublin, as Ireland takes over the Presidency, is in a key position to broker EU-US trade talks, in the next six months. “China, Canada, India, Japan: we will be hoping to make progress on all of them. But the key one for us is the US,” Lucinda Creighton stressed.

A downside to this privileged relationship is that Ireland cannot really afford to act against the interest of US multinationals, such is the weight of their investment. And the US Chamber of Commerce in Dublin is strongly in favour of keeping Ireland’s corporation tax low and is against a commitment to a CCCTB.

In the next six months, Dublin could play a vital role in fixing the flaws in the architecture of the Eurozone. Enda Kenny is keen to build on the success of the December 2012 European Council, with the adoption of a single supervisor for euro area banks. “The dates have been set for March and June 2013 for the conditions that would apply for the Single Supervisory Mechanism to be in place. Obviously that will lead to a banking union where the European Central Bank will have the capacity, together with the national regulators, to intervene if that was required,” he explained.

Thus the Irish government wants more economic integration in some areas and less in others: Ireland is clearly in favour of a banking union and a wider mandate being given to the ECB, but remains staunchly opposed to tax harmonisation. Some other Eurozone members may be tempted to say that Ireland wants to have its cake and eat it.

So what type of European polity do the Irish want to live in?

One that works. Ireland is focused on rebuilding an economy and its view of Europe is essentially pragmatic. “There is no Irish theology on Europe,” according to Professor Ben Tonra, “whether the Council or the Commission is taking the lead role, the Irish want an EU that can deliver and be effective.”

The majority of Irish voters are not comfortable with notions like ‘federation’ or ‘federalism’. “We don’t know the word ‘federal’ very well in Ireland, and when we think about federalism, we think about a centralising force rather than about a de-centralising force,” Ben Tonra explained. “By and large, the Irish see federalism in somewhat British terms, as being a synonym for bureaucratisation, for more directed control coming from Brussels, as opposed to a more German version of federalism which assumes that federalism is about taking decisions close to the citizen,” he added.

This certainly explains why many Irish ministers of various political shades give an ambiguous answer when asked about a federal Europe. In any case, Ireland’s seventh Presidency will be seen as a test of the country’s commitment to the EU integration process.

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A NEW PATH FOR GROWTH AND SOLIDARITY

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AUTHORS



Hervé Amoric

Hervé Amoric is the Ireland correspondent of the English and French language channels of France 24 Television. He has reported on politics in Europe for twenty years.



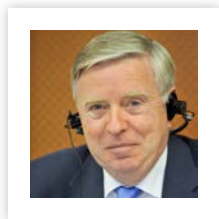
Yves Bertoncini

Yves Bertoncini is Director and member of the Board of directors of *Notre Europe - Jacques Delors Institute*. He is the author of numerous books articles and policy papers on European questions.



Tony Brown

Tony Brown is a founder and board member of the Institute for International and European Affairs, Dublin. He is the author of 'Saying NO, a Study of the Irish Opposition to the Lisbon Treaty' (IIEA, 2010).



Pat Cox

An economist by training, Pat Cox is a former President of the European Parliament.

Pat Cox started his public career as a presenter on the Irish TV's main current affairs programme, before he joined the new PDs political party, in the mid-1980s. Besides his European mandates - as MEP for Munster (1989-2004), President of the ELDR group (1998-2002) and President of the European Parliament (2002-2004) - he was also elected Teachta Dála (TD) for the Cork South Central constituency (1992-1994).

In 2004, Pat Cox was awarded the Charlemagne prize for his contribution to the EU enlargement. Today he is President of the European Parliament Former Members' Association, and remains involved in his country's European life (he is, among other duties, Chairman of Limerick City of Culture 2014 and Vice-President of the European Movement Ireland).



Lucinda Creighton

A barrister by profession, Lucinda Creighton has been Ireland's Minister of State for European Affairs since March 2011.

Minister Creighton made an early start in European politics, first through her involvement with the youth organisation of her party, Fine Gael, which led her to become Deputy Secretary General of the Youth of the European People's Party (2003-2005). She was also nominated to represent Ireland at the Youth Convention on the Future of Europe, which sharpened her interest in European institutional questions. Lucinda Creighton was first elected to Dáil Éireann in 2007, becoming the Irish Parliament's youngest member, and was re-elected in 2011, topping the poll in her Dublin constituency.



Aziliz Gouez

Aziliz Gouez joined *Notre Europe* in 2005 as head of research on European identity. She is currently developing a research project on the European debt crisis with the Department of Social Anthropology at the University of Cambridge. She moved to Dublin in October 2012 to conduct her field investigations.



Micheál Martin

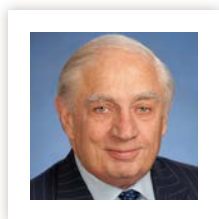
Micheál Martin is the leader of the Fianna Fáil party. He has been a TD for the Cork South Central constituency since 1989. Deputy Martin has held a number of senior cabinet positions in the government of Ireland, including Minister for Education, Minister for Health (he introduced the ban on tobacco smoking in all Irish workplaces in 2004), Minister for Enterprise, Trade and Employment and Minister for Foreign Affairs. In this latter capacity, he had to deal with the aftermath of the Irish rejection of the first Lisbon Treaty.

A graduate of University College Cork, Micheál Martin published the findings of his thesis in 'Freedom to Choose: Cork and Party Politics in Ireland 1918-1932.'



Gwendal Sousset

Gwendal Sousset is a writer and translator who has been living in Dublin for the last twelve years.



Peter Sutherland

A barrister by profession, Peter Sutherland was appointed Attorney General of Ireland in the governments of Garret FitzGerald, before becoming European Commissioner for Education, and then for Competition, in the first Delors Commission (1985-89). He subsequently became Director General of the GATT (1993-95) and concluded the Uruguay Round which created the WTO.

Since the late 1980s, Peter Sutherland has also pursued an eminent career as an international businessman. Amongst other positions, he was Chairman of AIB (1989-93) and of BP (1997-2009). He currently serves as non-executive Chairman of Goldman Sachs International (1995-current), and is a member of the Boards of German insurer Allianz, Turkish industrial conglomerate Koç Holding and Singapore-based BW Shipping. Peter Sutherland is also Chairman of the London School of Economics' Council and Court of Governors, and has been the UN Special Representative for Migration since 2006.



Notre Europe - Jacques Delors Institute is the **European think tank** founded by Jacques Delors in 1996. Our aim is to produce analyses and proposals targeting European decision-makers and a wider audience, and to contribute to the debate on the European Union.

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The president of *Notre Europe - Jacques Delors Institute* is **António Vitorino**, a former European commissioner and Portuguese minister. He succeeded Tommaso Padoa-Schioppa, Pascal Lamy and Jacques Delors. His director, Yves Bertoncini, leads an **international team** of around 15 members.

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Managing Editor: Yves Bertoncini

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Aziliz Gouez (dir.)

Pat Cox
Lucinda Creighton
Micheál Martin
Peter Sutherland

Hervé Amoric
Yves Bertoncini
Tony Brown
Gwendal Sousset

FORTY YEARS A-GROWING AN OVERVIEW OF IRISH-EU RELATIONS

What are the main issues structuring Ireland's relation to the EU? How has the Irish debate on Europe evolved over the course of the four decades since the small island joined the EEC, on 1st January 1973? What are the roots of Ireland's specific stance on such questions as military neutrality, abortion, corporate taxation, or the balance of power between small and large Member States? How do Dublin's special relations with the United States and Britain play out in the Irish positioning on European matters? To what extent does the current debt crisis reconfigure Irish perceptions of Europe? And in what ways is this likely to influence the conduct of the Irish Presidency of the Council of the EU?

To answer these questions, Aziliz Gouez, Associate Fellow at *Notre Europe - Jacques Delors Institute*, has gathered the views of four prominent actors in Ireland's European life: Pat Cox (former President of the European Parliament), Lucinda Creighton (Minister for European Affairs), Micheál Martin (leader of Fianna Fáil) and Peter Sutherland (Chairman of Goldman Sachs International). This publication also includes a paper by Tony Brown (IIEA), analysing the 2012 Irish referendum on the Stability Treaty.

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www.notre-europe.eu
19 rue de Milan 75009 Paris - France
info@notre-europe.eu

