LISBON AND THE ECONOMY

AN ECONOMIC BRIEFING PAPER

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The recession: The European Union made it possible, and the Lisbon Treaty would make it worse

.In June 2008 the Irish people rejected the Lisbon Treaty because of fundamental concerns about neutrality, company tax, human rights, Ireland's right to a permanent Commissioner, and the transfer of greater powers to the big states. However, in the totally changed circumstances of the second referendum it is most probably the debate on economic issues that will be decisive. Already we can see that the Government and the political and business establishments are intent on scaring voters into acceptance. It will be an exercise not so much in determining the will of the people but rather in manipulating their economic fears.

However, it is our view that the emphasis on the economic crisis can be decisive for the No campaign, as the Lisbon Treaty incorporates all the fundamentally flawed EU economic, financial and monetary policies that facilitated the recession in the first place.

The economic crisis has shown the Lisbon Treaty to be both flawed and out of date. The treaty is the very embodiment of the European Union's neo-liberal dogma, which assumes that markets are at their most efficient when they are unfettered. It was conceived in the heady days of the early twenty-first century, when globalisation and financial capitalism were the buzzwords and the belief that the all-powerful market was not to be impeded by any rules or political intervention was at its zenith.

With the bitter experience of the last two years, and with governments throughout the world having to come to the rescue of the international banking and business sectors, this view has been totally discredited. Yet the tenets of neo-liberalism are to be found in the Lisbon Treaty, and its fundamental commitment to crude market forces is contained in article 120:

> The Member States and the Union shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources . . .

In other words, the European Union is seeking to enshrine neo-liberalism in its institutions at a time when this range of economic policies has been shown to fail right across Europe.

EMU control of Irish interest rates costs us dear

For Ireland and other peripheral countries, the economic crisis has been especially severe.

In 1979 Ireland broke with the English pound. Until 2001, when we joined the EU's economic and monetary union (EMU), the Irish currency enjoyed flexibility within the exchange-rate mechanism. This flexibility allowed us to deal effectively with financial crises in 1986 and 1993 by devaluing our currency by 10 per cent. Many economists credit this action with initiating the "Celtic Tiger."

By adopting the euro we handed control of interest rates to the European Central Bank in Frankfurt, naïvely believing that it would (or could) set rates to suit all the economies in the sixteen-member euro zone. With a total population of 325 million, the euro zone is dominated by Continental Europe's biggest countries, Germany and France, whose populations are 82 million and 65 million, respectively. According to the International Monetary Fund's list of countries for 2008, Germany and France are fourth and fifth in the world by gross domestic product (GDP), with a combined annual output worth $6.533 billion, compared with Ireland's $0.27 billion.

After the "dot-com bubble" recession of 1995–2001 we began to learn the hard way that ECB policy is run in the interests of those with the most economic clout. The German and French economies were then suffering, and to boost sales from their car factories and other high-tech facilities the ECB imposed a policy of cheap money throughout the euro zone. This was at a time when the "Celtic Tiger" needed cooling; but our bankers, stripped of the responsibility for domestic fiscal disciplines, were feverishly fuelling the building-industry boom and generally throwing money around. This proved highly lucrative for the bankers and their new best friends—the developers and speculators—but also resulted in rampant inflation in house prices and massive mortgages for home-owners. And, with the delirious business and political elites gorging themselves on the artificial and often corrupt profits of the bloated economy, the country was totally unprepared for the international financial and economic catastrophe triggered by the "credit crunch" in the United States in 2007. Had we not adopted the euro but instead set our own interest rates and made devaluations when necessary, we could have avoided the madness.

And of course we are not alone. This EMU policy resulted in Portugal, Greece and Spain suffering together with Ireland from interest rates being consistently out of kilter. Rather than having rates that correspond to national economic cycles, they were too low at a time when the Celtic and Iberian Tigers needed reining in.

Furthermore, it is expected that when (or if) the present crisis abates, Ireland's economy will recover more slowly than those of Germany and France. As a result, ECB interest rates will be increased, which will have a severe impact on Ireland, notably on businesses and home-owners who borrowed heavily during the "Tiger" years. Somehow, borrowers who are already suffering from the recent tax increases and wage cuts will have to cough up extra repayments. Clearly, the mandarins at the European Central Bank who set these rates care little about the minnows of Ireland, Portugal, and Greece, or even of Spain, with its population of 40 million.

If it is adopted, the Lisbon Treaty would provide enormous legal powers for the ECB to dictate fiscal and economic policies. This is made clear by the following provision:

> The ECB . . . shall have legal personality [and] shall enjoy in each member state the most extensive legal capacity accorded to legal persons under its laws.[1]

And, for cementing the unequal relationship of smaller states with France and Germany:

> the votes in the Governing Council shall be weighted according to the national central banks' shares in the subscribed capital of the ECB.[2]

Euro exchange rates damage Irish exports

Despite Ireland's membership of the euro zone, we continue to do much more trade with Britain, the United States, and non-EU countries, as shown by these Government statistics:

Ireland's main trading partners, 2008 (€m)

	Imports	Exports
Great Britain and Northern Ireland	19,174.0	15,860.6
Other EU countries	17,341.4	37,955.2
United States	6,740.5	16,655.7
Rest of world	14,176.7	15,874.6
Total	57,432.6	86,346.1

1. *The Lisbon Treaty: The Readable Version*, Protocol (No. 4) ECB, chapter III, article 9.1, p. 241.
2. *The Lisbon Treaty: The Readable Version*, Protocol (No. 4) ECB, chapter III, article 10.3, p. 243.

Ireland is unique among EMU members in its special relationship with countries trading in other currencies. The Irish Exporters' Association reported that total exports in 2008 fell by €6 billion, or 4 per cent, and that the 6 per cent decline in exports to Britain in 2008 can mainly be accounted for by the 33 cent depreciation in the English pound compared with the euro during the year. The association's CEO, John Whelan, said that this represented almost €10 billion in lost margin or lost competitiveness; and he continued:

> To avoid a catastrophic fall in exports to the UK in 2009, with the consequent closure of companies and loss of jobs, an emergency action plan must be put in place by [the] government to assist the sector.[3]

Despite this, the Government has been both unwilling and unable to take any action. Accordingly, it is increasingly clear that our ability to escape our specific economic woes is hamstrung by our continuing presence in the totally inflexible EMU. On fixing interest rates, the Lisbon Treaty clearly states that only the Governing Council of the European Central Bank decides rates, and it makes no provision for enabling national governments to assist their exporters in this regard.[4]

Pay cuts required because of EU monetary policy

All are agreed that the enormous salaries paid to banking, business and political elites need to be slashed; but why the need to cut the modest salaries of PAYE workers? Because of the artificial strength of the euro, Ireland has suffered a loss of competitiveness in British and international markets. The logical action to take is to devalue our currency, thereby making our exports cheaper and imports dearer and so boosting jobs. Again, this doesn't suit the ECB overlords, and the Lisbon Treaty includes no monetary mechanism for adjusting cost fluctuations between Ireland, Britain, and the United States. As a result, Irish workers, private and public, are being subjected to crude and humiliating pay cuts, with many unscrupulous employers taking full advantage of vulnerable workers. All sections of Irish working people and their families are affected. Employees, farmers and small and medium enterprises have experienced savage reductions in pay, pensions, investments, profits, and social welfare entitlements.

Worst of all, however, is the likelihood that this "internal devaluation" will not work, as happened in Finland in the period 1992–95. Faced with similar problems to Ireland's today, Finland slashed public-sector expenditure and social welfare, depressed demand, and conducted an orgy of wage-cutting to avoid devaluing its currency. But these deflationary measures failed miserably. It was only when Finland devalued its currency by 40 per cent, combined with domestic economic initiatives, that it turned its economy around. The best evidence of this is that unemployment fell from a record 18 per cent in 1994 to 6 per cent in 2008.[5]

We do not advocate a withdrawal from the euro zone but rather believe that the rules incorporated in the Lisbon Treaty on ECB policy and banking controls need to be altered to accommodate the interests of smaller economies, such as Ireland's. Rejecting the Lisbon Treaty would enable all within the European Union to reformulate the Union's policies in the light of lessons learnt in dealing with the crisis. Even that staunch supporter of globalisation Nicolas Sarkozy realised the folly of its monetary policies and called for

> a root-and-branch revision of the whole global financial and monetary system. We can't go on managing the economy of the 21st century with the instruments of the 20th, no more than we can design tomorrow's world with yesterday's ideas.

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3. At www.exportfoodanddrink.org/IEA_End_of_Year_Review_2008.shtml, 4 May 2009.

4. *The Lisbon Treaty: The Readable Version*, Protocol (No. 4) ECB, chapter III, article 12.i, p. 244.

5. See John McManus, "Opinion," *Irish Times*, 4 May 2009.

Furthermore, Sarkozy called for a French sovereign wealth fund to defend leading French companies in strategic branches of the economy, while Peter Mandelson called for a new industrial strategy to protect British companies threatened by recession.

Ireland's rejection of the Lisbon Treaty could have facilitated the ditching of now clearly obsolete economic ideas embedded in the treaty and offered EU leaders a neat escape from, and an opportunity to recast, the failed policies of the unfettered market.[6] Why have they chosen not to do so? It can only be concluded that they dearly want the centralising controls of the Lisbon Treaty to enable them to continue with their plans to create an EU superstate more firmly under the control of Germany, the other big states, and the Brussels bureaucrats.

Budget deficit bullies

Aided by the economic policies espoused by the European Union and implemented with gusto by the Irish political and business elites, Ireland's economy went into meltdown in 2008. Steep declines in consumer spending, capital investment and building and industrial activity all contributed to an annual drop of $7\frac{1}{2}$ per cent in real GDP. For 2009 the outcome is predicted to be even worse, with double-digit declines.[7]

Not surprisingly, the Government's budget deficit is expected to rise to 12 per cent of GDP. EU rules oblige member-states to keep the debt-GDP ratio under 3 per cent, but this has proved impossible for most members. Ireland, with the highest ratio in Europe, has been given until 2013 by the EU Commission to get the deficit to below 3 per cent, and the McCarthy Report of July has identified savings of up to €5.3 billion for the Government to cut from public spending in accordance with EU rules enshrined in the Lisbon Treaty.[8]

Yes, the public finances need to be sorted out; but, given the severity of Ireland's position, a longer time limit and a socially acceptable consensus on how that is to be achieved should be a matter for Dáil Éireann to decide, not for Brussels bureaucrats to dictate.

However, faced with any non-compliance by Ireland, the Commission is empowered to impose fines under existing regulations, also incorporated in the Lisbon Treaty.[9] Given that the Irish economy has suffered from the implementation of recession-inducing EU policies in the first place, such a provision for fines in unwarranted. Furthermore, if the Lisbon Treaty is adopted it would allow the Commission "to strengthen the co-ordination and surveillance of [governments'] budgetary discipline" and "to set out economic policy guidelines for them . . ." (Treaty on the Functioning of the European Union, article 114).[10] And just to make sure they toe the line, articles 104.9 and 104.11 provide the means to make them reduce budget deficits, including the blocking of further credit from the European Central Bank, making a non-interest deposit of a specified size with the European Union, and imposing fines. All of this would have a negative impact on Irish public spending, hitting hardest those dependent on benefits and services.[11] More and more, the role of Dáil Éireann would be reduced to that of a county council, directed from Brussels.

And this is where the changes in the Lisbon Treaty, as opposed to existing EU regulations, are so important now. The pre-Lisbon rules for sanctions to be imposed require a special double majority of

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6. Source: Anne Crotty, People's Movement, 25 February 2009.

7. Bloxham economist Alan McQuaid, *Irish Times Business This Week,* 27 March 2009, p. 2.

8. *The Lisbon Treaty: The Readable Version*, Monetary union, 126.11, TFEU, p. 99.

9. *The Lisbon Treaty: The Readable Version*, Monetary union, 126.11 TFEU, p. 100.

10. *The Lisbon Treaty: The Readable Version*, Monetary union, 136.X1. (*a*) and (*b*), TFEU, p. 106.

11. *The Lisbon Treaty: The Readable Version*, Monetary union, 136.X1. (*a*) and (*b*) TFEU, p. 100.

at least two-thirds of the member-states (i.e. 18) plus a qualified majority of votes (now 258 out of 345), excluding the vote of the delinquent state. The Lisbon Treaty would change this to the normal double majority that would come into force from 2014, whereby sanctions could be imposed by 55 per cent of the member-states (i.e. 15), as long as they had between them 65 per cent of the total EU population.

The "excessive deficit procedure" rules are laid down in article 126 of the Treaty on the Functioning of the European Union. Sub-section 13 refers to the new double majority rules laid down in article 238 (3) (*a*), namely 55 per cent of member-states (at least 15) plus 65 per cent of population.[12] This would make sanctions on delinquent countries such as Ireland much easier to impose, by reducing the number of states required for imposing them from the present 18 to 15 under the Lisbon Treaty and by simultaneously increasing the effective voting weight of the big states by 50 to 100 per cent each.

NAMA: a desperate EU gamble at Irish taxpayers' expense

The madcap NAMA scheme, whereby Irish taxpayers take on the bad debts of private banks in the hope that those banks will then start lending money again to businesses and citizens, is being pushed by the EU Commission, the European Central Bank, and the German government. Cowen and Lenihan are doing what these interests want.

TDs and senators are due to vote on NAMA legislation and will be called back from their holidays on 16 September—two weeks before the repeat Lisbon Treaty referendum—to push it through. **A No vote to the Lisbon Treaty should be called for as a No vote to NAMA, as a way of saving the country from the impending NAMA disaster.**

As Professor Morgan Kelly, professor of economics at UCD, explained in the *Irish Times,*[13] Cowen and Lenihan made a disastrous mistake last September in putting a state guarantee behind not only the savers and depositors in Ireland's private banks—which was the right thing to do—but behind those banks' creditors and bond-holders as well, towards whom the state has absolutely no obligation. Many of these were foreign banks and investors who had lent to the Irish banks in order to speculate on the Irish property market. They knew and took the risks involved, and the Irish Government and Irish taxpayers were in no way obliged to bail them out. But that is what Cowen and Lenihan and their Government agreed to do; and the NAMA scheme is one of the consequences.

Last September the Government should have guaranteed bank depositors and savers, not bank creditors and bond-holders. If some Irish banks were insolvent because of their bad property loans, they should have been left go bust in accordance with the "laws" of the "free market." Instead of the banks being bailed out by recapitalising them at the taxpayers' expense, public money should have been put into good "clean" state banks, set up as new legal entities, to which the buildings and staffs of the insolvent private banks could have been transferred. Such state banks could then have immediately started lending to private businesses and citizens, so stimulating the real economy and avoiding the credit crunch that is now putting thousands out of work.

This is the sensible solution to the bank crisis and the credit crunch that has been advocated by the financier George Soros, by Professor Wilem Buiter of the *Financial Times* and London School of Economics, and by the Nobel Prizewinning economist Paul Krugmann, among others.

Nationalising the banks is not the answer, for that would merely transfer the bad debts of the existing private banks to Irish taxpayers, with the latter responsible for meeting them, just as with NAMA, and with the same bank legal entities continuing under public rather than private ownership.

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12. *The Lisbon Treaty: The Readable Version*, Institutional and Budgetary Provisions, 238 (3, *a*) TFEU, p. 152.

13. At www.irishtimes.com/newspaper/opinion/2009/0703/1224249965637.html.

What is needed is to let the existing private banks carry their own losses, and go out of business if need be, and to establish new bank legal entities, state banks, to get vigorous private lending going again. These could be privatised later if desired.

The Lisbon Treaty and the McCarthy Report would lead to the return of water charges and domestic rates

The McCarthy Report calls for a cut of €100 million in the central government contribution to the local government fund. It states:

> The Group considers that local authorities should be self-financing in the longer term and that Exchequer support should be replaced with increased revenue generation from local sources, including such measures as may be suggested by the Commission on Taxation in its forthcoming Report, and increased cost recovery levels for appropriate services. Charging for domestic water services would be consistent with this approach, and should in the Group's view be within the remit of a single national water authority.[14]

So, not only would water charges return but they would be taken away from democratically elected local councils and this vital public utility handed over to some kind of unaccountable authority or powerful corporation. The extract above hints also at a later introduction of rates on family homes.

Furthermore, on the ownership of the proposed single water authority, the Lisbon Treaty is quite explicit. Article 106 states:

> Undertakings entrusted with the operation of services of general economic interest or having the character of a revenue-producing monopoly shall be subject to the rules contained in the Treaties, in particular to the rules on competition . . .[15]

In the light of the Eircom and Aer Lingus experience, the impact of EU competition rules would mean that such a water authority would be privatised and that county councils' social function of supplying water would be supplanted by a private corporation—probably foreign-owned. Chief among the purposes of such an authority would be the creation of profits for its new owners.

Such an outcome would present a fundamental threat to the quality of Irish life. A second No to the Lisbon Treaty on the 2nd of October will require the negotiation of a new treaty and will allow for the removal of such provisions. Only such an outcome will enable residents to continue to hold their local authority to account for the provision of a secure and safe water supply.

From Erin Go Broke to a new economic deal in Ireland

The American economist and Nobel Prizewinner Paul Krugman neatly summed up Ireland's predicament:

> jumped with both feet into the brave new world of unsupervised markets; banking sector used its freedom to finance a monstrous housing bubble; collapse of construction sent the economy into a tailspin; government gave guarantees to cover the banks' liabilities and to purchase many of their bad debts—putting taxpayers on the hook; [thereby] providing windfalls to financial operators instead of fixing what needs to be fixed.[16]

Further potentially bad news also came from the United States with President Obama proposing sweeping changes in tax rules for American companies operating in Ireland. He has done this to

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14. *Report of the Special Group on Public Service Numbers and Expenditure Programmes,* p. 57.

15. *The Lisbon Treaty: The Readable Version*, Common Rules on Competition, 106.2 TFEU, p. 90.

16. Paul Krugman, *New York Times,* at www.nytimes.com/2009/04/20/opinion/20krugman.html, 5 May 2009.

maintain jobs in the United States and to restrict transnational corporations that make huge profits in Ireland in claiming tax deductions in the United States for expenses related to their Irish operations.[17]

All these developments clearly show the failure of Ireland's economic model of sleepwalking back into the failed policies of neo-liberalism, as embedded in the Lisbon Treaty. Rather than bailing out sick banks, plundering workers' salaries and cutting social welfare entitlements we need to follow Obama's lead in looking to domestic resources and strategies to protect domestic jobs. Here is where the Government and the social partners should be concentrating their efforts. **Only a No to the Lisbon Treaty will allow us, and all the peoples of the European Union, to make a fresh start in formulating a new way forward in the post-neoliberal world.**

17. *Irish Times*, 5 May 2009.

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