

## **Address to EU heads of Mission by David Begg - 22 February 2013**

### **The Implications of the Crisis for European Integration and Democratic Legitimacy**

Your Excellencies, Ladies and Gentleman.....

Last week we had a visit from the Director General of the International Labour Office, Mr Guy Ryder. The ILO was established by the Versailles Treaty in 1919 and is the last surviving institution of the League of Nations Framework. Mr Ryder was here to deliver the inaugural Edward Phelan Lecture at the invitation of the National University of Ireland. As his name suggests Edward Phelan was of Irish origin and he served the ILO for thirty years eventually becoming Director General. He was author of the Declaration of Philadelphia of 10 May 1944, which revitalised the ILO through recasting its aims and objectives emphasising the centrality of human rights to social policy and the need for international economic planning.

What has that to do with the existing crisis confronting Europe you may be wondering?

One of the key principles of the Declaration of Philadelphia was that labour is not a commodity. In setting this down Phelan was almost certainly following the Hungarian Socialist, Karl Polanyi, whose seminal critique of liberalism, *The Great Transformation*, was also published in 1944. By coincidence Friedrich Von Hayek published *The Road to Serfdom* around the same time and, possibly because of the Cold War atmosphere of the following years, the latter became more influential in public discourse.

However, I will try to make the case to you today that Polanyi has insights to offer which, if we are willing to consider them, provide a framework of thinking which can help us build a more sustainable Europe. Polanyi's thesis had three parts to it viz;

- (a) Labour, land and money are not commodities;
- (b) The economy should rest in society and not the other way around;

And

- (c) People will eventually react against social and economic conditions which oppress them. This is called his 'Double Movement'.

The structure of Economic and Monetary Union is defective as we now know and it is the very anti-thesis of these core propositions of Polanyi.

In fact the truth I have come to realise is that EMU is constructed on the assumption that, absent the option of currency devaluation, and in the event of a macro-economic shock, the entire burden of cost adjustment can fall on labour market actors through a reduction in labour costs.

This reduction in labour costs is presumed to act as the functional equivalent to currency devaluation at a macro-level. It is an assumption premised on the non-existence of organised labour and shares the neo-classical belief that labour markets can and do operate in conditions of perfect competition. Needless to remind you, this ignores the reality that there is an embedded and historically diverse institutional structure of collective bargaining in European countries.

Such a callous disregard for distributional justice - which we have witnessed in operation in this country over the last five years - is a fatal flaw. Indeed Ireland is a particularly egregious example because the burden of macro-economic adjustment has been exacerbated by the need to address one of the ten worst banking crises since the 1930s. This, according to Eurostat figures, has left each Irish citizen paying an average of €9,000 to fix a problem which cost every other member state's citizen just €192.

Moreover, because of the refusal of the ECB to allow either a bank failure of any demand on senior bond holders, wages and public spending alone have been targeted. Where is the fairness in that?

And lest you think this is an effort on my part to shift the blame let me quote from David Marsh's (2011) book on the Euro Crisis:

'Recognising the exposure of the Irish banking system to the new mood of risk awareness on financial markets, and determined to protect Europe from another Lehman-style collapse, the European Central Bank in discreet telephone conversations with the Irish Government requested all possible steps to prevent Irish banking failures. Ireland subsequently took the momentous decision to guarantee all bank liabilities at six financial institutions - an estimated \$570 billion about 250 per cent of GDP - action which was to have cruelly spectacular effects in terms of increasing public borrowing and further enlarging Irish taxpayers' exposure to ever increasing debt'

(Marsh, 2011:242)

A couple of years ago I asked John Monks - then General Secretary of ETUC but now Lord Monks - why he thought Jacques Delors had made the mistake of proposing a structure for EMU in his 1989 report which was so deficient as regards institutional architecture. John assured me that Delors was almost certainly aware of these deficiencies but probably calculated that what he proposed was all the traffic would bear at the time. John added that he also probably figured that eventually there would be a crisis and out of that crisis would come the final stage of integration. On the face of it this prediction seems to be moving towards realisation but I think it may not be so for a number of reasons.

The first reason I would cite is that there are long standing differences at the heart of the European integration project which are no closer to being resolved and which have been cast into sharp relief by the crisis.

Foremost is the different perspectives of 'Economists' and 'Monetarists' - The general desire for an independent Central Bank running monetary policy versus the French commitment to economic Government. The integrity of this quarrel seems to be as intact as it ever was.

A second reason is the difficulty of embarking on the most ambitious phase of integration at a time when support for it has never been weaker. For much of its history European integration proceeded on the basis of a 'Permissive Consensus'. European citizens thought it was a good thing or at least it did no harm. I doubt that this view is still current. Certainly anyone with experience of the Troika would say that it has done considerable harm.

As Martin Wolf put it recently:

"A good marriage is one spouses would re-enter even if they had the choice to start all over again. Surely many members would refuse to do so today, for they find themselves inside a nightmare of misery and ill will. If all members of the Eurozone would re-join happily today they would be extreme masochists".

(Wolf, *The Financial Times* February 19<sup>th</sup>, 2013, P.13).

Given its history of structural adjustment programmes in developing countries in the 1990s it is interesting that the IMF has emerged as a much more accommodating partner than either the EU or the ECB. The IMF has acknowledged errors in calculating the multiplier effect of austerity and even the possibility that capital controls might be necessary in some circumstances. The EU and ECB have conducted themselves in the manner redolent of Aneurin Bevan's portrayal of Hume Gaitskell as 'Desiccated Calculating Machine'. They seem to be driven by an absolute conviction about austerity.

What is my evidence for this? In the first instance it is my own experience of dealing with the Troika and how else can one interpret Olli Rehn's recent letter to Ministers in which he described the IMF's position on fiscal multipliers as 'not helpful'. Inconvenient truths rarely are helpful.

A third reason is that a necessary redesign of the institutional architecture to accommodate economic, fiscal and social dimensions must necessarily impinge on the remit of the ECB if such institutions are to have any meaning. For example,

for social policy to be meaningful it must address unemployment. An ECB with the limited remit of price stability would be an impediment – why else could we now tolerate 25m of our fellow citizens being unemployed? At the very least the remit of the ECB should reflect that of the Federal Reserve Board in the United States. Is this possible do you think?

It is hard to see it at the moment at any rate given the history of the single currency. In effect the Bundesbank model was adopted by the Delors Committee in 1989 which produced the blueprint for EMU and in due course incorporated into the Maastricht Treaty itself. Thus it cannot be changed except with the consent of every EU State, a notably difficult hurdle.

A fourth consideration is what I call the conflict of ideas. EMU is usually presented as an economic matter governed by some iron laws which are immutable. It is no such thing. EMU is first and foremost a political project and its success or failure will be judged by political criteria. But policy making is dominated by those who look at the problem solely through the prism of supply side economics. As Robert Skidelsky pointed out in *The Financial Times* on Tuesday, an essential element of a growth strategy is to avoid a prolonged recession by acting directly to maintain demand. In Ireland this supply side orthodoxy forced on us by the Troika has caused domestic demand to fall continuously, by 26 per cent over five years. Until this conflict of ideas is resolved there can be no consensus and without a measure of consensus it is difficult to progress deeper integration. Needless to say this dominant supply side orthodoxy is the polar opposite of Polanyi's view that the economy should rest in society and not the other way around.

Ordoliberalism may work in Germany and its satellites but it is not obvious that it will be accepted by the rest of the Eurozone. Failure to achieve economic growth and to eliminate the imbalances between the core and the periphery will characterise it as a failure.

Ten years ago the leader of the Progressive Democrats (a liberal party then in existence), Mary Harney, posited that Ireland was spiritually and culturally closer

to Boston than to Berlin. Those of us on the centre left of politics roundly condemned this notion. There is a lesson here; be careful what you wish for!

But actually this remains an enduring paradox for Ireland. We are *sui generis* in Europe in trading within a triangle of three currency zones – the Euro, Sterling, and the Dollar. If indeed the Eurozone does move towards 'ever closer union', and if Britain moves in the opposite direction, where will we stand? It is a sobering reality of our situation that we are Britain's sixth largest trading partner but we don't matter to any of the other big European economies. This is a marked contrast to some of the other small open economies – Denmark, Finland, Belgium and even the Netherlands come to mind – who are all firmly within Germany's sphere of influence. Of course this relationship is not new; it is just that the trajectory of events is pointing towards a critical juncture for Ireland. Unfortunately, it is a matter not often addressed in political discourse but it seems to me to raise serious issues of policy choice.

According to Jean Monnet's biographer, Francois Duchene, when he set up the action committee for a United States of Europe in 1955 he was very anxious to include trade unionists on it. Actually he did not include employers because:

"He thought employers incapable of distinguishing the general interests from their own. The labour unions, he felt, because they represented broad masses, had a better sense of it".

(Duchene, 1994:285)

From what I hear in the circles in which I move today's labour movement is disaffected from the European project. It could hardly be otherwise.

Karl Polanyi has shown that all through history when people are disaffected they turn to their Governments for protection from markets. It is very clear that today the State-market relationships is inverted from that which Polanyi considered the natural order of things. Ironically it was the hope of labour that 'Europe' and Social Europe in particular might be the solution to the 'creative destruction' of the markets. If Polanyi's double movement emerges is it not

likely that it will manifest itself in an upswing of nostalgic nationalism? Indeed one can argue that there is already some evidence of that in countries like Finland, Denmark and Netherlands in the emergence of new right wing parties. In Ireland's case there have also been dramatic political changes since the crisis began, as you know.

There are some repertoires for action which could be explored to restore faith in European integration:

- It is imperative that confidence in Social Europe be rebuilt. Expecting workers and social welfare recipients to carry the burden of macro-economic adjustment is unfair and unreasonable;
- Growth must become the first objective of policy. Action must be taken to reflate the European economy;
- The institutional architecture of EMU should be redesigned to accommodate coordination of monetary, fiscal, economic and social policy. The remit of the ECB should be broadened in line with that of the Fed;
- In this context mutualisation of debt should be faced up to; specifically, the European Council agreement of 29<sup>th</sup> June should be honoured.
- The Eurozone should be run as a large coordinated market economy with the objective of eliminating the imbalances which currently exist;
- In the immediate situation an unemployment level of 25m with a high structural and youth component is politically and socially unsustainable. If this is left to fester it will foreclose many other options. If necessary members states must be encouraged to become employers of last resort.

I have no doubt that this approach would be an anathema to liberals. The truth is that the model of liberal capitalism which dominated for the last thirty years is broken. What will replace it has not yet been decided. From 1943 to 1973 we

enjoyed a golden age of social democracy but diversion down the siding of 'The Third Way' deprived it of a believable narrative. Reimagining social democracy is for me the real challenge. As Keynes said at the end of the General Theory: "It is ideas that are dangerous".

I understand that later today the Commission will publish its forecast for the European economy. Apparently it will say that there will be no growth this year and no recovery until 2016.

What does that tell us? Like some terrible World War 1 battle we have sacrificed millions of lives to gain a metre of ground. Austerity is not working. Austerity is simply a mantra without a purpose.

In conclusion I want to come back to the notion of Polanyi's double movement. What will happen when people eventually realise that they are trapped in a spiral of deflation and debt? What will happen when they realise that they are expected to soldier on year after grim year? What further excuses can credibly be deployed to explain the absence of growth? What will happen when youth and structural unemployment continue to grow?

Polanyi's analysis of history – from the Scottish Enclosures, Speenhamland, the Poor Laws and the Industrial Revolutions – points to a demand to change the existing order. I fear that the European integration project may yet fall victim to a double movement – unless European elites are willing to change course PDQ.

The really sad thing is that Europe is the most advanced political project ever undertaken – and the only one to embody a social welfare dimension.