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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 (Ballsbridge, 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 bridge 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 phrase 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.