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European solidarity in the Eurozone crisis: another Irish "success story"?

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The solidarity put in place within the European Union is currently being exposed to a series of intense tensions and discussions* particularly interesting to be dealt with in an Irish context. During the last two decades, Ireland was indeed the "success story" so often told when highlighting the fertile combination of the European single market and the EU structural funds. In the context of the on-going economic crisis, Ireland is one of the countries implementing very harsh structural reforms after having received European financial assistance. In the very short run, the Irish people are invited to ratify both the so called "fiscal compact" and the "European stability mechanism", which symbolize formally the link between the disciplines linked to the "Eurozone" membership and the possibility to benefit from the EU solidarity devoted to help its struggling countries.

It is enlightening to shed light on the European solidarity in the Irish context by referring to Jacques Delors. As a promoter of major steps forward in European solidarity, he indeed pointed to an explanatory "triptych": "Competition that stimulates, cooperation that strengthens and solidarity that unites". The impressive economic and social development of Ireland within the European context illustrated quite well the virtues of such a triptych. However, when the Irish people refused to ratify the Treaty of Lisbon, the same Jacques Delors declared that it made him think of the movie "Take the money and run!"... This rather negative statement invites to put the Irish case in perspective so as to address the question of the European solidarity by dealing with three ranges of issues:

- European solidarity and the internal market as two key components of the first Irish "success story" (§-1);
- The Eurozone crisis and the "Irish programme" as a deal between solidarity versus responsibility (§-2);
- The ratification of the "Fiscal compact" and the European "Solidarity" Mechanism, which could be a symbolic step further for Ireland (§-3).

1. European solidarity and the internal market: two key components of the first Irish "success story"

A rapid historic look allows us to state that the "common" and then "single" market is the political "matrix" within which European solidarity has first been rolled out. Its impact has been particularly striking in the case of Ireland, whose success was also based on the implementation of an efficient development strategy, sometimes symbolized by its low corporate tax.

1.1. The CAP and the Structural Funds

The first stage leading to the implementation of European solidarity is directly linked to the signature of the Treaty of Rome. The free movement of products between the member states was to be profitable in overall terms for the six founding countries of the "EEC" but several of them, first and foremost France and the

Netherlands, considered that such as liberalisation would favour German industrial products. In exchange, they ensured that the EEC adopted measures of support for farm production, which would lead to the gradual implementation of the "CAP" during the 1960s. Given the nature of its economy, Ireland has benefited a lot from the CAP since in accession to the EEC, receiving nearly €44 billion between 1973 and 2008.

The second major stage in the rise in power of European solidarity is directly linked to the economic and geographical deepening of community integration. This deepening has led to increasing competition within the internal market with the prospect of generating overall increases in growth and jobs, but is also susceptible of increasing imbalances between countries and territories of the EU. It was then deemed to be necessary to promote better economic convergence via financial transfers organised at the Community level. European regional policy has emerged in this context, after the first enlargement of the EEC to Denmark, Ireland and the UK; it was then completely redesigned and greatly expanded during the third enlargement and the adoption of the Single European Act, thanks to the "Delors package 1"; and then again expanded at the time of the launch of Economic and Monetary Union on the basis of the "Delors package 2"; finally an intensification of the cohesion policy was linked to the enlargement to Central and Eastern European countries. This financial redistribution between states and regions, which is now almost the first item of the community budget, has benefited a lot to Ireland and has played an important part in the transformation of the Irish economy, in particular by bringing about the rapid convergence of Irish living standards to EU levels during the 1990s. Since 1973, Ireland has received more than €20 billion in EU Structural and Cohesion Funds support. The recent decrease of this funding is a positive sign for Ireland, as a symbol of its impressive progression in terms of GDP/capita (from 62% of the EEC average in 1980 to more than 140% of the enlarged EU average in 2007, and a bit less than 130% in the recent period because of the crisis).

1.2. EU solidarity and the Irish economic development strategy

The CAP and Structural Funds' contribution to economic and social development in Ireland was naturally one of a range of causal factors, among which tax and fiscal reform, wage moderation and structural measures, particularly in the education and training areas. It is important to underline the impact of this more domestic strategy, especially as regards the performances of other countries which have also received massive funding from the EU without achieving as substantial results in terms of economic and social development and convergence.

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. On a longer period, Ireland development has also been perceived as largely based on the attraction of foreign direct investments, with an emblematic role played by a low corporate tax. This 12.5% corporate tax has often been criticized, as a sign of unfair competition in the internal market, and then as a breach in the balanced triptych formulated by Jacques Delors.

The Irish authorities are right when claiming that there are many good reasons to explain such a low level of taxation: Ireland is a small market, located at the periphery of the EU, an "Island behind an Island", and cannot then ask the companies to pay a corporate tax comparable to the one they pay to invest in large markets located at the centre of the European economy (such as the French and the German ones). It is also important to underline that the comparison of effective taxation rates leads to less substantial differences between countries. This being said, the Irish fiscal strategy remains criticized and quite badly perceived in several EU countries, even more where there are doubts on the way some companies may optimize their profits through their Irish location.

Such a context explains why the then French President Nicolas Sarkozy asked Ireland to raise its corporate tax to reduce its deficit, so as not to rely only on the European aid. And why the interest rate on the multilateral aid granted to Ireland was first kept higher, given the negative answer expressed by the Irish authorities. It was wrong to adopt such an aggressive strategy and to consider Ireland as a scapegoat, in a fiscal competition involving many other EU countries. But this incident illustrated clearly how Ireland still needs to clarify on which conditions its economic, social and fiscal strategy of development can be rightly balanced as regards the solidarity obtained from the EU.

2. The Eurozone crisis and the "Irish programme": solidarity versus responsibility

The management of crisis situations is the other matrix that could provide European solidarity with more or less solid political foundations – as we can see when dealing with the Eurozone crisis, which hit Ireland particularly violently.

2.1. European solidarity, the crises and the "moral hazard" dimension

It is interesting to note that the Lisbon Treaty provides three new European "solidarity clauses": one concerns the solidarity established in the case of natural disasters, already planned from the middle of the 1980s, and which has gradually become a tangible reality; another solidarity clause, in the event of a terrorist attack or armed aggression, is the translation of a similar willingness for mutual aid; finally an energy solidarity clause has also been inserted, with the objective to ensure the security of supply of all the EU countries. Even if the concrete scope of these "solidarity clauses" is very variable, they are all based on the idea that European cooperation and mutual aid are legitimate vis-à-vis member states faced with crises generated by hazards that have nothing "moral", and which could affect all of them.

The creation of the Economic and Monetary Union has also fed an intense debate on the possible implementation of solidarity mechanisms. The initial answers given by the EU leaders were of three orders: we need to tell states that they will have to take on their responsibilities alone to encourage them to conduct their economic policies rigorously (this is the famous "no bail-out" clause of the Maastricht Treaty); we need to strive to prevent fiscal profligacy (this is the spirit of the Stability Pact); the fact to say in advance that the deficient member states will be saved would lead some of them not to make any efforts (here lies the "moral hazard" dimension). The recent financial crisis has led the EU to come back on these original answers by providing a very factual political foundation to significant European aid, committed in return for a greater effort to clean up their finances and to adopt austerity measures by the beneficiary countries. Faced with the emergencies imposed by the crisis, it was the deep interdependence of economic and financial systems of European countries that justified granting both the bilateral and multilateral (European Financial Stability Facility) aid, with the aim of avoiding a default in payment by states in difficulty and to stop the crisis from spreading.

2.2. The recent European solidarity efforts for Ireland

The Irish authorities lost access to bond markets – and then part of their sovereignty – after assuming the huge debts of the Irish banks, which lead the public debt to jump suddenly from around 40% to more than 110% of the GDP. They could benefit from a 67.5 billion euros "bail-out programme" co-financed by the Eurozone countries, the IMF, Britain, Denmark and Sweden. It is thanks to this three-year aid programme that Ireland has been able to face its financial commitments and to have more room of manoeuvre to find its way out of the economic and social turmoil which struck the country.

The conditions set for the granting of this aid show that the risk of "moral hazard" is still present in the EU leaders minds: the interest rate applied to EFSF loans was initially very high (almost punitive), and was finally reduced in 2011 to around 4%; in parallel, Ireland also "received" demands for in-depth structural reforms, formalized by a Memorandum of Understanding and followed up by the "Troika". More generally, the reform of the Stability Pact has provided a more rigorous monitoring and more automatic sanctions; and there is still reluctance towards overly huge interventions by the ECB or the immediate creation of "eurobonds", which could take away from the responsibility of states that benefit from it. It is likely that, in the coming months, the pressure of events may lead to changing the new equilibrium established between European solidarity and national responsibilities again.

2.3. The impressive and successful efforts made by Ireland

The fact to be regularly assessed by the Troika and, more indirectly, by the other EU member states, is naturally costly for Ireland in political and psychological terms. But the economic and social costs of the adjustments undertaken by the Irish authorities and people are even more substantial: they deserve to be mentioned because, seen from abroad, there is a strong asymmetry in the perception of the importance of the aid given (often overestimated[1]) and the efforts made in compensation by the beneficiary countries (totally underestimated). In Ireland, the wages were reduced by around 14% in the public sector, and even more in the private one; thousands of jobs were suppressed in the public sector; pensions were reduced up to 12%, etc. It is also worth noting that the financial sector, which concentrates many critics from the public opinion, was the subject of firm efforts of consolidation and regulation. These efforts were probably linked to the gravity of the situation, but they allowed Ireland to act more sharply and deeply than many of its neighbours to treat the "banking dimension" of the current crisis.

The results of such efforts are impressive: new jobs are now created in Ireland; quite massive foreign direct investments have been welcome in 2011; Irish exports have been rising up; more importantly, Ireland growth prospects became positive again, while many other European countries face recession. The only mention of an unemployment rate up to 14% shows that the crisis is far from over, and that many efforts and reforms are still needed. As President Barroso has rightly pointed out, overcoming the crisis is "not a sprint but a marathon": Ireland has now reached the 20 miles limit, when the succession of efforts is even more painful, but the finish lane almost visible too. Its situation is all the more encouraging when compared with the one of the two other "countries under programme" as well as will other European ones. Ireland could then become again a "success story", and a source of motivation and inspiration for the other struggling countries, but also for the EU authorities as a whole.

3. The ratification of the "Fiscal compact" and the European "Solidarity" Mechanism: a symbolic step forward?

The second Ireland "success story" which is being written will naturally be told more or less loudly, according to the result of the referendum of next 31st May. This vote will intervene in a period marked by an essential debate on growth promotion[2], the outcome of which should not minor the need to progress in the way of the structural reforms and adjustments. It is then essential to identify precisely the main domestic issues at stake for Ireland as regards both these two legal texts and the European political context.

3.1. The link between "fiscal compact" and "insurance contract"

A lot has already been said as regards the impact of the "Treaty on Stability, Coordination and Governance" on the conduct of national economic and social policies. It is important to underline that such a Treaty has above all a symbolic dimension and aims at formalizing even more the national commitments to a sounder management of public and private debts. On the substance, many of its provisions have already been put in place with the reform of the old "Stability and Growth Pact" (made possible by the so called "Six Pack"). Even if the Attorney General considered that the adoption of such a Treaty will have consequences as regards the exercise of Irish national sovereignty, such consequences should not be overestimated. The level of public spending remains totally free in the Eurozone, with countries having a low level of public expenditures such as Slovakia, and countries spending much more, such as France. The distribution of these public expenditures also remains totally free: many European countries spend much more public money for defence or social protection than Ireland, and it will remain the case. What is at stake is only the correction of excessive deficits and debts – a potential corrective approach which is far different from the temporarily intrusive method applied during the implementation of the Irish bail-out programme.

[1] Sofia Fernandes & Eulalia Rubio, "The budgetary cost of solidarity in the euro zone: getting things clear and into perspective", *Policy Brief Nr. 35, Notre Europe*, May 2012.

[2] Jacques Delors, António Vitorino and Notre Europe's Board of Directors, "Stability and growth: perfecting the new European pact", *Notre Europe's Viewpoint*, May 2012.

On the other side, the impact of the adoption of the European Stability Mechanism (ESM) seems to be much more revolutionary. The ESM will indeed be allowed to lend up to 500 billion euros to countries in financial trouble, on a permanent basis. Together with the EFSF, the ESM will give them much more strength and powers to face the on-going crisis, on the basis of the classical deal between solidarity and responsibility. Given the European context, it is not surprising that there is a clear legal link between the ratification of the "TSCG" and the right to have access to the aid provided by the ESM. For a country like Ireland as for many others, such an access would constitute a very good "insurance contract" in uncertain times. It appears all the wiser to adopt it, given the difficult situation of Greece and the fragile systemic equilibrium of the EU financial sector.

3.2. A less dramatic albeit symbolic choice for Ireland

The choice made by the Irish people on the 31st of May will not be as dramatic as those made at the occasion of former referenda. The TSCG has been signed by 25 countries, but it will enter into force after the ratification of only 12 Eurozone countries (three of them did ratify it at this stage: Portugal, Greece and Slovakia). A hypothetic "Irish no" will not block the whole process of ratification this time – by the way, it also means that the leverage effect to renegotiate the text(s) is minimal. An "Irish no" would not prevent Ireland from benefiting from the rest of the 67.5 billion euros bail-out which is to run out at the end of 2013: it will "simply" deprive the country of the access to the ESM in case of problems when going back to the financial markets.

On the other side, a "yes" vote should naturally be perceived positively by the investors, which would have the guarantee that Ireland will be protected in case of difficulties. It is probably bald to imagine that they would consider a "no vote" as the sign that Ireland is now totally sure to recover by itself after 2013. On a more political register, a "no vote" would probably isolate Ireland, alongside the UK, the Czech Republic and some other reluctant countries, and would confirm the weird image of the "country saying no". Conversely, a victory of the "yes" could only confirm that Ireland's come back in the quite enviable position of a country able to take advantage of its integration in the internal market and the Eurozone. Such a victory would constitute all the more positive a signal that it will probably be the only one obtained after a popular vote, in a context marked by the rise of populist movements hostile to the EU integration.

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Should the "no" win on the 31st of May, Jacques Delors and other observers could think again of the movie "Take the money and run". The paradox is that some of this money would have been obtained yet (thanks to the 2010-2013 aid programme) but that the additional one would in reality been rejected. The other paradox is that the "run" mentioned will take place anyway: it will still consist of the long efforts made to complete the marathon Ireland and its people have been led to participate in since 2008. Such a marathon would naturally be described more easily as a new "success story" if the "yes" was to win at the next referendum. It is then tempting to conclude by referring to *Ulysses*, the world famous "literary marathon" composed by James Joyce, so as to recall that, after many adventures and chapters, its final word is… "yes"!