

## **CHAPTER 1: The Rise of a Neo-Liberal Europe**

Ireland joined the European Economic Community in 1972 and since then most people have remained broadly in favour.

Europe was seen as a way to overcome economic backwardness. The main conservative parties, Fianna Fail and Fine Gael, promised considerable benefits for Irish farmers and the Common Agricultural Policy did, in fact, ensure an increase in output and incomes for many farmers. However, it also led to a consolidation of Irish agriculture as it mainly benefited the larger farmers. Ireland has also gained from the structural funds, designed to overcome regional disparities. Between 1992 and 1999, for example, the country received £7.2 billion from these funds. It fared even better than other peripheral countries such as Greece, Portugal and Spain, because the Cohesion Fund fed into a wider cycle of economic development.

Beyond these clear and tangible gains, the EU was seen as a dynamic centre of the world economy. Just as many people in Eastern Europe make a link today between joining the EU and higher living standards, the Irish population made the same connection in past decades. In the Irish case it was not imaginary. The country's location behind continental-wide tariff barriers, combined with its own low tax regime, made it the location of choice for many US multi-nationals. For every seven US dollars invested in Europe, one went to Ireland. This foreign investment eventually triggered the Celtic Tiger boom and allowed cynical politicians to warn the population that they must continually show 'loyalty' to the EU power structures. When people rejected this advice in the first Nice referendum, they were told that this was simply not good enough. They had to vote a second time to get the right answer.

The EU was also associated with bringing a more liberal and progressive outlook to Ireland. Many laws which benefited the status of women or outlawed discrimination originated in the EU. In the 1960s, many firms in Europe wanted to draw women into the workforce during a long boom and so they promoted the idea of equal pay. From the standpoint of a church ridden society, the EU looked like a guarantor of liberal progress. But this was not always the case. A protocol was added to the Maastricht Treaty of 1992 to forbid Irish women using any aspect of EU law to gain information or access to abortion facilities. Some rights - unfortunately, still not all - had to be won by Irish people themselves through marches and protests against a refusal of the Irish state to allow a 14 year old rape victim to travel to Britain for an abortion.

While Ireland was engaged in its own heated internal debates, few noticed how the political and economic face of the EU was changing. The process began in 1983, when forty five 'captains of industry' formed themselves into a European Round Table of Industrialists. The driving force was Pehr Gyllenhammar, the CEO of the car manufacturer Volvo, who brought the business leaders together for a project of 're-launching Europe'. Two Irish figures, Peter Sutherland of Goldman Sachs and Michael Smurfit, the paper and packaging magnate, were invited to join this exclusive club. The ERT became the most influential lobby group in the EU.

Back in the early eighties the members of the ERT were deeply concerned about 'eurosclerosis' – a term they used to describe low growth rates. They sought to

address this by ‘changing the way that Europe is managed’ and asserted that ‘industry is entitled to a system that delivers results – an EU that functions like an integrated economy with a single centre of overall decision making’. Gyllenhammar declared that ‘Europe is really doing nothing. It’s time for business leaders to enter this vacuum and seize the initiative’. It was a call to fast-forward the integration of the EU economies on a neo-liberal basis.

Neo-liberalism is a set of ideas that promotes a utopian version of capitalism that harks back to the days of Adam Smith. It suggests that if ‘distortions’ to competition are removed, the market will function perfectly without booms or slumps. Neo-liberals, therefore, demand an end to all ‘barriers’ that prevent the mobility of capital and propose that corporations should be able to scour the world at will in order to make maximum profits. They see high taxes on profits as the worst ‘distortion’ and so demand monetary restraint from states so that taxes can be kept low. Instead of social welfare that gives the unemployed a safety net, they want ‘labour activation’ policies that force them into poorly paid jobs. The ultimate aim of neo-liberals is to ‘shrink the state’ by cutting back on public services and reducing social welfare.

The greatest obstacle to them realising their dreams is popular resistance. Even the limited democratic spaces of modern societies create pressures on politicians to respond to demands for better public services or a welfare state. Neo-liberals, therefore, seek to ‘seal off’ many areas of political decision-making from ‘the mob’. In their own language, they want to reduce the ‘politicisation’ of society so that ‘market forces’ and ‘individual choice’ can be freed up. One way to do this is to turn over sectors like the health service to unelected, supposedly independent bodies. The Health Services Executive Agency is one such body and is, in reality, run by supporters of big corporations. Another way is to transfer ever more power to an EU super-state that is out of the reach of most local populations.

Back in the 1930s the guru of neo-liberalism, Frederick Hayek called for the creation of a federal interstate system as a way of achieving these ambitions. Werner Bonefeld explains his rationale.

Such an arrangement was endorsed as preventing inflationary demands which, for him, were a consequence of the polarisation of class relations within independent nation states. The establishment of a super-national political framework was endorsed as a means that would encourage competitiveness, ... support the de-politicisation of economic relations ... and do away with restrictions on the movement of capital, labour and commodities.

Furthermore, super-nationalism would narrow the scope for the regulation of economic life; discourage the solidarity of the working class through its national fragmentation; and ‘render possible the creation of common rules of law, a uniform monetary system, and common control of communications.

It does not follow that *all* efforts to create a supranational state are right wing. It merely suggests that the ERT had a ready-made agenda for pursuing a *particular* form of European integration. And, unfortunately, it was their influence that counted.

In January 1985, the chairperson of the ERT Wise Dekker launched a five year plan to eliminate remaining 'barriers to trade' and to create a single market. Three days after he presented his paper, *Europe 1990*, the newly appointed president of the EU commission, Jacques Delors, delivered a speech which mirrored almost exactly Dekker's proposal. Delors had been a Finance Minister in François Mitterrand's 'socialist' government in France. This had started life with radical left wing policies but at the first signs of an 'investment strike' by international financiers it swiftly moved to impose austerity on French workers. By the time he had become President of the EU Commission, Delors had embraced a 'Third Way' model which gave full support to the free market while tacking on a few vague sounding social aspirations. The only change that Delors made to the ERT's proposals was to postpone them by two years and to set 1992 as the date for the completion of the Single Market. Later he candidly acknowledged that the 'continuing pressure' of the ERT was 'one of the main driving forces behind the Single Market'.

While the single market was driven by the ERT, it was also given a fake progressive image. Delors used his credentials as a 'christian socialist' and a former union activist to woo leaders of the European Trade Union Confederation. These had faced many defeats in the 1980s and were susceptible to the suggestion that Europe could usher in 'social partnership' and 'social dialogue' through the back door. Instead of launching struggles to defend gains that European workers had won, they hoped that closer relations with an EU super-state could bring back a 'beer and sandwiches' era when they were regularly consulted by governments.

In reality, the social dialogue was like a pinch of salt thrown into a cake mix. A number of adjustments were made but the EU moved firmly in a neo-liberal direction. Policies were passed on health and safety but only because the bigger EU firms did not want to be undercut by smaller, more ruthless concerns. Moreover, as McGiffen points out 'this is an area which has suffered more than most from the problem of compliance and enforcement'. A directive was passed on consulting workers but before it can be invoked a proportion of the workforce have to publicly identify themselves to their bosses through a petition. Even then, they only get 'consultation' but no real say in their company's investment strategies. There was a directive on fixed term working which gave some rights but it also helped pave the way to a more 'flexible' workforce. The social dialogue never gave workers an automatic right to union representation or any real say in the overall direction of the EU economy. That was, instead, driven by the neo-liberal policies.

The Single Europe Act and later the Maastricht Treaty in 1992 embodied the change of direction. The single market was designed to help 'industrial champions' grow into huge corporations that could compete on global markets. The original Treaty of Rome that established the European Economic Community included an Article 3 that promoted 'a common market free from distortions to competition'. But this was understood to mean the removal of protectionist quotas and tariffs. The 1992 single market involved a much more radical proposal to create a purer European wide market through removing 'non-tariff barriers'. This involved a number of key steps in the neo-liberal project.

There was, firstly, the principle of mutual recognition of product standards. If a product was made legitimately in one EU country according to its standards, it could

not be prevented entering another EU country. Standards were sometimes used to keep out rival products and so the aim was to clear away these informal barriers. But instead of creating strong agencies on an EU basis that could deal with health or environmental standards, the mutual recognition principle ensured a lower regulatory regime. Each country certified its own products and unless there was a dispute these could then be 'passported' throughout the EU as legitimate products. Even when an Irish Environment Minister wanted to ban traditional light bulbs on environmental grounds, he was told he could not do so because these products were available elsewhere and could not be kept out.

Second, there was a more active competition policy which was led by a Directorate General for Competition. The focus was not just the abuse by monopolies or cartels but one of its main targets was state subsidies. Throughout Western Europe, nation states had been pressurised by electorates to subsidise public services. In Ireland, semi-state companies also stepped in where private enterprise failed – often with a state subsidy. EU competition policy, however, targeted these state aids as a 'distortion' and so paved the way for public sector sell-offs.

The privatisation of Aer Lingus provides a classic example. Transport Minister, Martin Cullen, told the Dail that the state could not put additional funds into the airline. He conceded that under EU rules, the Government could make a case but he said that:

In all likelihood, however, there would be opposition from other airlines alleging state aid and a likely investigation by the European Commission before approval for such an investment would be forthcoming. On the other hand, the State cannot invest under EU state aid rules when the airline is in crisis, even if it was so disposed.

So EU competition policy led to the sell-off of a hugely efficient state company to competitors such as Ryanair and other investors.

Third, a series of EU directives were issued to promote the 'liberalisation' of whole sectors of the economy. Liberalisation is the polite term for privatisation and these directives were used to give cover to local politicians who wanted to sell off state assets. Typically, they told their electorates that 'there is nothing that can be done because of an EU directive'. They rarely explained that these directives had been formulated behind closed doors, often in close conjunction with industry lobby groups. Among the key directives which opened the way for the privatisation of Europe were those for telecommunications (1990) railways (1991) electricity (1996) postal services (1997) and gas (1998).

These directives were supposed to benefit the consumer but the real aim was to create opportunities for big business. Two examples indicate how they have worsened life for consumers and workers.

One is the postal services directive. Here, the Irish commissioner Charlie McCreevy has announced that the full liberalisation of the postal service will occur in 2009. The 1997 directive originally opened up the sector to private corporations for large packages weighing more than 350 grams. Items below this were considered a

'reserved' area that only state postal services could handle. However, even these 'reserved' areas are to be abolished in 2009 but it is claimed that a 'universal service obligation' will still remain after privatisation. But the language used is very ambiguous. When it comes to privatisation the words 'shall' and 'must' appear in the directive but when it comes to guaranteeing that the same price will apply in rural areas as cities, the language shifts to 'provides' and 'allows'.

The only group that benefits from the break up of a postal system is big business. Postal services use a practice of cross-subsidisation to impose dearer prices on couriers who serve business in order to help pay for 'unprofitable' deliveries to, say, pensioners in North Mayo. 'Liberalisation' does away with this and means a poorer, more expensive service for many. An Post has already been forced to sell off its highly profitable SDS courier service and this has helped to drive it further into debt. Ultimately, the break up of the postal system creates a two tier system whereby business gets a cheaper courier service from the privatised firms like SDS, DHL or Federal Express while rural post offices are closed. Meanwhile thousands of well paid postal jobs are slashed and replaced by cheap, contract labour to meet the new competitive needs of business.

The same thing applies to electricity. Irish consumers have experienced a sharp rise in energy prices in recent years and might have assumed this was due to rising oil costs. While oil prices are a factor, however, EU directives on 'liberalisation' have also helped to hike up prices.

The directives have required a 'full market opening' of electricity supply after 2007, forcing state companies like the ESB to allow in rival private competitors. The ESB has already been compelled to pay out €120 million for a new billing and meter system to facilitate competition between suppliers.<sup>3</sup> And this is only the start. As the electricity system is broken up into a host of private energy suppliers, more resources will be spent on software to coordinate it. In Britain, payments to software consultancy companies rose to €2 billion after privatisation. The ESB has also had to offer a 10 percent discount to its private sector rivals to help 'give them a start'. It has been forced to spend €1.5 billion on contracts to buy electricity from Tynagh Energy and Aughinish Alumina even though they are more inefficient. It can only pay for these absurd measures by pushing up the costs to customers.

Once again the main beneficiaries are private business. They like to 'shop around' and use their economic leverage to pit one supplier against another. Few domestic users, however, have the resources or interest in 'shopping around' and would prefer cheap energy supplied in the most environmentally efficient way. In the past Irish electricity prices were among the lowest in Europe for domestic users but not any more. In 1999 a survey by the UK Electricity Association found that only Greece and Finland paid lower tariffs than Irish consumers.<sup>4</sup> By 2005, however, figures from the International Energy Association ranked Ireland in fifth place out of thirty for higher prices.<sup>5</sup> Deregulation has already cost the Irish consumer dear.

The final area where EU integration is linked to neo-liberal economics is the creation of the euro. Few people want a return to Irish punts or French francs and many would love if sterling disappeared from Northern Ireland. However, just as the first steps to a Single Market were devised by the European Round Tables of Industrialists, another

lobby group played a key role in shaping the specific policies which brought about the euro. This time it was the Association for the Monetary Union of Europe.

This was founded in 1987 officially by the former French President Giscard d'Estaing and former German Chancellor Helmut Schmidt. In reality it was a front group created by five of the largest EU companies: Fiat, Phillips, Rhone Poulenc, Solvay and Total. Its first chairperson was again Wisse Dekker, one of the key people involved in the European Roundtable of Industrialists and a CEO of Phillips. The majority of its three hundred members are drawn from the financial and banking sector. UNICE, the European employers association is also a member of the AMUE. The influence of this lobby group meant that the single currency were closely linked to tight controls on state spending and a reduction of the power of elected representatives to intervene in economies. The single currency was seen as a way to intensify competition and to prevent governments using currency de-valuation to soften the way the market worked. As an economist with Morgan Stanley put it, 'If you remove currency as a safety valve, governments will be forced to focus on real changes to become more competitive: lower taxes, labour market flexibility, and a more favourable regulatory backdrop for business'<sup>6</sup>

Restrictions on state spending emerged through a special Growth and Stability Pact which was promulgated in 1997 to define how countries had to 'converge' in order to bring about a single currency. They could not increase public sector deficit by more than 3 percent of Gross Domestic Product in any one year and gross debt could not exceed 60 per cent. To most people these may appear as technical measures but they conceal a deeply political intent. This is best explained by reference to one of the most famous economists of the 20<sup>th</sup> century.

John Maynard Keynes began as a conventional liberal before Wall St crash of 1929 but came to believe that free markets were far from perfect and needed a strong dose of state intervention. His big idea was that when recessions were looming, governments needed to increase spending in order to generate more jobs. Every pound – or in modern parlance, euro – spent would have a 'multiplier effect' because it stimulated economic activity and helped to create ever more jobs. Keynes believed that this spending could be financed by increasing taxes in boom periods or, if necessary, by borrowing. These economic ideas were the common sense for parties of both the left and right until the early seventies and were implemented by governments of all persuasions.

The support that Keynesian economics gave to state borrowing and full employment meant that governments often compromised with organised labour. Instead of launching offensives to reduce wages they could periodically retreat with a policy of borrowing. The demand to impose legal limits on state spending, by contrast, came from Milton Friedman and Chicago School of Economics – the precursors of neo-liberalism. The EU Growth and Stability pact implements their policy. The EU wide limits also allow local politicians to claim that 'their hands are tied' when asked to provide better public services.

To copper fasten the shift away from elected representatives, the EU also introduced an 'independent' central bank. The European Central Bank is not supposed to take any instructions from EU agencies or national government but only responds to

‘market forces’. Its main concern is ‘price stability’ rather than full employment. Where there is a danger of prices rising, it will increase interest rates – no matter what the social costs. Although the ECB claims to be independent of politicians, this only means that it is more subject to pressure from wealthy financiers who threaten to move money elsewhere if interest rates or economic conditions are not to their liking.

These complex set of measures have had a detrimental effect on the people of Europe. Millions of workers know that their share of the wealth is falling while the incomes of the super-rich are rising. That realisation was in evidence when, on the 18<sup>th</sup> October 2007, 200,000 trade unionists demonstrated in Lisbon to oppose the new EU Treaty. A statement from the World Federation of Trade Unions summed it up. The reason so many marched, it declared, was that

It is obvious that the ruling circles of the EU are seeking in this way to entrench neo-liberalism as the operational model of the EU, a fact that will lead to the intensification in the attacks against the rights of working people which have been gained through the shedding of blood and struggles by the peoples of Europe. But [it will] also [lead] to the further undermining of the social state which at one time represented one of the characteristics of the European social model.<sup>7</sup>

Our subsequent analysis of the detail of the Lisbon Treaty will show that their fears are more than justified.

<sup>3</sup> E. Oliver, 'Home electric market costs €120 million' *Irish Times* 2005 5 April 2005

<sup>4</sup> E. Oliver, 'Republic's domestic electricity prices third lowest in Europe' *Irish Times* 21 June 1999.

<sup>5</sup> International Energy Association, *Key Energy Statistics 2006* (Paris: IEA, 2006) p 44-45

<sup>6</sup> Quoted in Balanya et al, *Europe Inc* p 56

<sup>7</sup> WTO European Regional Office Statement on EU Reform Treaty 23 October 2007