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INTERVIEW WITH MICHEÁL MARTIN[13]

"The ECB's mandate should (...) include a growth mandate"

You were thirteen years old when Ireland joined the European Economic Community. What did it mean to you at the time?

Jack Lynch, the then leader of Fianna Fáil, is the man who led Ireland into the EEC and signed the accession treaties. My family had an interest in him because he was a native of my city, Cork, and a great sportsman as well as a great politician. Lynch had a record of winning six All-Ireland medals in a row – five in hurling and one in Gaelic football. It gives you an idea of the man: he had huge political charisma, but he was also a humble and modest man. My father would have played Gaelic football with him, so we had that personal kind of connection with him. Therefore when we joined the European Economic Community the feeling in our household was that this was a very positive development for Ireland. We saw it as opening up opportunities for the country – a shift from what might have been termed an isolationist past to a future that would be more integrated with Europe, more engaged with the world.

Jumping more than two decades forward, to the referendum campaign on the Amsterdam Treaty, which you directed for the Fianna Fáil government, had the terms of the Irish debate on Europe changed in any significant way?

There was no issue with the referendum campaign on Amsterdam because it came at the same time as the referendum on the Good Friday Agreement. The fact that everybody was concentrating on the Good Friday Agreement meant that the discussions on Amsterdam were secondary, and it went through without major difficulty.

13. This interview was conducted at his Dáil Éireann office, Dublin.

Can you explain briefly what the Good Friday Agreement was?

It was the agreement in relation to the peace process in Northern Ireland, which resulted in two referendums held simultaneously in both parts of the island. On this side of the border we amended Articles 2 and 3 of our own constitution, thus removing our territorial claim over Northern Ireland, and Britain changed the 'Government of Ireland Act 1920,' in essence saying that if the people of Northern Ireland wished to join the Republic, it would be facilitated. It is the idea of unity by consent.

The turning point in the history of Irish referenda on Europe was the rejection of the Treaty of Nice. How do you interpret this event?

Whether this was due to domestic complacency in terms of the way the campaign on Nice One was conducted, or to people's growing unease with the European project, is arguable. My own sense is that the disconnection between citizens and the European elites is a real matter of concern.

Then I became Minister for Foreign Affairs a month into the first Lisbon Treaty, and that referendum too was lost: it was also very badly prepared and followed the same route as Nice One. My very first Foreign Affairs Council meeting was dedicated to explaining the defeat to my European colleagues, but what it really was about was meeting each of them and saying: "*we want no bellicose statements, the voice of the people must always be respected*." My attitude there was that the initial response of Europe was vital, and I needed to ensure that it wasn't going to make things more difficult down the line. Indeed there had been earlier comments from some ministers, and even heads of state, which had been fed back very negatively into the Irish debate. In other words, my agenda was to get a very neutral statement from the Council that would acknowledge the voice of the Irish people and call for reflection. The Hungarian Presidency had prepared a first statement which, if issued, would have been disastrous for us.

What was it saying?

It was basically telling us to get our house in order. But we managed to change the wording. To be fair to the ministers, they are politicians: they understand

that, were it their country, they would need a sensible political response, not one that is hectoring and lecturing. We got on very well with President Sarkozy but he saw himself as the man who was going to solve the actual problem, and he came to Dublin when support for Lisbon was at its lowest. So the whole idea of foreign intervention at a high profile level was not conducive. It was counter productive.

And so how did you proceed to organize a second referendum on the Lisbon Treaty without giving the impression that the voice of the people was being disregarded?

We embarked on a very substantive research project, led by Richard Sinnott at University College Dublin, which sought to understand the dynamics of the 'no' vote to Lisbon One. A number of issues came out of that: the defence and neutrality issue, the abortion question, and the third item was the corporation tax. Having identified those three issues, we negotiated protocols with President Sarkozy and the Presidency. It was a Fianna Fáil-Green government, and the Greens had issues around neutrality, so we also did some domestic changes, with the European Defence Agency requiring parliamentary approval.

I felt that after twelve months we had a platform to go back to the people. Primarily on the basis that we had listened to what the people had said, we had researched it, and secondly because we had negotiated protocols to give guarantees on the most contentious subjects.

I directed the Lisbon Two campaign, and this time we won a comprehensive victory, 2 to 1. I have to say that our campaign was far better; we involved young people more: in the first Lisbon, the difference of attitude between the various age cohorts was very significant, with the 18 to 24 cohort being very much against it. Basically, the generation who lived through the accession in the 1970s still get Europe - they understand that its impact on the country has overall been positive –, whereas younger people are post-structural funds, post-single market, and they take a lot of that for granted.

What the research also showed us was that the change around in Lisbon Two was not due to a sudden reawakening of enthusiasm for the European ideal. Rather, people saw the economic storm clouds gathering over Ireland. It was

just around the time when you could sense that things were getting worse, and people felt that Ireland was better off inside than outside.

Going back to the three issues you mentioned - defence/neutrality, abortion, and the corporation tax: what is the stance of your party, Fianna Fáil, on each of them?

The low corporation tax rate we are absolutely wedded to. We introduced it in Ireland. The current rate of 12.5% is quite recent but the original policy aimed at attracting foreign investment goes back decades. I suppose the whole modern story of Irish industrial development is from the 1960s onwards. The first economic plan introduced by Seán Lemass in 1959 basically opened up Ireland, getting rid of tariffs and protectionist barriers, making it an export-orientated country. Initially, the low corporate tax rate was meant to attract foreign companies to our peripheral island, but then, because of the restrictions on state aid, we couldn't have anymore one tax policy for one set of companies and another for indigenous companies. So the concept has broadened to the idea of facilitating start-up companies and developing a culture of entrepreneurship.

Have you found it difficult to explain the Irish position on that matter to your colleagues at the European level?

They don't like it, but most of them understand where we are coming from. Other countries have emulated it: many of the East European states would have been visitors to Ireland when they joined, and the British are now saying that they want to lower their corporate tax too. Then there are some of the established countries, who have their ways and means of creating incentives to attract industry. U2 have their facilities in Holland because of the tax regime there, so it is not a one-way street at all…

On the second issue, Fianna Fáil is, historically, the party of military neutrality. Our founder, Éamon De Valera, refused to participate in WWII. You have to recall that the war was only twenty years after Ireland had got independence, there was still tension with the British on the issue of Northern Ireland, and therefore in that context of the partition of Ireland, supporting the Allies was problematic. But Éamon DeValera was also a President of the League of Nations, therefore, although militarily neutral and economically protectionist,

we were internationalist from the beginning as a political party, in the sense of having a position on global affairs.

So neutrality was a Fianna Fáil policy which others have adopted, and even broadened throughout the 1970s and 1980s, to embrace the whole idea of independent foreign policy. The rationale being that Ireland should have the capacity to articulate its own positions on the Middle East, on South America, etc. I think we've had a noble enough role in international affairs since independence. For example we would have been the first signatories of the Nuclear Non-Proliferation Treaty. So the neutrality issue rose from that sense of being a bona fide broker in international affairs, taking positions on the merits and morals of a given situation as opposed to being sucked into big power geopolitics. But it is a difficult tightrope to walk, when Afghanistan happens, or Iraq.

When Ireland let the American military use Shannon airport for the transfer of their troops...

Yes, Shannon airport and all of that. But even during WWII… The argument about WWII is always complicated, and then subsequently you find that Ireland was neutral but on the side of Britain. That kind of pragmatism has followed through, in particular because our relationship with America is very strong.

It is not easy for outsiders to comprehend how neutrality plays in our European referendum debates. The 'no' side put out ridiculous arguments from time to time, like saying there will be tanks on O'Connell Street. Sinn Féin in particular were up to a lot of that. What is a very potent negative campaigning issue is that of conscription. The pro-European side sometimes scoffed at that. But when we did the research afterwards, we realized that people really believed it. And I was amazed, when knocking on doors, that people would ask me if there will be a European Army, and if their sons will be forced to join.

To be fair, Europe has never put pressure on Ireland on the neutrality issue. We work together with other European Foreign Ministers to articulate common positions and we are involved in some of the battle groups that engage in peacekeeping operations around the world. For instance, Ireland led the European Union mission in Chad, which is a difficult and delicate one.

What about the question of abortion?

My party supports the right to life, and would only agree to abortion being introduced under strict control for the rare circumstances where the life of the mother is at risk. We are not the only ones; most parties are in that position. But there is also a strong pro-life movement outside of political parties.

Is that movement organised by the Catholic Church?

No, it is not even Church-based. The Church have a position on abortion, but they don't politically agitate to the same extent. It is a lay civil society movement who are very well networked, and who campaign effectively on the issue.

We have had a series of debates and five referendums on abortion since the 1980s and we put into the Constitution an article guaranteeing the right to life of the unborn from the time of conception. It is a constitutional right. There has been subsequent court cases, in particular the so-called X-case, when the Supreme Court ruled that a pregnant teenager who had threatened suicide was entitled to travel abroad for an abortion, in line with the Constitution, which says that a woman has the right to access an abortion if her life is at threat. That was followed by a referendum, in 1992, aimed at removing the suicide clause as grounds for abortion, which was defeated. There was another attempt to tighten the law on abortion, which was also rejected by the people in the 2002 referendum. We haven't had a referendum since. The current minister has received an expert committee report on issues raised by the European Council for human rights in its ruling on the 'ABC cases.' The recommendations in this report will be discussed at the Health Committee meetings in January 2013. The government have already stated their intention to legislate for abortion in Ireland through regulation. This will also be debated.

Isn't Irish public opinion evolving on that question?

There is no point in denying that societal views towards abortion are changing. So the degree to which it impacts on European votes is arguable. It is probably reducing from what it would have been ten years ago. It is just a component part, but when you add it up with the neutrality and the economic parts, you can get a negative vote on Europe.

What new questions have emerged in the Irish debate on Europe since the outbreak of the financial crisis?

One of the big challenges is the disconnection between the citizen and Europe.

Which is not specific to Ireland...

No, it is not specific to Ireland; it is everywhere. But European leaders really need to engage more seriously with that problem. I was the first to call for a referendum on the Fiscal Compact in Ireland and a lot of pro-European people were annoyed with me. Beyond the legal opinion from the Attorney General, which subsequently proved me correct, my more fundamental point was that if you are saying that future Irish governments will have to abide by certain fiscal rules, then you do need to consult the people. At this stage, we need constant engagement with the people on European matters, otherwise we will lose popular consent.

In Ireland, the idea that the Fiscal Treaty was the lesser of two evils was the motivating factor in the 'yes' vote. I campaigned for it as the leader of an opposition party, and I can tell you that it was very much "*we have to, don't we?*" The argument was a very practical one. We said: whatever your views on Europe, we do need to have access to the European Stability Mechanism funding because the country will need to be funded until 2014, and even onwards if we don't get back to the international credit markets. We also explained that the basic rules established by the new treaty were very similar to those we signed up to twenty years ago under Maastricht, and then again last year under the Six-Pack. But the overriding sentiment of the Irish people is not one of great confidence in Europe at the moment: they went along the proposed treaty because it is in their self-interest and they have no other choice.

My worry about this recent treaty is also that we invested too much capital in a modest treaty. I would have preferred a more fundamental treaty and a more decisive debate on important issues such as the broadening of the European Central Bank's mandate.

There is a rising anti-German tone in Irish discussions on Europe. The denunciation of 'Merkozy' rule has given way to a maligning of the figures of Angela Merkel and Wolfgang Schäuble. What do you make of that?

Well, most analysts – from Irish economists to *Financial Times* columnists – would say that the handling of the financial crisis at European level has been quite poor. European decision makers have failed to decisively nip the crisis in the bud, and I think this would have required a change in the mandate of the ECB. It could have been better to recognize the Greek default on day one. And from the perspective of the Irish, the idea of not facilitating a contribution from bondholders at the very beginning was wrong. Imposing all the losses on citizens is not acceptable.

Furthermore, when Merkozy… when Merkel and Sarkozy met in Deauville, and announced, without thinking it through, the prospect of bondholders making a contribution, that really drove the markets wild. Operators on the international markets stopped buying Irish bonds, which pushed Ireland into the bailout.

And if you look back at the various summits, invariably you would have leaders saying that this is the deciding moment, which would prompt a quick rally in the markets, and then within weeks the whole thing would unravel. That has been the story, and that is the sense that people have of it. The same happened with Spain: we've had a succession of banks' bailouts and market rallies followed by collapses, and everyone is now saying that Spain needs a sovereign bail out, instead of maybe acknowledging and dealing with all these things from the beginning.

Now I don't want to be too critical because that this is an unprecedented collapse. We know by now that it points to a design flaw in the euro and to the lack of pan-European banking regulations.

What role would you like to see a banking union play?

I think everybody agrees that we need to have a deposit guarantee scheme and a bank resolution mechanism. The ultimate idea is to separate the banking debt from the sovereign debt. The linking of the two has been one of the more fundamental mistakes in terms of our policy response to the crisis.

Looking back, how do you assess the Fianna Fáil government's role in establishing this link by giving a near-blanket guarantee to the banks, rather than allowing some of them to fail?

At the time when that decision was taken, the choice facing the government was: *"do we allow the whole banking system to collapse?"* They feared that there would be a run on Irish banks. And at the time the guarantee was given on the basis that the banks had only a liquidity problem; the solvency issue had not yet emerged onto the table. Banks were hopelessly insolvent but they hid information.

Yet, despite all the criticism about the Fianna Fáil government's bank guarantee, to the present day there are bank guarantees going on in Europe. And Trichet's mantra, after the fall of Lehman Brothers, was 'no bank must fail.' And 'no bank must fail' became the European mantra. The EU, and the ECB, have been very resistant to breaking the link between sovereign debt and bank debt, even recently when they insisted that Spanish bank debt should go on the Spanish balance sheet. So the Irish policy, whether you agree or disagree with it, was in line with the broader European position.

Again, the whole thing goes back to the design of the euro and the lack of mechanisms to deal effectively with asymmetric shocks within the Eurozone. Ireland was doing quite well when the euro was introduced, and joining the common currency gave a further boost to our exports. But it was like pouring petrol on a fire because it also opened the tap for a lot of cheap money to come into the country, on top of the economic growth we were already experiencing at the time. Ireland had always had high interest rates, but with the euro, interest rates came down to historic lows, so people were able to borrow money very cheaply. We liberalized the banking sector: German banks came in, and other foreign banks, and they all lent on property, not on industry or high technology companies, and thus contributed to creating the bubble.

If I understand correctly a point you made earlier in our conversation, one of the lessons to be drawn from the European banking crisis is the need to redefine the mandate of the ECB?

If you have a single currency, you have got to have one Central Bank with the regulatory authority and the power to deal with it. I believe that the ECB's

mandate should go beyond a policy of inflation containment to include a growth mandate, somewhat like the Federal Reserve. The EU's resources are actually stronger than Britain's or America's, yet these two countries have answered to the financial crisis more effectively. They have their own problems, but they are not the same.

The issue of fiscal union also has to be debated: people have different ideas as to what constitutes fiscal union. So far the general idea seems to revolve around everyone having balanced budgets, but if you look at America, a fiscal union is much more than that: it involves transfers from wealthier states to states that get into difficulty from time to time.

Are you confident that Ireland can come out of its Troika-funded programme in the near future?

Ireland has an economic profile that lends itself to recovery: we have a modern, export-orientated industry and we are implementing fiscal consolidation reforms that aim at restoring our financial situation. So if the European and world markets pick up, Ireland will do well. But we are in trouble on the domestic front – really it is very stagnant. So we do need a wider European growth.

We came out of a debt crisis already, in the eighties. We were 120% of GDP in debt then, and we grew our way out of it by cutting public spending from 1987 onwards. But we grew on the back of an expanding export economy. The problem now is that the exports may not do it for us because of the sluggish international economic context. In other words, we are locked into the wider European future.

Fianna Fáil got an awful hammering in the last general election: when an economic collapse of this scale and severity occurs, it has huge political repercussions. But in fact we implemented very draconian budgets in advance of the 2011 election: we reduced public sector pay, we reduced pension levies – and that helped Ireland regain credibility in terms of its capacity to come out of the crisis. The projected correction was around thirty billion from about 2008 to 2015, and we had already affected twenty-one billion before the election. Therefore – although they won't admit it – the present government have to a certain extent ridden on the piggy back of that. If you look at what happened

in other countries, like Greece, the present Irish government didn't inherit the wrong trajectory; they actually inherited something that was on the path to recovery.

The one issue that remains however is debt sustainability: is the scale of the Irish sovereign debt manageable? Serious economists say that if a debt restructuring deal happened, particularly over the Anglo Irish promissory note issue, the markets would be satisfied that there is a sustainable pathway. These are the key issues, and how that plays back to your core point of Europe is that we need to be very careful and ensure that Europe isn't perceived to be overly insensitive to the domestic ailments and just lecturing us to do this or that. There needs to be flexibility because we are in this crisis together. In other words, a sort of respectful solidarity must be demonstrated at some stage if we are to retain a critical mass of support for the EU.

I think Gordon Brown is right when he says that this is probably the first crisis of globalisation. Globalisation is the big issue: has Europe really dealt with that question? I'm not so sure. The challenges also relate to the decline of the European middle classes, the rise of the migration issue and the fact that far right parties are gaining traction in many countries.

Not in Ireland though…

There is some of that subterraneanly. You will hear some people complaining about displacement in jobs, and workers in the construction sector were very annoyed for a while with Poles coming in. But there is no history of extreme right wing politics in Ireland. Always remember that, in the 1930s, we were one of the few countries in Europe that managed the democratic transition after a war of independence and a bloody civil war without fascism. Fascism never took root here. Is it something in our DNA, in our history, that doesn't lend itself to extreme right wing positions? I don't know. Maybe it is a sense of humanity coming out of the famine experience. We were a very poor country for a long, long time…

Don't you think that the Celtic Tiger has displaced the Old Ireland and its memories of the Great Famine? Or would you say that this history lives on in the imagination of younger Irish generations?

I am not sure, I am just wondering. A certain sense of humanity comes across in Ireland that rails against injustice. Irish people harbour a strong egalitarian feeling despite what you hear about the Celtic Tiger. We would have been very strongly opposed to apartheid for example: ordinary workers, Dunnes Stores supermarket workers, did the famous boycott of South African goods. And I remember meeting Thabo Mbeki, who said to me that the place he loved coming to in Europe was Ireland, because he felt there was passion in the anti-apartheid debate over here. So that history I think may be a factor in dampening down any prospect of racist politics. I am not trying to be rosy…

What is your outlook on the rise of Sinn Féin as an important player on the Irish political scene?

If you look at bald figure, Fine Gael and Fianna Fáil have been in decline for quite a while. They are the two dominant parties of Irish politics, at one stage collecting 80% of votes. That is down to 50% now. The crisis has only accentuated a trend, but it has also opened up the ground for Sinn Féin, and populist parties in general, to be against everything: oppose every cut, oppose every tax and just mop up the votes basically. Now the degree to which Sinn Féin will try and mainstream itself is open to interpretation.

Independents have been another vehicle for voter disquiet; they have about 20% at the moment. The honest truth is that voters don't have a great trust in politics, irrespective of what political party you look at. My party has to adapt to that, and start again basically.

Is your party engaged in a self-critical assessment of its practice in power?

We are having a very fundamental review of where we are going as a political party. I think we have to change our political system. With the present government, it is more of the same to be frank. They haven't altered any of the economic policies, despite saying, during the campaign, that they were

going to burn bondholders, that they would never increase university fees, etc. Unfortunately for them they have had to break their promises, which really annoyed the electorate and added to the distrust in politics.

As far as Fianna Fáil is concerned, there are both policy and structure changes underway. We have decided to give every member of the party a vote on fundamental decisions. Up to now, if you had twenty members in a branch in a village, three people only could vote to select the candidate. It was a poor system that allowed a concentration of power because the parliamentarian would control this unit and wouldn't allow it to grow. We are also moving away from corporate donations.

So no more Fianna Fáil tent at the Galway Races?

That went four years ago, we drew the lessons from what happened. People don't like the idea that you can buy influence, and rightly so. We now have one national draw – it is fifty euros a ticket – and we have a national collection, people still do church gate collections in Ireland. These are the two big fundraisers for the party now, which means that 90% of all our fundraising is below one hundred euros.

When it comes to Europe, what is the party's agenda for the near future?

Fianna Fáil is fundamentally a pro-European party, and I reaffirmed the party's commitment to European integration in the context of the Fiscal Treaty debate, when our deputy leader wanted us to go against the government on that. He had to resign as deputy leader. The next important phase will be if the EU decides to take a fundamental leap in the next few months, whether towards fiscal union or towards drafting a new treaty. All Irish political parties will need to reflect on how they respond to that.

We are coming to somewhat of a crossroads in terms of the design of the Eurozone and its articulation with the rest of the European Union. That challenges all the Member States – that is, the big states as well as the small states – to revisit their vision for Europe. My views have not changed: in a globalized world, it is a no-brainer that European countries should act in union on so many fronts. But I also think that we need to be more flexible, more nimble. And I

think that Europe needs to realise that it is no longer a dominant power, or no longer will be, in the world.

My experience of being a minister at the European tables for thirteen of fourteen years gave me a sense that Europe is very inward-looking: it tends to focus on state aids and all that, but it is not looking at what our real threats are, in particular in terms of world trade. States like China haven't really got rid of all their protectionist tools and they are very centrally controlled. Europe needs to be more outward looking.

On the other hand, as you said yourself, this is also a globalization crisis. And this crisis exposed the limits of certain political economy models that relied on the capacity of the financial sector to replace industrial production as the engine of economic growth. Before 2008, many decision-makers, including in France, were talking of emulating the British approach towards market deregulation and financialisation of the economy, whereas now, most seem to be looking at Germany as a model…

That is true. There is deep uncertainty nowadays as regards what the right model is. Ireland did not go the British route entirely though, because the British allowed manufacturing to come down very low, and so did the Yanks to a certain extent. Our manufacturing output is quite strong and we have hi-tech, modern manufacturing plants.

I sense that a reordering of priorities is beginning to take place in European countries. Even Britain was recently celebrating the fact that their manufacturing output went up for the first time in a long period, and they are hoping to get to the tens again as a percentage of GDP. That is also what is happening in Ireland post-crisis: we are looking for a different kind of approach in terms of the balance between the economy and society.

There was a very neat and powerful narrative of Celtic Tiger Ireland, of which word was spread well beyond the shores of this island. It seems to me that no new narrative has yet been formulated that replaces the previous one.

Absolutely correct, there is no sense of the future at the moment in Ireland. Some of the Celtic Tiger narrative was overblown, and we need to formulate a new narrative, moving towards a more communal-based society. The new government have not provided that kind of discourse yet. It is one of my tasks. It is one of the tasks of people in politics.