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INTERVIEW WITH PETER SUTHERLAND¹⁴

"European integration actually increases (...) our sovereignty"

Going back to the referendum of 1972, how would you characterize, in broad terms, the meaning of European membership for the Irish people?

The general feeling coming up to the accession was one of considerable pride. Joining a larger economic entity was seen, in many ways, as a means to achieve independence from the United Kingdom, which had not been an economic reality after 1922, and as an expression of our separate identity as a people.

Tom Kettle, an Irishman who died in the battle of the Somme in 1916, fighting for the freedom of small nations, once said that Ireland cannot find its destiny other than in the context of Europe – which is very similar to what was said by de Madariaga in regard to Spain: Europe provided a connection with a broader space.

Therefore there was an overwhelming majority in favour of accession, and the general positive view has remained since. But Ireland has also been quite prepared to take exceptional positions on some aspects of the European integration process: for example, we maintained a position in regard to neutrality which inhibited our positive response to aspects of political union in earlier times, which I regret. And we've also had unfortunate outcomes in referendums on Europe, which had to be reversed subsequently by 'replays'.

Taking up on this first 'exceptional position' you just mentioned, how do you explain the Irish attachment to the principle of military neutrality?

I think that neutrality became sacrosanct as a result of our avoidance of participation in the Second World War, when it was widely recognized that whatever the moral imperatives of taking a position, the Irish economy, which had been

¹⁴. This interview was conducted at his office at Goldman Sachs International headquarters in London.

destroyed in the years since independence as a result of the trade wars with Britain, was too weak for Ireland to participate effectively.

And even in the East-West debates that took place subsequently, there were people who would argue that we were better positioned – for example for taking a position in the UN on disarmament – as a neutral country. All that left a residual effect around neutrality as an important concept. This issue was exaggerated in the past when various referendums were presented as posing alleged challenges to neutrality when they were nothing of the sort. I personally believe that Ireland should henceforth participate in all steps to deepen European integration, including in the foreign policy and security area.

What is your judgment on the character of the debates held on the occasion of Irish referenda on European treaties? Do you see them as constructive, democratic exercises?

All sort of things are raised, in referendums, which then prove to be totally without foundation after the ratification takes place. Ireland is no exception in that regard: if you have a referendum on Europe anywhere, every conceivable thing is thrown into the debate in opposition to European integration. It is easy for others to criticize our responses when they don't have a referendum themselves. When France had a referendum on the European Constitution, it was lost. So receiving lectures from others about how, having done well out of Europe, we now reject it, is very irritating, although understandable because we profess to be great believers in European integration and then apparently vote against it.

That said, I think that the principle of having a referendum on important issues, like joining the EU, or joining the Eurozone, is a desirable one. But since the Crotty judgement – in which our Supreme Court is alleged to have imposed the obligation of having a constitutional amendment, and as a consequence a referendum, for virtually every European treaty change imaginable – we've on occasion had referendums on specific issues that were not, in my opinion, fundamental principle issues. Of course you can define 'fundamental principle' issues, and 'sovereignty', in different ways. But we have conceded the principle of shared sovereignty through joining the European Union, and much follows

from this that should not require referendums. In this context, greater clarity should be brought to the issue as to when a referendum is necessitated.

I think that we are going to continue having a stormy ride because there are difficult challenges ahead of us in terms of the movement towards political union. It is also the case that if a referendum is conducted on the basis that you have a power of veto, with no price to pay for your rejection, the likelihood of winning the referendum is reduced, particularly if a government is unpopular at the time. In the case of the Fiscal Compact, it probably would never have passed but for the fact that the ESM and the Fiscal Compact itself were going to come to existence on ratification by twelve countries, irrespective of others not becoming part of it. The access to the ESM was withdrawn if you didn't adopt the treaty, so there was a price for saying 'no.' It is vital that any future referendum should be a question that has consequences, not merely providing you with a veto on everybody else's progress.

This provision making access to the ESM conditional on ratifying the Fiscal Compact has been the subject of much political controversy in Ireland, with some labelling it a 'blackmail clause'...

I disagree with that totally. I turn it on its head by asking: is a country allowed to blackmail everybody else by stopping their progress? I hope that the movement towards European integration continues with as many as are prepared to accept it, and without allowing any one country to have the option of vetoing it.

Not even this country - the UK?

Particularly the UK! I now think that Britain is perilously close to leaving the EU. The British government's intention seems to be to put the result of new repatriation negotiations with the EU to a vote of the people. But there will be no repatriation of powers permitted by the other Member States in my view. The other Member States will not permit members to create an *à la carte* Union and nor should they. This therefore may well lead to an 'in or out' referendum which on current polls could well be lost. This would be a disaster for the United Kingdom and would diminish the EU itself. I do not understand the strategy that is being adopted by Mr Cameron but in a much-heralded speech to be given in early 2013 it may become clearer.

Coming back to Ireland, the terms of the EU-IMF rescue programme have become the predominant prism through which the Irish today reassess their relation to the EU, with a section of the popular media denouncing “EUsterity”, or even the “German diktat.” Do you fear that the unfolding crisis could irreparably damage the European idea in Ireland?

It is understandable, in a situation where you have a painful discipline being imposed from abroad, that there will be some negative reactions. When a country is suffering pain, it becomes more difficult to obtain a constructive engagement on public policy issues. That’s why governments everywhere, during difficult times, fail. So it’s no surprise that in countries that are ‘programme countries’ – Greece, Portugal and Ireland – there is a certain negativism developing in terms of politics generally, including the European Union. But I still think that overall, if you take Eurobarometer polls, Ireland remains positively pro-European. We understand that our membership of the European Union is a vital positive for our future.

I think that the Irish figures are beginning to improve. These are difficult times, and there are still further difficult budgets ahead of us, particularly the next one. But the Irish government is on the right path, and that seems to be vindicated by the judgment of the Troika and the markets. In fact Ireland has huge advantages that others don’t share: we’re in the Eurozone, we’re English speaking, we’re highly educated, we have a lot of Foreign Direct Investment coming in. The most important policy area for our future has to be education and there are real challenges here, particularly at second and third level, where our rankings by OECD and various indices are not good.

Do you see some currently marginal political parties benefiting from the social and economic difficulties?

Those who say ‘no’ to difficult but necessary decisions obtain temporary uplifts in support, but most people know that we cannot continue to spend significantly more than the revenue that is coming in. This is the bottom line. We have an unsustainable primary deficit. It is being addressed but there is a way to go still.

Ireland is, politically, quite exceptional in the European landscape in that there is no Irish party that voices anti-immigrant sentiment...

No there's not. That's an amazing testimony. We have about 550,000 migrants in Ireland, most of whom came in over the last fifteen years. And in the last three years, the number of migrants has increased, not decreased. We've had no social conflict. We're more welcoming to migrants than most people in Europe, maybe because we've done so much of it ourselves. I believe that the migrants coming to our country generally enrich it. They work hard and make a contribution just as migrants, including the Irish, have always done.

Yet Ireland, which praised itself on being one of the most globalized countries in the world during the Celtic Tiger era, seems to be rediscovering the appeal of the political categories of 'sovereignty' and 'self-determination.'

I don't think it is! Ireland voted 60/40 for the Fiscal Compact. You tell me what other country in Europe would have voted 'yes' to the Fiscal Compact? Very few I suggest. Because it's too easy to portray it as a treaty for austerity. And that's the way it was portrayed. But Ireland still voted 'yes.' The Irish people, I think, can make discerning judgments. The reality is that European integration actually increases our influence over our own destiny and therefore, in a way, our sovereignty.

I believe that after the next general election, there will still be a fair majority for rationality in the country. The measure of increase in those who say 'no' to Europe and are in denial about our condition depends on how painful things become. But at the end of the day, the Irish people have been consistently centrist in their politics.

To what extent, would you say, can the debt crisis jeopardize the future of the European project?

It is undoubtedly causing change. However the debt crisis was primarily the result of national policies. But the people of Europe, both in the core and the periphery, still support the euro. There is nowhere a desire to leave it. The risk of contagion, however, remains very high if any of the peripheral countries

becomes totally politically unstable. At this moment, particularly as a result of Mr Draghi's initiatives around bond support, the OMT (Outright Monetary Transactions), the markets are beginning to feel more secure about the euro's future. For myself I believe that it will survive and I have some sympathy for Mrs Merkel's efforts. She is trying to solve in a lasting way the problems of a continent and to bring her people with her. This is not easy but it is, I hope, at a stage where we may begin to see real progress. The basic issue is that Europe cannot survive in a globalised world without being competitive. Nor can it survive with accumulating debt.

How do you assess the way in which the crisis has been dealt with at European level?

It is understandable that, for a period of time, the 'programme countries' should be required to make structural adjustments, and a sword of Damocles also inevitably had to hang over everybody's head until the Fiscal Compact was agreed. It was understandable that both the commitment to restructuring and the commitment to future discipline had to be accepted before any principle of debt mutualisation could be seriously advanced. But this issue of mutualisation will not go away. It should be accepted that, in a way, the ECB is in fact providing some degree of mutualisation now by taking risk onto its balance sheet - which is ultimately in significant measure onto the balance sheet of the *Bundesbank* and the central banks of the other core Member States.

When you get to a certain stage of danger as we are now, you have to find mechanisms, firewalls and protections against contagion. I am worried that not quite enough has been done yet. The redemption bonds, for example, are an idea which the core countries should be prepared to accept. It is a complicated, but understandable, mechanism allowing for the mutualisation of certain debts on certain conditions, which would allow us to move forward.

Also, the ECB has been and should continue playing a very important role. Some interventions by the President of the *Bundesbank* have not been helpful in this regard. Fortunately these views have not been supported by Mrs Merkel.

What are your views on the deal the Irish government tried to secure in the wake of the June 2012 euro area summit, as regards the use of the ESM for legacy bank debt? Do you understand Germany's rejection of that principle?

I believe that the use of the ESM for legacy bank debt should be allowed in one way or another.

Do you think that Ireland is going to have to make concessions in relation to its corporation tax rate as discussions on fiscal harmonisation are moving forward?

No.

Why are we talking about corporation tax only? What about the subsidies that richer countries have pumped into their industries for years? Also, if there were to be harmonisation in one tax, it should apply to all others. They all affect competitiveness. I do not see tax harmonisation as feasible.

Ireland was an agricultural economy effectively until the 1960s. It was more or less kept that way by the lack of access to markets for its industrial products, and a certain import-substitute mentality that existed in post-War Europe in many places. So this poor country, situated on the Western edge of Europe, with a GDP per capita which was below 70% of the EU average, an enormous and constant emigration problem, no industrial policy and no natural resources other than agriculture and rain, had to find something to attract industry. And what it found was that it had an English speaking population that was relatively well educated, and a significant diaspora, particularly in the United States, with a special relationship with their country of origin. The potential to attract Foreign Direct Investment was considerable, and the government decided for that option because they didn't have the money to pump into state industries, which was the norm in much of continental Europe. They couldn't subsidize directly, so they did it through tax. And that very significantly improved the attraction of the country. It is an issue which is of considerable and direct importance to the Irish people.

But do you think that this position is nowadays compatible with the talks about fiscal harmonization, and the discussions on the Common Consolidated Corporation Tax Base (CCCTB), which the Irish Presidency is going to have to lead?

All of this talk about fiscal union is undefined. Nobody knows what it finally means. All we need, that is consistent with subsidiarity, is a functioning Fiscal Compact and oversight system including budget review allowing governments to raise taxes in the way that they think is appropriate, but also, importantly, it being required that they live within their means. If you start saying that tax raising in particular areas, or the spending of national resources, has to be done in exactly the same way throughout the European Union, the European Union will not survive. The changes required will never be agreed.

And do you think that the notion of ‘political union’ is better defined?

We are on a journey to an undefined destination but one that moves us towards increased federalism. I’m a federalist who believes in subsidiarity. Therefore, on broad issues, such as defence, monetary policy, trade policy, development policy, I would be in favour of joint decision making and acting together as one. We already do so in trade policy and competition policy for example. But in the area of culture, of social systems, education, all of these things should remain national.

If you were to do an exercise in prospective: what do you see as possible scenarios for the future of Ireland in the EU?

I know what I hope. I hope that we are genuinely at the core of Europe. We should be in Schengen and fully participating in Justice and Home Affairs. Unfortunately the British opt outs have enabled us to stay out of vital areas, and in the case of Schengen, virtually require us to do so. I understand why but I would hope that we can do more rather than less in the Justice and Home Affairs area and fully participate in all areas of integration. We should not be a reluctant follower.