High Noon for Social Europe

It is a great pleasure to welcome this Mid-Term Conference of the ETUC to Dublin.

The conference theme 'High Noon for Social Europe' is well chosen. The self-defeating impact of austerity on growth, when interest rates are close to zero, must be evident to all but the most irredentist liberal ideologues.

We are meeting today in Dublin Castle which was for centuries the seat of British administration in Ireland. While the history of the relationship between our two islands is sometimes contested – thankfully nowadays only on the football field - it can be said with certainty that the Troika has managed to inflict proportionately more damage on Ireland's economy and society in four years than Britain ever did in eight hundred years.

But the case against austerity is building steadily. The ETUC's argument for a Social Compact received a strong boost in a recently published book by the German Sociologist, Ulrich Beck. He makes the point – perhaps an obvious one to us but less so to others – that the problem created by a purely economic analysis of the European financial crisis is that it neglects the more crucial question of a European society.

In this Beck was following the great Hungarian Socialist, Karl Polyani, who held that the idea of an self-regulating market economy was an unachievable utopia. As he famously put it, 'Laissez-faire was planned'. He believed that the economy must always and everywhere be embedded in society and not the other way around.

How far Europe has drifted from Polanyi's concept of the natural order can be gauged in the existence of an unemployment rate of 12.3 per cent – 24 per cent for young people – coexisting with a situation where corporate Europe is sitting on an uninvested cash pile of €7 trillion. Moreover, as we have seen in recent weeks, many of these same corporates have developed the most complex and sophisticated systems for tax avoidance.

An article in the Guardian newspaper last Tuesday opened with the following observation:

> '*Economic prosperity and social progress are key European Union goals. But for the past five years it has delivered neither. It has been in double dip recession since mid-2011, with unemployment now at a record high of 11% and no tangible improvement in sight…the reality of today's Eurozone is far too many people out of work, falling internal demand, increasing polarisation within societies – and a chasm dividing relatively prosperous core countries from a periphery destined for depression'.*

What a damning indictment of the policy of austerity. The extraordinary thing is that it was not written by a trade union representative, or an economic commentator, or a social activist, or even a journalist. It was written by a member of the European Commission, Laszlo Andor and co-authored by Joan Burton, Ireland's Minister for Social Protection.

Those of us who know these people might not be terribly surprised by their views. But even President Barroso has in recent weeks opined that austerity has reached the limits of political acceptability. This notwithstanding that he wrapped up the social summit in March by declaring that the Commission would not recommend a stimulus to the European economy.

The truth of course is that austerity is now no more than a mantra without meaning. The intellectual underpinning for it has been discredited. A spread sheet flaw was found in Rogoff and Reinhardt's much cited paper 'Growth in a Time of Debt' which had argued that Government debt above a critical threshold of 90 per cent can become a substantial drag on the economy. This was always at variance with the evidence anyway. Italian public-sector debt in 2002 was 105.7 per cent of GDP and no one cared. In 2009, it was almost exactly the same and everyone cared.

As well as that the IMF has admitted that it underestimated the multiplier effects of cuts on the real economy and that capital controls in some circumstances may be appropriate. As we now know that became a reality in Cyprus.

Again common sense dictates that we can't all be austere together. If a country's public and private sectors are paying back debt at the same time, then the only way that country can grow is by exporting more. But if everyone is trying to do the same we can only succeed if we establish trading relations with the people of Mars. This is the fallacy of composition, thinking that what is true of the individual parts is true of the whole. That is why the commonly used analogy of the household budget and the economy is such nonsense.

It also shows how much of an oxymoron the policy of 'growth friendly fiscal consolidation', concocted at the G20 in Toronto in 2010 really is.

Even the *Financial Times* accepted in an editorial last Friday that, 'The case for a simultaneous contraction of fiscal policy in Eurozone Member States was based on a misdiagnosis of the crisis'.

The biggest lie of all is to suggest that the crisis is due to excessive Government spending. In fact average OECD debt before the crisis was going down, not up. What happened was that banks promised growth, delivered losses, passed the cost on to the State, and then the State got the blame for generating the debt, and the crisis, in the first place, which of course must be paid for by expenditure cuts. The banks may have losses, but the citizens will have to pay for them.

Ireland is the most egregious example of this in Europe. Before the crisis we had a net public debt of 12 per cent, now it is ten times that amount. It cost €64 billion to bailout the banks and my grandchildren will spend their lives trying to pay off that debt.

The truth about EMU is that, absent the facility to devalue, and in the event of a macro-economic shock, the whole burden of adjustment falls on workers. There is no social institution to balance the power and independence of the ECB. Paradoxically, the fact that social policy remains a national competence creates a collective action problem for member states. Unless there is a serious attempt at institutional reform the problems we now face will not be capable of resolution.

If you have the time during your visit to stroll down through the city, you may notice in the main thoroughfare, opposite the General Post Office, a fine bronze statue of James Larkin. He was the leader if the ITGWU which in 1913 engaged in an epic four month struggle with the organised employers of Dublin to establish trade unionism in the city. It was a seminal time in history of the Irish Labour Movement and we are celebrating the centenary of those events this year.

During the Lockout the Dublin Workers and their families were able to survive only with the support of the British TUC.

Ultimately the workers were starved into submission and the union movement was routed. But in time it was able to rebuild and carry on its work.

There are two lessons which we can all draw from our labour history.
One is to recognise that solidarity is the cement that binds us together. The other is that no crisis, however severe, lasts forever.

Indeed, that loud screeching noise coming from Brussels last week was the sound of a bandwagon going into reverse. The Eurozone has suddenly backed up in its approach to the financial crisis. Before it was all about cutting budget deficits. Now Member States are to be allowed to overshoot the 3 per cent target. But of course they still want structural reform of the labour market – a euphemism for giving employers the right to sack workers and cut wages.

Still they know the game is up. Having virtually wrecked the European economy and created a lost generation of young European citizens, they are beginning to realise that there is a tipping point. A recent report from the respected Pew Research Centre showed a dramatic collapse in support for Europe across nearly all countries. This is the manifestation of Polanyi's second thesis; that a history shows that there will eventually be a countermovement by workers against economic conditions which oppress them.

The great dilemma confronting the European elite now is that, to save the European project, they must embark on the most ambitious phase of integration yet attempted in circumstances of growing public hostility to the idea.

So now is the opportunity for the ETUC to press its case for an alternative approach.

Now is the hour to push for social investment and the construction of institutions of the social market economy to balance the power and independence of the ECB.

Now is the critical juncture to seek a commitment to the mutualisation of debt.

Now is the time to demand nothing less than the reflation of the European economy.

Gramsci once wrote that:

'Crisis consist precisely in the fact that the old order is dying and the new cannot be born'.

The historic task of our generation is to be midwives to the birth of a new more socially just Europe. The social compact is an idea whose time has come.

I hope that you will enjoy your stay in Dublin.