People’s News

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The Lisbon Treaty is creeping in!

Spanish Prime Minister Zapatero has said the EU’s new 10-year economic plan, set to be agreed over the coming months, should have binding goals and ‘corrective measures’ for member states that do not comply. He also suggested that the European Commission be given new powers to police the fledgling plan, currently known as the 2020 Strategy. The Lisbon Treaty provides for unspecified penalties, the range of which is likely to be expanded incrementally using the EU method; change is steady and slow so that the political impact is minimised and reaction muted.

‘It is absolutely necessary for the 2020 Economic Strategy ... to take on a new nature, a binding nature’, said Mr Zapatero. The Spanish leader suggested that potential penalties could include cutbacks in payments from the EU budget. The calls for greater and more co-ordinated European efforts to tackle the ailing economy stand next to Spain's domestic situation, where, like in Ireland, years of rapid expansion ended abruptly with the onset of the financial crisis and the implosion of the country's property bubble.

‘Our main aim is to introduce a qualitative leap in our economic union by means of new common policies’, he said, pointing to the need for a greater role to be played by the commission. ‘The Lisbon Treaty allows for more co-ordination, and for that to be truly effective, we need to equip the European Commission with new powers.’

EU President, Van Rompuy has meanwhile said that the bloc's ‘long-term outlook is not bright’, citing severe industrial decay in the wake of the deepest European recession since the Great Depression adding that the lingering effects of the crisis may include a drop in investment on a ‘permanent basis’ and higher ‘structural’ unemployment, adding that western Europe risked losing its industrial base. ‘Germany is the exception, but the Benelux countries, Italy and the UK are de-industrialising rapidly’, he said.

Lest we forget!

Outgoing EU Internal Markets Commissioner Charlie McCreevy has still made no public comment over how he obtained a €1.6m loan on a €1.5m apartment from a building society that did not provide 100% mortgages at the time. McCreevy will be entitled ‘to generous pensions and allowances’ when he leaves Brussels.

So much for EU competition policy!

SR Technics which recently made 1,200 workers redundant at Dublin Airport has moved its operations to Malta – a move announced by the government in the immediate wake of the announcement of

Budget 2010. SR Technics' closure of Dublin base was 'part of restructuring process' and the government was not worried about the investment coming Malta's way', Maltese Finance Minister Tonio Fenech said (*Times of Malta*, 27 November 2009).

SR Technics

In November, SR Technics signed an agreement with Malta Enterprise and Malta Industrial Parks through which the Maltese authorities would construct €40 million four-bay maintenance hangar and respective workshops that would allow the company to carry out base and heavy maintenance services on narrow-body aircraft. It is hard to believe that such funding from the Maltese government does not violate EU competition rules. But then, we have the example of Dell in Limerick moving to Poland and enjoying generous grants of up to €14 million In early 2009, concerns were raised in Ireland about the manner of the winding-up of SR Technics' facility at Dublin airport, and that Swiss government funding was used to facilitate that winding-up.

SR Technics is due to begin operations in an existing hangar at the airport in 2010 until the new facility opens in early 2012. The operations are expected to create up to 350 new jobs in Malta by 2014 and have the potential to create some $1.6 billion in revenue streams. In addition to construction work, Malta Enterprise and Malta Industrial Parks are to support SR Technics with the setting up of the local infrastructure, while they will also cooperate in the areas of employee education and training, mainly through the Malta College of Arts, Science and Technology, and the Employment and Training Corporation, in close collaboration with SR Technics' own training organisation.

The company left a deficit of just under €26 million in its pension fund. In so doing, it ignored the recommendations of the Irish Labour Court, which recommended fully funding the pension scheme. As far as is known, this is the first time ever that a company has ignored the Irish Labour Court's recommendations. The deficit in the pension fund is expected to leave future pensioners with about one third of what they would normally have received on retirement. Nevertheless, the Dublin Airport Authority – a state company – paid SRT €20million to buy back a hangar lease; a sum that should have been held to offset the pension deficit.

To add insult to injury, Aer Lingus – a company with 25% state holding – has placed its maintenance contract worth over €100 million a year with a French company, further denying jobs at Dublin Airport and losing the country valuable engineering skills in the heavy maintenance area through attrition.

The People's Movement submission to the consultation on the reform of the Common Fisheries Policy

The People's Movement submission to the consultation on the reform of the Common Fisheries Policy may be read at:
http://ec.europa.eu/fisheries/reform/consultation/received/index_en.htm
Scroll down to 'unregistered organisation'. You will find the People's Movement contribution under that heading.

By 2015, Iceland will almost certainly be a lot better off than Ireland!

By 2015, Iceland will almost certainly be a lot better off than Ireland because it dealt decisively with its banks, according to **Morgan Kelly** in the *Irish Times*. While things are hard to predict, the future, especially the situation of the Irish economy, is so stark that even an economist can make some predictions that stand a chance of being right, he said.

A protest against evictions in York Street, Dublin in 1964: Mass mortgage defaults and foreclosures could lead to an increase in homelessness by 2015: Photograph: National Library of Ireland

He pointed out that two ghosts of Christmas will haunt Ireland in 2015: jobs and debt. For 20 years, the Irish economy experienced extraordinary growth. Unfortunately, this growth came from two separate booms that merged imperceptibly into each other. First we had real growth in the 1990s, driven by rising competitiveness and exports. However, after 2000 competitiveness collapsed, and growth came to be driven by a lending bubble without equal in the euro zone. As Finfacts (www.finfacts.ie) has pointed out, of the half million jobs created in the last decade only 4,000 were in exporting firms; and fewer people now work in IDA-supported companies than in 2000. The Irish economy has been faking it for a decade.

Now that the property bubble has burst, people hope that exports will once again become the engine of our salvation. The problem is that, back when we were becoming rich by selling houses to each other, we priced ourselves out of world markets. Wages have risen by one-third here compared with Germany since 2000. Restoring competitiveness will be an arduous task where nobody, outside the banks and ESB, will see a pay rise for a decade, and whether desirable or otherwise, leaving the euro is not possible at the moment for a mundane reason. Changing currencies takes a lot of organisation, as we saw when the euro was introduced. If the government announced that a new Irish pound would be introduced in 12 months, everyone would rush out to withdraw their savings in euro and wipe out the banks.

Prolonged mass unemployment is a disaster not only for its victims, but for all society. The Harvard sociologist William Julius Wilson showed how the disappearance of low-skilled jobs in the US during the 1970s led to the social collapse of black ghettos. In Ireland for the last 20 years we saw this process working in reverse, as rising employment turned what had been sink estates into decent, if not wonderful, places to live. Finding a job does more for the disadvantaged than a legion of social workers: people's sense of self-worth is transformed by being able to earn the money to do ordinary things like own a car, buy toys for their kids at Christmas, and take their family on holiday.

While many commentators argue that the benefits of the Celtic Tiger flowed exclusively to the wealthy and connected, this is nonsense. The benefits went overwhelmingly to ordinary people in the form of something that Ireland had never seen before: abundant jobs. By 2015 we will have seen what happens when jobs disappear forever, particularly from less educated men who were able to earn a good living in construction. In effect, Ireland is at the start of an enormous, unplanned social experiment on how rising unemployment affects crime, domestic violence, drug abuse, suicide and a litany of other social pathologies.

We will be forced to discover the consequences when people, who had worked hard to make decent lives for themselves and their children, find themselves reduced to nothing. Less than nothing in fact because, unlike the unemployed in the past, people now losing jobs are weighed down with debt and facing the terrifying prospect of losing their homes.

Debt will be the second ghost of Christmas 2015. Back in 1997, when exports drove real growth, Irish banks lent little by international standards. By 2008, Ireland had twice as much debt for its size as the average industrial economy: banks were lending a third more to property developers alone than they had been lending to everyone in Ireland in 2000. It was this tidal wave of credit that inflated house prices and launched the construction boom that drove wages and government spending to unsustainable levels.

Anglo Irish Bank
Ireland

To fund this suicidal lending, Irish banks borrowed heavily internationally, and now must pay it back fast. As Irish bank lending returns to ordinary international levels, property prices will fall by at least two-thirds from their peaks. However, five years from now, property prices could have been driven far lower than that by a deluge of sales of unsold, foreclosed and abandoned homes. Mass mortgage defaults caused by unemployment and falling house prices are the next act of the Irish economic tragedy. As well as bankrupting our worthless banks all over again, the human cost of tens of thousands of families losing their homes will be enormous but, because the government has already exhausted the State's resources taking care of developers with Nama (National Asset Management Agency), there is very little that can be done to help these people.

Most people, of course, will not lose their jobs and homes. However, even they will be forced painfully to relearn something our parents already knew: beyond a small mortgage, debt swiftly turns into pure poison that will eat away your prosperity and happiness. One response to large-scale home repossessions that will be attempted is to buy ghost estates for public housing to accommodate evicted home owners, providing ample opportunities for good old fashioned petty corruption.

For grand corruption, though, we will have to look to Nama. By allowing the banks to dictate the terms of their bailout, the bank rescue was turned into the most lucrative and audacious Tiger Kidnapping in the history of the State, with the difference that, like the sheriff in Blazing Saddles , the bankers held themselves hostage.

Bad banks like Nama were tried on a large scale in the early 1930s in the US, Austria and Germany; and proved to be profoundly corrupt and corrupting institutions, whose primary purpose was to funnel money to politically connected businesses. The German bank is best remembered for setting up what we would now call a special purpose vehicle to fund the presidential election campaign of the odious Paul Hindenburg.

Bad banks do not just happen to be corrupt and anti-democratic institutions, it is what they are designed to be. Effectively, bad banks give governments the power to choose which of a country's most powerful oligarchs will be forced into bankruptcy, and which will be resuscitated to emerge even more powerful than before. Nama will get to pick which of the fattest hogs of Irish development will be sliced up and fed, at taxpayer expense, to better connected hogs (remember that Nama has been allocated at least €6.5 billion, considerably more than the government saved by draconian budget cuts, to "lend" to favoured clients).

While Nama may have momentous political consequences, it has already failed economically: the Irish banks are still zombies, reliant on transfusions of European Central Bank funding – as interest bearing loans – to survive until losses on mortgages and business loans finally wipe them out. In the next few months we will discover if the State bankrupts itself by nationalising the banks; or if it has the intelligence to free itself from bank losses by turning the foreign creditors of banks into their owners, as Iceland has just done with Kaupthing bank.

Morgan Kelly is professor of economics at University College Dublin

'Withdrawal and expulsion from the EU and EMU: some reflections' – December 2009

An ECB legal working paper looks at the possibilities of member states leaving the euro and notes: 'Dissatisfaction with the single monetary policy could start to grow in the peripherals by the end of next year, making the prospect of exiting monetary [union] more tempting'. Do they know something we don't know?
ECB Working paper

Social Affairs Commissioner says Commission will revisit EU working time rules

Incoming EU Employment and Social Affairs Commissioner Laszlo Andor said that there was a 'compelling case to revisit' the EU's Working Time Directive, negotiations on which collapsed last year over MEPs' attempts to remove the UK's opt-out from the 48-hour week. When asked about various member states' opt-outs from the Directive, he said that 'The opt-out itself is not an abuse. I think the opt-out is a reflection of different realities in different member states and we have to take that into consideration when the discussion next comes up.'

However, he also said that 'Since we have economic and monetary union, I think that opt-outs are, in general terms, never the best solution. We always have to think first about what rules can be or in principle could be applied in every country.'

European Voice notes that Andor conceded that there was a 'fundamental problem' with the interpretation of the directive on the posting of workers. He promised to undertake a thorough impact assessment before revising either directive – but he also stressed that existing directives should be transposed into national law and properly implemented.
OE research: Working Time Directive
OE research: Posted Workers' Directive

50% of nurses say EU's Working Time Directive puts patients in danger

A survey of nurses carried out by the Nursing Times on the impact of the EU's Working Time Directive has revealed that nurses are being required to take on greater responsibilities as a result of the Directive's restrictions on junior doctors' hours. The WTD restricted junior doctors' hours to 48 hours a week from 1 August 2009.

Half of the nurses surveyed said patients were being put in danger due to the Directive, compared with 39 percent who said they were not. 71 percent said the additional work had left them with less time to carry out basic nursing duties, while 70 percent said it had led to gaps in medical cover. Nearly two thirds (64 percent) said it had led to greater pressure and expectations on nurses to make clinical decisions, while 41 percent said they were uncomfortable with the level of responsibility they had taken on.

Meanwhile, the *Irish Medical News* reports that the Irish Health and Safety Executive has received support from other member states at a recent European hospital association meeting, to raise concerns about the implications of an ECJ ruling in January 2009, and seek further clarification from the Commission in relation to the difficulties of implementing the judgment. The ruling said that employees on long-term sick leave are entitled to annual leave they have been unable to take, basing its decision on a clause in the WTD.
Nursing Times *Irish Medical News*

Spain calls for single EU voice in UN

Diego López Garrido, Spanish Europe Minister, announced yesterday: 'the central objective is to make the EU a powerful global actor in the world, with a single voice on political and economic issues, in the international forums, in the United Nations and in the G20'. *ABC* reports that Lopez 'considers it necessary to create common spaces of interest, like the area of justice, so that a citizen feels that if they go to another country, their civil rights will go with them'.
Open Europe briefing: Spanish EU presidency

Dutch citizens are highest net contributors to EU

Dutch MEP Daniël van der Stoep has revealed that Dutch citizens were the highest net contributors to the EU in 2008, contributing €266.70 per head. They are followed by citizens from Sweden, who each paid €194, Denmark who each paid €135, and Germany who each paid €133.
Dutch News

Keenan follows Mc Williams in calling for new look at euro

Brendan Keenan writes in the *Irish Independent* that, ten years on from its introduction, it is time to discuss the implications of the euro for Ireland. He argues, 'The unpalatable fact is that membership of the euro was the mechanism for our extraordinary bubble, and made the inevitable burst even more damaging ... Could better policies – devised specifically for euro membership – have averted catastrophe? Until we have decided the answer to that, we cannot
make rational decisions about the country's long-term strategy.'
Irish Independent

Privatization, monopolies and infrastructure – where do our interests lie?

The privatisation of our infrastructural systems is a mistake. It removes a control over our economic destiny from the government and does not lead to cheaper services. Infrastructural systems such as gas and water that use pipes, telephones and electricity that use transmission lines, and transport that uses rail and road are monopolies. If you sell them you get private instead of state monopolies.

The State has real control over a state company, but very little over the private sector. The strategic importance of this is illustrated by the example of Eircom. Thirty years ago we had a poor telephone system, so the government decided to replace it by the most up-to-date system available. The order was given and was implemented. Twenty years later the IDA could still boast of our first-class telephones. Some years ago a similar decision was made in favour of having a broadband system and the talk was that we could become an E-hub for Europe.

But dealing with private companies made this difficult. The government had to pay firms to bring lines to this country. Firms like Eircom that made promises to provide the service failed to do so. When NTL bought Cablelink they stated that they would upgrade the system so as to provide broadband via their cable network. Now they say that they have not done this, as it would cost too much. The government is paying firms (€69 millions) to put a network in 19 towns around the country. Backbone networks are being built by the semi-state Board Gais and the ESB. Without them the government would have had to give more money to the private sector to get them to do the job. We had hopes of being an E-hub, but with the private firms waiting for a hand-out before doing anything, plus the prices they charge even where there are some services available, it is almost certain that this will never happen.

The EU Directive lays down that all monopolies should be broken up and that competition should replace them. In relation to the infrastructural monopolies this is unreasonable. The break-up of a monopoly into several firms does not get rid of the monopoly. England did this with its rail system. The result was firms that were local monopolies in their own areas proved to be more difficult to regulate than a national monopoly.

Trying to introduce competition into systems by letting several firms use the same infrastructure raises a host of issues as to who will pay how much for what rights, etc. The price the customers have to pay should decide these matters, but it is the profits the private firms are allowed to make that decide what, if any, services are provided. Because of this, politics, pressure groups, etc. are an important factor in the agreed pricing. I see this as a political rather than a free market outcome. In Ireland we appoint Regulators to keep a check on pricing, standards and the like. In a small economy like ours it is not reasonable to make comparisons between our national system and comparable systems in other countries, rather than trying to establish several small entities from our system and making comparison between these. Comparisons can be very instructive. We recently made one between our proposed metro and the building of the Madrid metro. It was found that our labour costs were double those of Spain and our materials were even dearer – two and a half times dearer. If action is taken as a result of such comparisons, then that can be classed as real competition.

We should tell the EU that our regulators are ensuring that price competition is active and that privatisation is neither necessary nor reasonable to achieve competition in our small economy so far as infrastructure is concerned.

Does privatization lead to cheaper services as claimed? The normal results of privatisation are a reduction of staff numbers and a huge increase in management salaries, especially in the salary of the chief executive, who may expect an increase of up to ten times his/her previous salary if things go smoothly. The work the staff used to do does not disappear. It is outsourced. It is done as contract work or by temporary staff. If the people working in the outsourced area are counted with the remaining staff, it will be found that there is very little reduction in total staff numbers employed. If there is a sizable reduction, then services that were previously given to customers are no longer being provided.

Outsourced work costs the firm less as there is no pay for sick or holiday leave. In a slack period employees are not working and so they are not paid, and of course there are lower pension costs. As there are 'no free meals' in this world, who pays for this? The taxpayer does via the dole and government-provided social welfare pensions etc.

The savings listed above usually result in the shareholders getting a dividend and management a bonus, but not the consumer getting cheaper services. Only by reducing the dividend or the bonuses will the customer or consumer benefit. This will only happen if the Regulator is in a position to bring strong pressure to bear on the firm. In reality the Regulator is seldom in a position to do this.

If you have bought a system and inflation means that you must seek a price rise from the Regulator, your bargaining position is not weak. If the Regulator refuses a price increase you reduce maintenance costs as far as possible and don't upgrade the system. This will save enough, so that you still show a profit and can afford to pay dividends and bonuses. This process can go on for many years until the system is on the point of complete breakdown. The executive should then go on pension, giving himself a golden handshake. His successor can then go to the government and say, pay us to rebuild the system or you will have to take it over and run it yourselves. Dublin Gas is an example of a firm taken over by the government due to the failure of its system.

Is Eircom going down this road? They handed out 500 million as a cash bonus to their shareholders this year. It is difficult to reconcile this with a good communications system. It is not cheap on the taxpayer if at some future date, he has to pay billions to build up Eircom once again.

Another way in which privatization is expensive for the ordinary consumer is that when it is decided that privatization is to take place, it is necessary to show that the firm being sold is making plenty of profits. People will not buy shares in a business that is not going to pay them large dividends. Think of the complaints about Eircom shares. To ensure the shares are bought when they are placed on the market, the price charged for the firm's services will be greatly increased before privatisation. This happened to Electricity in Northern Ireland and as a result that area had the distinction of having the dearest electricity in western Europe. In the last two years the ESB has had several raises in price and now instead of being one of the cheapest providers of electricity in the EU, its price level equals the EU average. A few more electricity rises and McCreevy should get a good price for the ESB. But if anyone thinks this is good for the consumer they are wrong. Big business thinks so and has reason for doing so. They are in the position to build their own generators or threaten to do so and thereby get special deals. The ESB had a report at the start of the talk on privatization that said the price to the ordinary householder would have to increase by 20% so that cheaper rates could be given to large customers, who would be in a position to go elsewhere unless they got special deals. So for the ordinary person privatization and infrastructure provision costs extra now as a consumer and will cost extra later as a taxpayer.