Ireland pushes for debt restructuring to avoid second bailout

Jordan Shilton
30 March 2012

Dublin is pushing for an agreement with the "troika" of the European Central Bank, European Union and International Monetary Fund to allow it to restructure a portion of its debt. The drive is animated by mounting concerns that Ireland will not be able to re-enter financial markets before its current bailout programme ends next year and will require a second bailout.

The aim of the deal would be to secure the interests of the banks and financial institutions at the expense of working people, who would confront a further intensification of austerity.

The €85 billion (US$113 billion) package from the troika agreed in 2010 expires late next year, meaning that Ireland would have to be in a position to return to the markets by the end of 2012 or early 2013 at the latest. A recent IMF report said that this was not a likely scenario and supported calls for an organised restructuring of the debt.

Initially the EU publicly rejected any alteration to the debt repayments, with economic and monetary affairs commissioner Olli Rehn insisting that the Irish government must stick to the timetable. But this position appears to have been softened somewhat with the proposal to cover the payment by issuing a long-term government bond.

European leaders are increasingly concerned about a renewed outbreak of market turmoil across the continent. The borrowing costs on Spanish government debt have begun to rise once again, prompting Rehn and other officials to call for the expansion of the EU's permanent bailout fund at the conference in Copenhagen at the end of the week.

The negotiations with Ireland relate to over €30 billion ($40 billion) the state owes to the failed Anglo Irish Bank (AIB), which it bailed out in 2008. A payment of €3.1 billion is due at the end of this month, with the rest being paid over a 20-year period at an interest rate of over 8 percent. The total sum, including interest, amounts to over €47 billion. Dublin is calling for a lengthening of the time it has to pay, with the longer-term government bonds it has proposed issuing running over 40 years at a lower rate of interest.

The proposal was endorsed by the *Financial Times* in an editorial entitled, "Let Ireland succeed".

Calling on the troika to accept the restructuring, the FT wrote, "This would not threaten the sovereign assumption of bank debt—which was foolish but cannot be undone—but it would allow Dublin to service it when the economy will hopefully be growing again."

Such fond hopes have little basis in reality. Most economists have been compelled to recognise that Dublin faces at least a decade of ongoing austerity, with any belief that the cuts would come to an end after the planned reduction of the budget deficit to 3 percent of GDP in 2015 being dismissed.

Restructuring the debts to the bailed-out banks would necessitate a further intensification of spending cuts. As has been seen in Greece, it would be impossible to carry out such unpopular measures through democratic means.

A second bailout from Ireland would have to come from the newly established European Stability Mechanism (ESM), the permanent rescue fund set up through the adoption of the recent fiscal compact negotiated by European leaders. But in Ireland the acceptance of this treaty is dependent on a referendum likely to be held in the summer or autumn of this year. Politicians hope that announcing a debt restructuring and presenting it as "relieving" the burden on ordinary people would help to gather public support behind the EU deal.

The reality is that any debt restructuring and additional bailout funds would place Ireland even more directly under the dictates of international finance capital. The object would not be to relieve the burden on working people, but the intensification of the push to secure the repayment of the gambling debts of the banks by squeezing even more out of the working class.

Achieving deeper cuts in state spending on top of the €25 billion already cut over the past four years has been the subject of growing debate in ruling circles. The focus has been on the need to revise or even eliminate the Croke Park Agreement, which was drawn up together with the trade unions in 2010. The agreement committed the government to limit compulsory redundancies in the public sector, while the unions accepted a wage freeze for four years, a strike ban and no new hiring across the public services. The claim by the unions that Croke Park has prevented pay cuts for public sector workers is a lie, since the agreement permits the elimination of allowances paid to many workers with the result that many have seen significant reductions in their pay packets since 2010.

Now, however, still greater attacks are being drawn up. The unions have done nothing to warn their members of what is being prepared. They are instead seeking to convince the government of their effectiveness in imposing the dictates of the financial elite. The Irish Congress of Trade Unions presented figures to the Irish parliament that boasted of over €680 million of savings from 2010 to June 2011. The report noted the vital role the agreement played in allowing such savings to take place without "industrial unrest."

Despite this, an article entitled "Economy is suffering pain of 'ulcer covenant'" in the *Irish Independent* by Mark Coleman denounced the limits imposed on the government by the deal. Describing the possibility of reaching a deal on debt restructuring, Coleman wrote, "Before the ECB can agree to this, it will want to see low-hanging fruit eliminated first. Despite a majority of voters opposing the Croke Park deal, touching it is still seen as forbidden fruit rather than low-hanging fruit. By the time it can be changed, 2014, it may be too late."

Another article in the *Irish Times* bemoaned the restraints placed by Croke Park on the wholesale privatisation of public services. Writing on the jobs crisis, it called for the privatisation of the welfare system. With so many out of work and on benefits, "private firms specialising in recruitment and personnel should be contracted to provide these services." But this could not be done since "the Croke Park agreement cossets the public sector. In effect, those with secure jobs are stymieing efforts to help those with no jobs get back to work. That is a travesty."

As well as securing a windfall for private firms who would make millions from government contracts in this area, the privatisation of welfare would lay the basis for the further slashing of benefits that would leave thousands more destitute.