Irish debt deal means decades of austerity to cover bank bailout

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Ireland's Fine Gael-Labour coalition announced an agreement with the European Central Bank (ECB) last week, ostensibly designed to remove the "promissory note" payments to bail out the failed Anglo Irish Bank.

In reality, the debt reorganisation means that the Irish population will take on responsibility for paying an even greater proportion of bank debt, which will be extracted through decades of austerity.

The debt restructuring agreement exchanged the yearly payment of €3.1 billion (US$4.2 billion) of "promissory notes" for long-term government bonds. The government had been due to make these payments over the next 10 years to the Irish Bank Resolution Corporation (IBRC)—the entity charged with managing the assets of the old Anglo Irish Bank.

Ending these payments required the liquidation of the IBRC, which was arranged by the state through a marathon night of parliamentary votes last Wednesday and early Thursday. The measure will cost at least 850 workers their jobs and will see the state assume full responsibility for the remainder of IBRC's debts.

In addition, the length of time over which the government in Dublin will repay the bailout has been increased. With interest included, the sum that will be paid to bondholders will almost double. As the *Wall Street Journal* bluntly stated, the agreement means that the population "will spend the next 40 years paying for losses run up by a failed private bank."

The move is a devastating indictment of the austerity policies dictated by the "troika" of the European Union (EU), European Central Bank and the International Monetary Fund (IMF) and willingly implemented by the entire political establishment since the outbreak of the crisis in 2008. More than €28 billion have been eliminated in government spending—close to 20 percent of GDP—through cuts to basic social services and tax hikes.

Similar measures have intensified the economic crisis across Europe.

Ireland's economy is stagnant, with an unemployment rate approaching 15 percent. The bank bailout has taken a terrible toll on the living standards of working people, costing an estimated €9,000 per person.

The pessimistic outlook for the euro zone as a whole has contributed to the grim projections for developments in Ireland over the coming period. The debt-to-GDP ratio is anticipated to reach 120 percent next year.

Investors have meanwhile seen profits rise exponentially. A recent *Financial Times* article estimated that Irish state debt had generated profits of 56 percent during 2012.

It is widely accepted that Ireland's debt position is unsustainable. The €85 billion bailout programme led by the EU, ECB and IMF approaches its end in the autumn of this year. The latest decision was taken with the aim of averting a state default but has done little to alleviate such concerns. Although the spreads of Irish state debt dropped somewhat on financial markets after the agreement was announced, leading to speculation that the government may seek to issue new bonds this week, none of the credit rating agencies altered their outlook on the country.

At least a further €32 billion in debts accrued from the 2008 bank bailout remain untouched as a result of the latest deal. According to EU officials, there is no prospect of Ireland being able to seek recapitalisation from the European Stability Mechanism (ESM), as retroactive payments are seen as unacceptable by several EU members, including the Netherlands and Germany. The *Irish Examiner* noted the comments of a

German government spokesman that "Germany rules out completely retroactivity, and we are not alone in this."

The chaotic manner in which the debt restructuring was announced reflects the mounting tensions within the EU as the economic crisis deepens. The ECB refused to confirm that it supported the agreement. The bank's chief, Mario Dragghi, merely observed last Thursday that the governing council "took note" of Ireland's actions. The existence of the proposal had been revealed only 24 hours earlier by a leak to Reuters after a meeting between Irish finance minister Michael Noonan and the ECB.

The story prompted an emergency cabinet meeting in Dublin at which the liquidation of the IBRC was decided. Both chambers of parliament sat throughout the night, with the Dáil (lower house) voting the bill through at 3 a.m. while the Seanad (upper house) assented to the proposal at 5 a.m. Thursday morning. Such was the rush to adopt the legislation that many lawmakers noted that they had no time to read the 58-page document, and it was acknowledged that some of the provisions contained within it may breach the Irish constitution.

The government sought to implement the legislation for the liquidation of the IBRC and announce the deal before the European and US stock markets opened on Thursday. Another major consideration at work in rushing through the deal was the broad opposition within the Irish population to bailing out the banks. In spite of a campaign by the main parties and the media hailing the deal as a great success, around 50,000 people took to the streets in cities across Ireland on Saturday to protest against austerity measures and the bank bailouts. The numbers would have undoubtedly been higher were it not for the widespread discrediting of the trade union bureaucracy, which called for the demonstrations.

Jack O'Connor, head of SIPTU, which is one of the largest trade unions, did his best to confuse workers over the real nature of the debt restructuring. Speaking at the Dublin rally, he stated, "The jury is out on this deal. We anticipated a lower turnout because of it, but went ahead as planned because people clearly want to know what these agreements actually mean for them day-to-day."

In his speech to the Dáil unveiling the deal, Taoiseach (Prime Minister) Enda Kenny attempted to claim that it represented a step towards economic recovery. He declared, "It secures the future financial position of the state by reducing the burden on Irish taxpayers arising from the bailout of Anglo Irish Bank and Irish Nationwide."

Claims of a lightening of the burden on taxpayers are false. On the contrary, plans are under way to intensify austerity measures. The coalition is currently in negotiations with the unions to secure a further €1 billion in spending cuts before 2015. Kenny warned the unions that there could be "no sense of easing back on the situation facing us" in the aftermath of the debt restructuring.

Central Bank governor Patrick Hanohan dismissed any talk of altering course. Responding to the suggestion that if the debt burden had been reduced, then austerity could be implemented more slowly, he said he "certainly did not have in mind any sort of budgetary consequences."

Alan Barrett of the Irish Fiscal Advisory Council was more explicit. Any talk of easing off on austerity was unacceptable, he argued, stating that politicians would continue with "plan A". "They will have people like the Fiscal Council to answer to; the European Commission will have an input; and the Council has been arguing that our debt sustainability, even with this, is far from secured," he warned. "There may be an argument for using some of the extra billion to accelerate the pace of adjustment."