EU discusses restructuring of Irish and Portuguese bailouts to deepen austerity

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At their meeting last week, European Union (EU) finance ministers agreed in principle to examine ways to restructure the bailout programmes of Ireland and Portugal.

A statement declared that the troika of the European Commission, European Central Bank (ECB) and International Monetary Fund (IMF) would work out the "best possible option" to allow for the extension of the repayment of the emergency loans given to Dublin and Lisbon. A final decision could be made next month.

Despite all evidence to the contrary, the statement insisted that the move was not a sign of the failure of the bailout programmes to prevent the economic crisis from deepening in both countries. "Both programmes are on track and performing well despite challenging macro-economic circumstances," the statement claimed.

In fact, the decision came in the same week as figures confirmed that the contraction of the euro zone economy as a whole had accelerated at the end of 2012. Growth projections for 2013 from the ECB suggest a contraction of 0.5 percent. If realised, this would mean that for the first time since the introduction of the currency in 1999, economic growth would have declined for two consecutive years.

The bailout programmes have exacerbated the crisis whose origins lie in the breakdown of the capitalist system since 2008. Portugal is expected to suffer a third year of economic contraction in 2013, while Ireland's economic output remains stagnant with an unemployment rate of close to 15 percent. Public debt ratios in both countries are around 120 percent of GDP, with private debt in Portugal standing at 250 percent of GDP. Debts of this level are widely seen as unsustainable if access to the financial markets is to be achieved when the bailouts run out over the next year.

Officials are painfully aware of the danger of a renewed outbreak of financial turmoil, and the threat posed by growing popular opposition to the ruling elite. Proposing the restructuring of loans, Eurogroup head and Dutch finance minister Jeroen Dijsselbloem noted that changes were necessary in order to make "the transition to standing on their own legs a bit more gradual and less risky."

An *Irish Times* article warned of an "economic relapse" unless measures were taken to prevent "slippage," i.e., a slackening of the pace of austerity. Donal Donvan wrote, "Apart from the ever-present Greek problem, the anti-austerity message of the recent Italian elections, continuing adjustment fatigue in Spain and Portugal, and the new Cyprus bailout, all underline that there is a long way to go before stability is assured for the euro area. A continuing euro wide recession coupled with renewed financial instability could have serious repercussions for Ireland, especially since Ireland's debt burden remains the second highest in the euro zone after that of Greece."

The extension or restructuring of the repayment timetable will be aimed at deepening the social counter-revolution being imposed on working people and channeling even more resources into the hands of the corporate and financial elite.

During a visit to Ireland last week, IMF head Christine Lagarde stated that Dublin was "setting standards" in the implementation of its bailout programme, before adding, "there is still much work to be done."

The new standards which Lagarde hails have seen overall labour costs slashed by over 6 percent since the onset of the crisis, the elimination of more than 10 percent of public sector jobs, and the cutting of government spending for critical social services.

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The proposal to extend repayments would ensure that the troika could continue to impose budget cutting measures for years to come. The model for this policy is Greece, where the economy has contracted by more than 20 percent since 2009 and the country is in its sixth year of recession.

This was made explicit in a recently published report by Huw Pill, chief European economist at Goldman Sachs. The report noted that in Italy, France and Spain, budgets would “remain in deficit for most or all of the next 20 years.”

It continued, “Simply attaining our base-case scenario of debt dynamics requires that after half a decade of austerity, as growth returns and market pressure eases, no subsequent fiscal easing occurs.”

Ireland, which is due to repay around €30 billion (US$39 billion) of loans by 2020, which equates to approximately 20 percent of GDP, has already reached an agreement on another portion of its bailout debt which will ensure that working people will carry the full burden for the country’s failed financial institutions, with on-going loan repayments over the next 40 years.

The restructuring of the bailout agreements was part of a broader discussion on budgetary policy. EU Economic and Monetary Affairs commissioner Olli Rehn told the press after the meeting of finance ministers that economic problems “may also justify in a certain number of cases reviewing deadlines for the correction of excessive deficits.”

In Rehn’s opinion this was necessary to secure the profits of the ruling elite and prevent the outbreak of a renewed crisis. He stated that the EU’s budgetary rulebook “is not stupid, but it focuses on the structural sustainability of public finances.”

ECB chief Mario Draghi spoke along similar lines after the bank’s latest policy meeting. He referred to the situation in Italy, where investors have become increasingly worried about the failure to agree on a government, as shown by the decision by Fitch to downgrade Rome’s credit rating last Friday. Draghi insisted, “Italy, like all the other countries, first, should continue on the structural reforms, which is the only way to restore growth; and, second, build on the very significant fiscal consolidation that it has reached.”

He spoke as new statistics illustrated the deepening of the crisis beyond the so-called peripheral economies of Portugal, Greece and Ireland. Unemployment in France reached a euro-era high of 10.6 percent.

Business circles are increasingly concerned about the drying up of credit. Loans to businesses have collapsed in the euro area by €100 billion over the past six months. An article in Britain’s *Daily Telegraph* by Ambrose-Evans-Prichard, which warned of a “Japan-style deflation trap,” cited the comments of Lars Christensen of Dansk Bank. “Europe is heading into a deflationary scenario if they don’t do anything to boost the money supply,” he warned.

Fiat CEO Sergio Marchionne declared in an interview on the sideline of the Genoa motor show that the pressing need was to intensify competitiveness levels in Europe, which in practice means the intensification of the exploitation of workers. “We’re going to have to learn how to fight. That’s why competitiveness in Europe is crucial. We need to keep on working on this issue. That remains the biggest stumbling block to Europe achieving its full potential,” he told *Bloomberg*.

Listing a series of plant closures announced in recent months across Europe, Marchionne went on to warn ominously, “There is more to come unless the market recovers.”

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