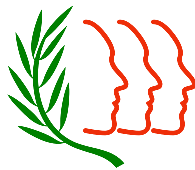

PEOPLE'S NEWS

News Digest of the People's Movement

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EU "solidarity" that can only make our bad situation even worse

Just when you thought it couldn't get any worse, along comes a new piece of EU "solidarity" that can only make our bad situation even worse.

The Tánaiste, Éamon Gilmore, has admitted that Ireland will be required to pay approximately €9.87 billion towards the new permanent EU "bail-out" fund, the "European Stability Mechanism." His admission in the Dáil on 13 April was in reply to a question from the independent deputy and People's Movement patron Thomas Pringle.

To establish this body it is proposed that the Lisbon Treaty be amended by the insertion of a new section in article 136 of the Treaty on the Functioning of the European Union. As a consequence, from June 2013 the new fund will succeed the European Financial Stability Facility and the European Financial Stabilisation Mechanism in providing loans to euro-zone members, strictly conditional on the implementation of a range of adjustment measures.

Whatever the situation may be in 2013, in 2011 the debt of Greece, Ireland, Italy, Portugal, and Spain will top €502 billion. The financial requirements of Spain's central and local government alone are estimated to be about €470 billion up to 2013. The amount in the fund will be €700 billion, with a loan capacity of €500 billion.

Obviously feeling under pressure, Mr Gilmore claimed: "The manner in which the ESM is structured means that each country's contribution will not impact on its general government deficit."

His reasoning? Euro-zone members will actually disburse only €80 billion, in five annual instalments, beginning in 2013. The remaining €620 billion of the subscribed capital will be made available by way of "callable capital" and guarantees.

But, as Wolfgang Manchau, has pointed out (*Financial Times,* 28 March): "But here is the crux: Germany and France whose sovereign bonds have a triple A rating would not need to put up actual money to cover any shortfall of paid-in capital. A guarantee would do. But countries with lower ratings such as Italy, Spain and yes Portugal, Ireland and Greece would have to pay cash. So we are in a perverse situation. Countries with easy access to capital can provide cheap guarantees, while the weaker countries must put forward cash . . . Since this guarantee has to serve as the equivalent of a pre-paid cash payment, a guarantee by a non-triple A rated country would not cover the shortfall."

For example, it has been estimated that for every €100 billion that may be necessary to "save" another country or countries of the euro zone, the Italian budget will be burdened by almost €18 billion (equal to the percentage in the budget of the European Central Bank), about one percentage point of Italian GDP, and this would occur at the worst possible time, when the markets would probably require high and rising interest rates.

How credible is the Tánaiste's attempt at an appeal to Irish self-interest? "We have to bear in mind that it is a fund and mechanism which we want to have available to us."

Unlike the International Monetary Fund, whose decisions require a simple majority of the shares, the ESM decisions on approving a loan, determining the interest rate and the conditions require the unanimity of euro-zone finance ministers. Each country is effectually given a veto in the Board.

It is not difficult to imagine scenarios like the following: country G, which is in good financial health, trades its consent to lend to country I in exchange for the latter consenting to adopt the very policy measure that mostly benefits country G—for example an increase in the corporate tax rate. What then, Mr Gilmore?

Deputy Gilmore also confirmed that the Government continues to hold to the same anti-democratic stance as its Fianna Fáil predecessor and that it will not put the proposed amendment to the treaties to the people in a referendum. He cited an opinion of the last Government's Attorney-General as the authority for this stance. Needless to say, the loyal Fianna Fáil "opposition" did not object to this, nor to Mr Gilmore's refusal to publish the opinion.

But the Government and the opposition are walking on thin ice in adopting this stance. Democracy is being denied so that the German and French governments and the Brussels top brass will not be inconvenienced. However, the principles laid down in the Supreme Court's Crotty Judgement in 1987 may yet come back to catch them out.

Separately, the German government anxiously awaits a ruling of the German Constitutional Court on the compliance of the current temporary EU "bail-out" fund with the German Constitution. The court may find the type of conditional loan that was pushed on Ireland last November to be in conflict with the Treaty on the Functioning of the European Union (articles 125, 123, and 122). The proposed European Stability Mechanism will replace the temporary one from 2013 but is open to challenge on the same grounds.

Ireland was pressured into taking this loan to ensure that insolvent Irish banks would not go bust and that their debts would be shifted onto the Irish state and the Irish people, in order that German, French, British and other banks that had provided massive loans to them would not make losses on their reckless lending to the Irish banks and property market.

The Kenny-Gilmore Government, supported by Fianna Fáil, is determined to brazen it out and not hold a referendum. This stance must be challenged in every way possible.

Election promises—lest we forget!

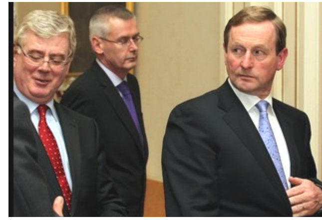
Fine Gael election manifesto

Make the bond-holders share the burden of the debts of insolvent financial institutions. This can be done unilaterally for most junior bond-holders but should be extended—ideally as part of a European-wide framework—for senior debt for insolvent institutions like Anglo-Irish and Irish Nationwide that no longer have any systemic economic importance.

16 February. The EU Commissioner for Economic and Monetary Affairs, Olli Rehn, said: *"There is simply no appetite for considering senior bond-holders in this context, because we want to avoid any kind of potential contagion effect, and therefore this issue is not at the table, and that was made very clear yesterday in the meeting of the Eurogroup."*

1 April. Enda Kenny said: "There appears [to be] little appetite in Europe to go beyond the €5 billion worth of subordinated debt that is being written down," words echoed by the Minister for Finance, Michael Noonan, in an RTE interview later that day. So guess who's pulling Fine Gael's strings!

Labour Party election manifesto



Labour believes that bank bond-holders should share in bank losses. Depositors must be fully protected. Labour will seek to ensure that burden sharing with bond-holders is part of a re-negotiated deal.

2 April. The Labour Party's former finance spokesperson and now Minister for Social Protection, Joan Burton, said Ireland should be facilitated by the EU in return for not touching senior bond-holders. She told the *Irish Times*: "We should now get a quid pro quo in respect of two items. The first is a reduction in the interest rate and the second is a renegotiated long-term debt package." Well, aren't we really good pupils!

Bruton wants companies from Brazil, China and South Africa tendering for public procurements in Ireland

Fine Gael's job stimulation programme!

Last week Richard Bruton, Minister for Jobs, Enterprise and Innovation, signed a declaration with nine other ministers from EU member-states, following the publication by the European Commission of the Single Market Act, a strategic initiative to re-invigorate the single market by the end of 2012.

The declaration followed in the wake of the meeting of European heads of state and heads of government on 24 and 25 March and was filled with lofty aspirations, such as their desire "to see a Europe that allows the increasingly important services sector to thrive and achieve its full economic potential" and the need to "remove restrictions that inhibit access to the EU's service markets, reduce the number of regulated professions within the EU and make a firm commitment to implementing and enforcing the services directive."

They then stated their belief that "there is no contradiction between the rights of the citizens, as workers and consumers, and growth and competitiveness oriented policies" and went on to state: "Proposals such as those previously announced by the Commission to reduce the opportunities for companies from Brazil, China and South Africa to tender for public procurements in Europe should be strongly resisted. These proposals risk leading to

fewer tenders, higher prices and increased costs for taxpayers in Europe."

It's clear from this position that Bruton favours companies from Brazil, China and South Africa tendering for public procurements in Ireland, despite the precarious situation in the jobs market here. One need hardly be an economist to accept that these companies would win many contracts as his criteria of low prices, more tenders and less cost to the taxpayer would easily be met by contractors from these low-wage economies. However, job opportunities for Irish workers and those from other EU member-states in the Irish work force, of whom there are at present 220,000 according to the Central Statistics Office, would be seriously diminished.

Perhaps this is what Fine Gael means by a jobs stimulus package—a package, incidentally, that will cost €1.6 million and has to be "revenue-neutral," that is, the funding will come from further cuts elsewhere. However, it seems that the Minister for Jobs, Enterprise and Innovation is not thinking primarily of an Irish jobs stimulus package.

The declaration concludes with a call to arms. "Together, and with others in the EU who share our views, we will fight for a single market that supports these objectives." It is signed by, among others, Maxime Verhagen, Deputy Prime Minister of the Netherlands and and Minister of Economic Affairs, Agriculture and Innovation, and Edward Davey, British Minister for Employment Relations, Consumer and Postal Affairs.

The human cost of austerity

Suicide is now the most common cause of death among 15 to 24-year-olds in Ireland. A disturbing feature is the level of male suicide, which accounts for 80 per cent of all deaths in that age group. Ireland has the fourth-highest rate of youth suicide among EU countries.

Research dating from the 1890s demonstrates that the incidence of suicide and of mental illness increases at times of recession, and that suicide is linked with financial difficulties. It should not come as a surprise, therefore, to learn that we are continuing to see higher stress, suicide and mental illness levels in the present economic climate.

The potential psychological impact of the economic recession on public health is severe. People who are unemployed are three times more likely to take their own life than those in employment. The high rate is partly due to the fact that people with a psychiatric illness are at greater risk of losing their job. There is a close association between unemployment and suicide. However, even among those with no record of serious illness, unemployment is associated with a 70 per greater greater risk of suicide.

And yet the EU-IMF austerity measures imposed on this country, and so enthusiastically embraced by our new Government, will increase unemployment, eliminate even more hospital beds, and curtail the availability of counselling services for those at risk. This is but one of the results of the harsh terms of the bail-out.

The bank guarantee foisted on us by the FF-Green coalition and the bail-out from the EU and IMF are huge crimes perpetrated against the people of this country in order to save the euro and to secure the German and French banks that irresponsibly doled out money to the banking system in this country. And while Jean-Claude Trichet and the European Central Bank correctly point to the lack of governance in Ireland, the ECB itself was aware of what was happening and did not take measures to cool the situation. They have to take some responsibility.

The new Government, which is now making a virtue of having spared the bond-holders, owes a clear explanation to the people of this country about how events unfolded that led up to the crisis and about the role of the euro, the EU and Continental banks in its creation.

And with Portugal now joining the ranks of the "bailed out," an opportunity exists to forge a coalition of peripheral countries that could act collectively. Now is the time to begin planning for a default instead of—as increasing numbers of economists predict—drifting into default in a couple of years' time. Contagion is on the march, and our negotiating position is improving. The big question is whether the FG-Labour coalition has the courage to do so.

A bit of light entertainment

"Struggle is joy"—a contribution from Portugal!

- www.youtube.com/watch?v=_dCeQppTMXA&feature=related
- www.youtube.com/watch?v=MFPAhNQqsow&feature=related

Austerity measures accelerated in Greece

The Greek government is introducing new austerity measures, aiming at raising €25 billion over the next four years.

The measures will concentrate on tax increases rather than cuts to social services, with an increase in road tax, the extension of excise duties to non-alcoholic beverages (it couldn't happen here!), and an increase in VAT on certain items from 13 to 23 per cent. A number of public bodies will be abolished, and a restructuring of wages and conditions in the civil service will be undertaken.

The additional austerity measures aim to bring the country's deficit to below 3 per cent of GDP, as required under the terms of a €110 billion EU-IMF bail-out. Simultaneously, a new series of privatisation of state assets has begun, which the government hopes will raise €50 billion.

Meanwhile Greek debt costs soared after the German Minister of Finance, Wolfgang Schäuble, came out publicly saying that a restructuring of Greek debts may be required and that "further steps" would be needed if analysis showed that Greece was unable to service its debts. "If there are doubts about the debt sustainability of Greece, something must be done about it," he stated, obviously forgetting that Ireland will definitely not be able to meet the commitments of two successive Governments.

In May 2010 both Schäuble and Merkel had proposed the "orderly" default of overburdened euro-zone states—"the possibility of a restructuring procedure in the event of looming insolvency that helps prevent systemic contagion risks."

There is now a growing consensus that the Greek economy is in melt-down. GDP is predicted to slump by 3 per cent in 2011, after a $4\frac{1}{2}$ per cent decline last year. Analysts say that an increasingly restrictive fiscal policy has produced an economic situation in which the country's debt is rapidly growing. And Cyprus might be dragged into the crisis, because of the dependence of its banks on the Greek market and their high exposure to Greece's government bonds—up to 37 per cent of Cyprus's GDP.

The Greek government is totally opposed to restructuring. The European Commission is also insisting that restructuring is not an option, while the president of the European Commission, Hermann van Rompuy, supported by the European Central Bank, has dismissed such talk as a "magical solution" that must be avoided.

The worry is that the move could not be isolated and would quickly entangle other heavily indebted peripheral economies. A member of the Board of the ECB, Lorenzo Bini Smaghi, warned that "the Greek economy would be on its knees, with devastating effects on social cohesion and the maintenance of democracy in that country."

In Greece a growing number of members of the governing PASOK party are publicly backing restructuring as an alternative to further austerity, with the public discourse openly considering the merits of a more thorough-going default. Some 55 per cent of the public support some form of restructuring, according to an opinion poll last week, while the idea of a "debt audit," producing an assessment that separates legitimate debt from "odious debt," which would be rejected, is gathering support.

The government rejects the concept as "science fiction," which it said would lead to Greece being kicked out of the euro zone, even though membership is a provision of the Lisbon Treaty. It's not only Irish politicians who lie about the EU!

Irish people wouldn't have to think too hard to work out why the resistance to "restructuring" emanates from sources such as the Commission and the ECB. Germany's Commerzbank, France's Crédit Agcricole and Belgium's KBC, among others, still have significant Greek government debt holdings. No wonder that the managing director of the IMF, Dominique Strauss-Kahn, has denied widely reported claims that his organisation supports a restructuring of Greek debt. As Noonan says, "There's no appetite for burning bond-holders."

You must remember this!

This man went on to destroy the country with the bank bail-out.

Will we have to bail out the ECB?

The European Central Bank has been providing massive amounts of liquidity to euro-zone governments, both directly through the purchase of government bonds and indirectly by taking on large amount of government debt as collateral for lending to banks. The extent of this is unclear, because of the ECB's reluctance to publish any data on its holdings of government debt.

The American bank J. P. Morgan suggests that the indirect exposure of the ECB to the Greek state is massive, estimating that Greek banks have almost €140 billion in state-related collateral with the ECB. Combining this with the direct holdings of government debt—about €60 billion—you get a total exposure of the ECB to the Greek state of about €200 billion.

And if we believe the German Minister of Finance and the IMF, who say that Greece will soon need to restructure its debt, this ECB exposure to the Greek state will move to centre stage. There are likely to be write-downs on the direct holdings of Greek government bonds of at least 35 per cent to have any significant effect on the debt burden; and, secondly, the Greek-backed paper could become worthless. Potential losses would easily be upwards of €40 billion.

If we compare this loss with the capital and reserves of about €79 billion that the ECB holds, the situation would not look good following a Greek restructuring. The ECB would then have two options: ask euro-zone governments for an injection of capital, or try to print their way back to a reasonable level of capital and reserves.

In other words, it would have to abandon its sacred mission of ensuring price stability and print money, or go to governments and ask for cash—in other words, a bail-out!

Iceland shows its mettle

—People before banks!

You probably remember 2008, when the running joke was "What's the difference between Ireland and Iceland?" Answer: "An *r* and three months."

Iceland now is in full recovery, while Ireland's crisis lingers on.

Last week the people of Iceland, for a second time, refused by means of referendum to pay for the debts of the failed private bank Landsbanki Íslands and its on-line branch, Icesave, which operated in Britain and the Netherlands. Almost 60 per cent voted No to an agreement that reduced the interest rate demanded from 5.5 per cent to 3.2 per cent.

But the deal would have seen Icelandic taxpayers shouldering responsibility for the debt, estimated at €11,875 for each of Iceland's 320,000 inhabitants. The result of the referendum was decisive, with a turn-out of 75 percent. After the Icesave internet bank collapsed in the wake of the global economic crisis in 2008, depositors in Britain and the Netherlands were compensated by their governments, to the tune of €3.8 billion. These governments then demanded that Iceland pay them back.

The president of the country, Ólafur Ragnar Grímsson, had refused to sign the government bill that approved a schedule of payments to the two governments, provoking a referendum on the matter in March 2010, which resulted in the earlier agreement being rejected by 91 per cent of Icelanders. The president also refused to sign the second agreement, again triggering a referendum.

By contrast, Enda Kenny arrogantly said that we had our referendum on the bail-out through the general election.

The Icelandic people have always wanted the Icesave dispute to be dealt with in the courts; and now, after two unsuccessful attempts to find a fair solution through political negotiations, it will probably end up in court.

Many legal experts have claimed that Iceland would win using the legal route, which is probably one of the reasons why the British and Dutch governments have repeatedly dismissed the idea of taking the matter to the courts. But no matter how such court cases should go, it is highly doubtful that the result would serve their interests, or that of the EU. If Iceland wins, the two governments would not win a penny from Icelandic taxpayers. They would, however, still be paid from the foreign assets of the failed Landsbanki when they are sold in the coming years.

On the other hand, in the unlikely event of an Icelandic legal defeat, it would mean that not only Iceland but every country in the European Economic Area, which includes all the EU member-states, would be responsible for all deposits in their private banks, both domestically and in foreign branches within the EEA, and would have a clear obligation to step in with their taxpayers' money if necessary.

That's just another right mess the EU could get us into!

Some notable quotes

"The euro has been a rock of stability, as illustrated by the contrasting fortunes of Iceland and Ireland."—**Richard Corbett**, former British Labour Party MEP, 2009.

"Solidarity is possible, [and] will exist. A bail-out is not possible and will not exist."—**Joaquín Almunia**, EU Commissioner for Economic and Monetary Affairs, 29 January 2010.

"We have a treaty under which there is no possibility of paying to bail out states in difficulty."—**Angela Merkel**, Chancellor of Germany, 1 March 2010.

"Papandreou has said that he didn't want one cent. The German government will not give one cent anyway."—**Rainer Brüderle**, German Minister of the Economy, 5 March 2010.

"All European countries are currently living beyond their means."—**Lorenzo Bini Smaghi**, member of the Executive Board of the European Central Bank, 13 May 2010. (He'd obviously been watching this: www.youtube.com/watch?v=4-bSKsVDr_M.)

Political federation necessary, says Trichet

The president of the European Central Bank, Jean-Claude Trichet, has warned euro-zone politicians that current plans for economic governance do not go far enough. Either we prove that we are able to find the new, strong, reinforced governance concept, which will fit with a constellation of sovereign states and permit the European Union to face up to the new globalised world, he says, or we do not convincingly succeed in this direction, and then a new jump in the institutional framework of Europe towards a political federation would appear necessary.

And the *Irish Times* says that the former German foreign minister Joschka Fischer of the Green Party has warned that the EU is facing "creeping death" unless Germany seizes the euro-zone crisis as a chance for final European integration. According to the paper, Fischer said Germany was being "disingenuous" in discounting the culpability of German banks—particularly state-owned institutions—in the Irish and Greek financial crisis.

Speaking in Berlin at an event organised by the European Council on Foreign Relations, Fischer said that under the "Euro-sceptic Angela Merkel" Germany had ditched its "European vocation."

Who would have guessed?

Irish troops for Libya?

EU foreign ministers have resolved to conduct an EU military operation in Libya if the UN requests a mission to support humanitarian relief and to protect refugees, the *Irish Times* reports. Ireland might participate in such an operation, given that it would have a UN mandate.

The Minister for Foreign Affairs, Éamon Gilmore, has said that "the Government will have to discuss that, and obviously there are procedures for participation in any mission."

With NATO members of the EU already involved in the campaign to enforce the UN no-fly zone over Libya, the initiation of any new mission would deepen Europe's military involvement in the oil-rich country.

Meanwhile the EU's intelligence bureau, the Joint Situation Centre, has recently sent people to Libya. But its new director says there is little prospect of turning it into a genuine intelligence-gathering service, even in the long term. "We want to avoid the impression that these were spooks of any kind. They were technical specialists who went to help with satellite phones and that type of thing."

Ilkka Salmi, a former director of the Finnish Security Police, earlier told MEPs in the Civil Liberties Committee that the Joint Situation Centre is different from member-states' services, because it does not hunt for its own information and because it looks at "strategic" threats instead of "operational" intelligence on individual people or terrorist plots.

The centre at present employs approximately a hundred , about 70 per cent of whom are seconded from member-states' intelligence services and the rest of whom are EU officials.

It has three units: operations, analysis, and communications and consular services. It gets information from all twenty-seven member-states together with Norway and Switzerland, the intelligence directorate of the EU Military Staff in Brussels, the EU Satellite Centre in Spain, the Frontex border control agency in Warsaw, and the Europol joint police body in the Hague. The operations unit handles "crisis monitoring" and is "a kind of 24/7 permanence" for keeping the European External Action Service and member-states' diplomats in Brussels up to date.

"We do monitoring and assessing twenty-four hours a day and seven days a week, focusing on sensitive geographical areas, terrorism, proliferation of weapons of mass destruction, and global threats," Salmi said. "In recent weeks and recent months our focus has been on events in Africa and the Middle East and their implications for EU decision-making."

In an insight into the kind of people who may have been sent to Libya, the joint Situation Centre last year advertised for a "deployable security information officer." The notice asked for someone "physically fit and stress-resistant. Able to withstand potentially physically and psychologically harsh working environment."

Portugal finally admits that it needs a bail-out

And the Spanish economy minister tries to hold back the waves

Portugal's caretaker prime minister, José Sócrates, announced last week that he had asked the EU to bail out Portugal. In a televised address he said: "I want to inform the Portuguese people that the government decided today to ask . . . for financial help to ensure financing for our country, for our financial system and for our economy. This is an especially grave moment for our country."

The exact details of the bail-out are still unclear, but Portugal would need between €70 and €90 billion to cover its funding needs for up to three years. The response by financial markets to the announcement has been fairly muted, as most investors accepted a bail-out as inevitable and had already priced it into their investment decisions.

Portugal's troubles have also firmly shifted the spotlight onto Spain, given the links between the two economies. Spain is too big to fail, and too big to be saved. The possibility of an attack on Spanish debt, therefore, would actually pose a threat to the euro as a whole. Estimates place the potential cost of a Spanish bail-out at €470 billion. Elena Salgado, the Spanish Minister of the Economy and Finance, said that the risk of contagion "is absolutely ruled out . . . It has been some time since the markets have known that our economy is much more competitive."

Snouts in the trough!

MEPs have rejected a move to save more than €20 million a year that would have stopped them from flying business class at the taxpayers' expense. They also voted through a 2.3 per cent increase in their staff and administration budget, to €1.7 billion—despite the worsening financial squeeze throughout the EU.

Germany's regional banks likely to fail EU stress tests

The European Banking Authority has revealed details of the new round of EU-wide stress tests, in which ninety European banks will participate. As expected, the core "tier 1" capital ratio has been set at 5 per cent, lower than the 6 per cent imposed on Irish banks during Ireland's national stress tests.

In another example of the EU turning the screw, German regional banks—the Landesbanken—are among the institutions most likely to fail the tests, as the European Banking Authority has announced that its definition of "capital" will exclude most of the so-called "silent participations"—a type of subordinated debt provided to Landesbanken by German provincial governments. The Minister of Finance, Wolfgang Schäuble, has said that German banks that fail the tests will not get any money from the state.

We'll see!