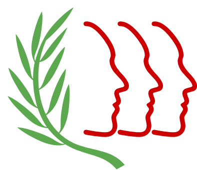

PEOPLE'S NEWS

News Digest of the People's Movement

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ECB helps Italy and Spain?

The European Central Bank has gone back to the markets to buy bonds after a five-month pause in an attempt to stop the crisis from spilling to Italy and Spain.

"If we intervene, we intervene, and we'll publish the amount of what we have done," said the president of the ECB, Jean-Claude Trichet, referring to the intervention as a "non-standard measure" aimed at facilitating the flow of money in the euro zone.

In a communiqué the German chancellor Angela Merkel and French president Nicolas Sarkozy welcomed promises by Italy and Spain to boost competitiveness and increase the pace of budgetary consolidation measures, while the ECB is demanding that Italy commit itself to fast-tracking specific welfare reforms and a constitutional amendment enshrining a fiscal rule before it would buy Italian bonds.

"The Italian authorities' goal to achieve a balanced budget a year earlier than previously envisaged is of fundamental importance," the communiqué continued, adding that the two leaders "stress that complete and speedy implementation of the announced measures is [the] key to restore market confidence."

Trichet also joined calls made earlier by the president of the EU Commission, José Manuel Barroso, for national governments and parliaments and the EU Parliament to implement the details of the July deal on a second Greek bail-out, which also gives extra powers to the EU bail-out fund, the EFSF, including that of purchasing bonds on the market.

"We expect all these decisions taken by leaders in July to be executed fully and in a very effective and rapid fashion," he said. "What has been said by the heads is that they will rapidly finalise negotiations with the European Parliament. We consider it's essential to have a strong rigorous surveillance."

So, what are the bets that this subject will top the agenda when the Dáil reconvenes in September?

Meanwhile Barroso has sent a private letter to euro-zone leaders calling for a "rapid reassessment of all elements related to the EFSF, and concomitantly the ESM, in order to ensure that they are equipped with the means for dealing with contagious risk."

Euro-zone states agreed changes to the scope and nature of the EFSF at a meeting on 21 July, but these have yet to be ratified by individual member-states. They voted not to increase the size of the EFSF, with Germany in particular set against enlarging the size of the fund. The €440 billion ceiling would not be sufficient to aid Spain or Italy should they need financial assistance from the euro zone. However, Barroso's letter implies that the total size of the EFSF should be increased, to allow it to cover Italy and Spain.

The letter was heavily criticised by the German vice-chancellor and the Ministry of Finance, with both saying that the debate came at a bad time and that adequate measures had only recently been agreed.

In a sign that concerns are not limited to the Mediterranean area, British regulators are now pushing British banks to make public their exposure to troubled euro-zone countries, including Belgium.

Berlusconi sees the light!

Silvio Berlusconi is reported as having commented during private conversations with Italian ministers regarding the ECB, Sarkozy, and Merkel: *"They have decided to intervene in favour of our bonds to save themselves, not Italy.*

"If the green light of individual countries is needed before the ECB can intervene, that means that the ECB is not yet, as it should be, the autonomous, authoritative and independent governor of the euro area. If it must be said, as Trichet did, that in return for an intervention in favour of our bonds a political 'yes' was needed, then we have evidence of the fact that we're far away from a communitarian governance that can scare speculators.

"And if today it's our turn, tomorrow it can be Paris's turn." And sure enough . . . !

But first he had to swallow hard again . . .

Berlusconi said that Merkel and Trichet "strongly appreciated" Italy's latest €45½ billion austerity budget, which would see substantial cuts in an attempt to return the country to a balanced budget in 2013, instead of 2014, as previously planned. It is Italy's second austerity budget in as many months, after the government agreed a package worth €48 billion in July.

And so the EU austerity bandwagon rolls on.

France's turn!

Sarkozy to announce fresh austerity

The euro-zone crisis has threatened to turn to France, with the shares of leading French banks suffering huge falls. Italian bank shares also decreased significantly following rumours of an imminent French downgrade or of a large French bank, Société Générale in particular, going bust. Société Générale slumped 21 per cent at one point, with Crédit Agricole down 13 per cent and BNP Paribas down 10 per cent.

The tumble is the product of growing worries about the exposure of French financial institutions to Italian debt, estimated to be some €410 billion.

Sarkozy has said his government will produce fresh measures to slash the country's large public debt in an effort to stave off a cut to France's AAA credit rating. Its promise to reduce the budget deficit from 7.1 per cent in 2011 to 3 per cent by 2013 will be maintained, no matter how the country's economic situation evolves.

While credit rating agencies have said that the outlook for France remains stable, earlier predictions of growth of of 2 per cent this year and slightly higher in 2012 may turn out to be not quite so rosy after stagnation in the second quarter of this year. Industrial production slipped by 1.6 per cent in June. If the growth predictions are not realised while deficit reduction must still be met, the revenue gap must come from somewhere: further austerity or tax rises.

Britain's future in the EU to be debated

Members of the British Parliament could be forced into a historic vote on Britain's withdrawal from the European Union after campaigners gathered enough supporters to trigger a debate.

A petition demanding a straight vote on whether Britain should stay in or leave the EU has attracted more than 100,000 signatures. They were gathered by the independent member of the EU Parliament for the West Midlands, Nikki Sinclaire (who worked with the People's Movement during the second Lisbon referendum campaign). The prime minister, David Cameron, has promised the House of Commons that time will be made available for debating any issue that has the support of at least 100,000 people.

The news comes as a Yougov opinion poll reveals that for the first time a majority of British people would vote to leave the EU if there was a referendum. Some 60 per cent of voters want a referendum on membership; and if there was one, 52 per cent would vote to leave, with only 30 per cent preferring to stay in.

The last time Britain held a vote on withdrawal from the EU was in 1975, when 67 per cent of voters chose to stay in.

Sinclaire said: "Clearly the people of Britain want to decide who governs Britain. This argument has gone on far too long. We must decide our course once and for all in a binding referendum."

Man bites dog!

Italian prosecutors have seized documents from the Milan offices of the credit rating agencies Moody's and S&P as part of an investigation into the effect of evaluations on Italy made by the two agencies over the last weeks on the current turmoil in financial markets. The documents were taken as part of an investigation aimed at "verifying whether these agencies respect regulations as they carry out their work," according to the head of the prosecutor's office.

The raids come at a time of rising tensions between rating agencies and euro-zone governments. The agencies are blamed by some people for exacerbating the sovereign debt crisis by downgrading many of the indebted countries.

It would never happen here!

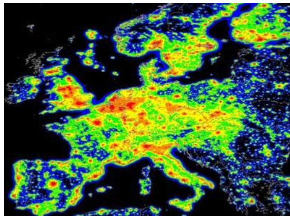
Lagarde to undergo criminal investigation

A French court has ordered an investigation into the new managing director of the International Monetary Fund, Christine Lagarde, to discover

whether she was "complicit in the misuse of public funds" for approving a legal settlement of €400 million to the controversial businessman Bernard Tapie in 2008 when she was minister of economic affairs. The charge could carry a fine of up to €150,000 and a ten-year prison sentence.

What can they do?

The markets want the European Central Banks to start buying Spanish and Italian bonds, but for the buying to be effective the ECB would have to buy bonds on a massive scale.



Given that the ECB already has an exposure of €444 billion to the peripheral countries, such a move would send it into the realm of fiscal policy—which is against its own rules. Germany would strongly oppose such a move. Several members of the ECB's Governing Council even voted against the comparatively modest decision to start buying Portuguese and Irish government bonds.

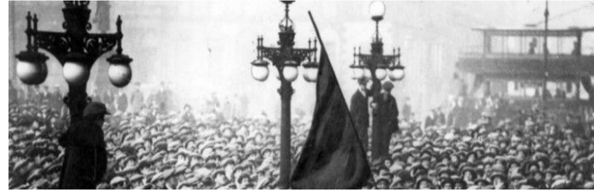
Of course in return for taking on this role and the risk it involves the ECB would want a large say over fiscal policy in the euro zone, and would probably push for even more massive austerity. This would lead to it being heavily involved in political decisions—an undemocratic situation but one that Merkel in particular might see as advantageous if elections were not looming.

It could also increase the size of the bail-out fund, the EFSF. The present size of the fund, €440 billion, is far too small to cover Italy or Spain (or both). The Italian bond market is €1.6 trillion and Spain's is about €600 billion, with both having large amounts of debt maturing over the next few years. To be effective the lending capacity of the EFSF would have to be at least quadrupled, and to have any impact in this crisis it needs to be doubled, at least.

But both options are politically problematic. As a AAA rating needs to be guaranteed for the EFSF, the entire burden of this increase would in reality fall on the six AAA-rated countries, which would be forced to provide loan guarantees amounting to more than a quarter of each of their GDPs. This in turn could have a negative effect on their own financial position and rating.

Crucially, such an arrangement cannot be agreed without completely ignoring voters in these countries, who are vehemently opposed to putting more cash on the line. Any increase would need to be ratified by national parliaments; and, given the opposition in the Dutch, Finnish and German parliaments over the existing loan guarantees, which have been on a far smaller scale, this is unlikely to happen.

The prospects are that Italy and Spain can withstand rising interest rates for a few months. But in the longer term these rates will significantly add to their deficits and will force further austerity—which will be very unpopular domestically and will kill off any prospects of growth.



Both countries suffer from low growth, with Italy in particular lacking a credible plan for getting out of its debt problem: interest payments on debt outstrip growth, meaning that debt continues to grow relative to GDP. Italy and Spain would somehow have to find a way to make the long-term changes necessary to boost their growth and competitiveness, within the restraints of a flawed currency union.

The impossible short-term choices, pitting the need to soothe the markets against national democratic restraints, perfectly illustrate the flaw that was built into the euro zone from the beginning. The choice that was always inevitable is therefore drawing closer—appease markets but ignore voters and create a full fiscal union—or break up the euro zone.

Panic or Euro-spin?

The EU commissioner for economic affairs, Olli Rehn, has blamed the growing euro crisis on the EU's inability to communicate the merit of new bail-out measures agreed in July, describing it as a major factor behind lack of market confidence in the euro zone.

"We all in Europe will have to ensure rigour in our communications and sufficient verbal discipline so that we ensure [that] our joint message will be listened to and understood in the way we want it to be understood," he said. "If you look at so-called market forces, or market players and perceptions, what they are after: they are after making money, and that is driven by fear and greed."

In his portrait of market psychology he stated that investors were "clearly unrealistic" in expecting the "technically complex" July bail-out deal to be implemented overnight. He also tried to dispel the idea that EU officials and member-state governments were lax in heading off for holidays before fully agreeing the details of the bail-out package.

An article by the president of the EU Council, Herman van Rompuy, went down badly when he said he was "astonished" by the surge in Italian and Spanish bond rates—a statement taken by analysts to mean that he simply failed to see it coming. "Astonishingly," he writes, "since our summit the cost of borrowing has increased again for a number of euro area countries. I say astonishingly, because all macro-economic fundamentals point in the opposite direction."

Citing the austerity measures adopted in Italy and Spain, as well as Spain's low debt, van Rompuy accused the markets of making risk assessments "totally out of line with the fundamentals." Ratings agencies that downgraded the two countries also acted in a "ludicrous" way when putting them in the top tier of countries at risk of default, he claimed.

He omitted to mention that the Spanish prime minister last week called for early elections in November, faced with growing public anger over soaring unemployment, a factor that has been aggravated by the austerity measures. The true cause of market worries, in van Rompuy's view, lies elsewhere: the aftermath of the financial crisis of 2008 and the interdependence with the debt-stricken United States. "It is imperative to bear in mind that this is not a crisis about the euro," he wrote.

Thankfully, he promised that in future he will communicate only "when there is something to communicate" about concrete developments on the implementation of the July deal.

But his own speech did not report anything new. Maybe their speech-writers are on holiday!

Germany to propose unelected "stability council"

The German minister of economics and technology, Philipp Rösler, has told reporters that the EU should create a new institution, a "stability council," of unelected supervisors that would ensure that member-states stick to budget temperance, limit debt, and keep the growth of debt in check.

Rösler's proposal echoes elements of the EU's Euro-Plus Pact, which covers competitiveness and national and fiscal rules. This pact was floated by Angela Merkel and Nicolas Nicolas Sarkozy.

The "stability council" would be given the power to impose sanctions on countries to make sure they cut their deficits and would monitor the use of financial assistance. The plan would also require that a German-style "debt brake" be written into national constitutions. A provision inserted into the German constitution in 2009 forbids politicians to borrow beyond 0.35 per cent of gross domestic product. The new body would also be empowered to carry out "competitiveness tests" among euro-zone states to see if labour market policies are sufficiently competitive. "If you fail them, there should be consequences," he said.

The stability council would be independent of voters so as to avoid "political pressure" and could impose sanctions automatically.

Rösler said that Germany would be bringing the proposal to the next meeting of EU finance ministers, where, no doubt, they will face the wrath of the strangely silent Michael Noonan.

Maybe we should offer them Gay Mitchell!

Germany and France are jointly pushing for Herman van Rompuy to have the official title of President of the Euro Zone, arguing that giving the euro a common voice would improve working methods and crisis management. But several governments see this as an attack on the president of the Euro Group, Jean-Claude Juncker.

Maybe we should offer them Gay Mitchell.

Mitchell—"the evil of two lessers"?

Whatever one thinks of Michael McDowell's assessment of Gay Mitchell, now that he is a presidential candidate his views on a range of issues become crucially important.

Mitchell wrote the foreword to Fine Gael's "Beyond Neutrality" document in 2003 (which can be read at www.finegael.org/upload/file/fgneutrality. pdf). In it he maintains that "security and defence issues require balanced consideration. Our national responsibilities extend beyond our borders. Fine Gael believes that the first duty of Government is to provide for the defence and security of our people in Ireland and Europe."

It would be interesting to know exactly who Mitchell considers "our people" in Europe. Could they possibly be the bureaucrats who are insisting on higher taxes and cuts in public spending for Ireland, or is he referring to those with similar views to his own?

But then, as far back as February 1988 in UCG, Mitchell called for a "redefinition of this country's neutrality," and in *Ireland and the Partnership for Peace Initiative: Our Place in the New European Security Architecture* (Dublin: Fine Gael, 1998) Mitchell maintained that no referendum was

required to enable the Irish Government to join this NATO-sponsored organisation. This man does not like referendums!

His views on presidents suggest that he might be difficult to dislodge from the Park should he be elected. "In the opening statements some emphasised the need for the European Union to be better represented at the global level by having a permanent President . . . We cannot continue to rotate the Presidency," Mitchell argued (www.iiea.com/ blogosphere/irish-meps-call-for-a-yes-vote-in-the-lisbon-referendum).

He might be prepared to surrender the position in certain circumstances. In 2006 he s suggested that the queen of England could be included as a head of state in a future united Ireland. *"Interestingly, Articles 29.4.1. and 29.4.2. of Bunreacht na hÉireann continue to provide that external relations of the State shall be exercised by or on the authority of the Government and they may 'avail of or adopt any organ, instrument, or method of procedure,' as used for like purpose by any group or league of nations with which the State is or becomes associated for the purposes of international co-operation in matters of common concern.' Clearly the State can confer certain powers on the British monarch. By constitutional and parliamentary authority, it continued to do so until 1948."*

It appears that Mitchell was quite annoyed by the result of the first referendum in the Lisbon Treaty and asked if referendums were appropriate for something so important. So you can take it that he would be very unlikely as president to refer any EU treaties to the courts on the off chance that the outcome might lead to a referendum. "We have to ask ourselves about this form of instrument of public policy. Is a referendum the right vehicle?" (www.independent.ie/national-news/we-didnt-need-full-vote-on-lisbon-fg-1427509.html).

Well, he is consistent!

And you might like to listen to him here after the Yes to Lisbon: www.youtube.com/watch?v=CtkSbymxVuc. If you listen to what he's coming out with here it's somewhat disingenuous, especially after he questioned the idea of referendums after the No vote.

It's worth comparing David Norris's actions when the contents of his letter were revealed with those of Gay Mitchell, whose letter to the governor

of Florida supported a man who had actually murdered two people (www.rte.ie/news/2003/0903/deathrow.html). Before Norris's withdrawal from the presidential race the best-known political casualty of involvement in legal cases came in 2002 when the former PD minister Bobby Molloy resigned. He was forced to quit after becoming involved in the case of a rapist, Patrick Naughton. A person representing Molloy attempted to contact a judge to ascertain if letters from Naughton's sister had been received. The intervention was branded "quite improper" by the judge, and Molloy resigned within hours. But not Mitchell!

Finally, don't forget the "Yes for jobs" Fine Gael posters. Gay Mitchell was director of elections for Fine Gael in the Lisbon referendums.

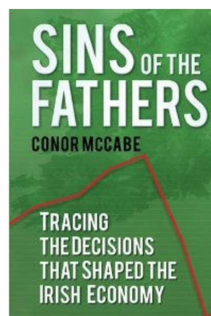
Begg lays it on the line

The general secretary of the ICTU, David Begg, has warned the Taoiseach, Enda Kenny, that the EU-ECB-IMF Troika is using Ireland as a "social laboratory" for testing its economic policies. He pinpointed the fact that "all the talk of reform" ignored the actions of the banks that had sparked the crisis in the first place. "It occurs to a lot of people that reform is for the little people: it is not for the powerful."

The social model that he claimed was at the heart of what he termed "the European project" was being "torn asunder" by the same neo-liberals whose appetite for deregulation had led to the present crisis. Describing Ireland's banking and sovereign debt as an "unspeakable burden for us," he warned that the Republic faced a "social catastrophe."

He pointed out that the troika's "economic laboratory" was using Ireland to test its economic policies—policies that were not "evidence-based." Thus far the official response throughout Europe had been to penalise working people by trying to cut wages and undermine protections that had been built up over many years. "The fact of the matter is that the drive behind this seems to be purely ideological. There is no economic or fiscal reason for making these changes to people's incomes."

Important new book



This recent publication is an important contribution and a radical departure from the received wisdom about the present economic crisis in Ireland.

There is a hackneyed narrative in Ireland and beyond that lays the blame for the economic and social collapse at the door of venal politicians and their paymasters among the property speculators, with the banks cast in the role

of the indispensable vehicle for keeping both the speculators and the reputation of politicians afloat. That is part of the story; but all our commentators have failed to address the question of how this arose.

Through a series of lively chapters dealing with specific aspects of society, Conor McCabe traces the origins of the crisis to the society inherited at partition. So much of what has been written and spoken about the crisis in the last few years has been the analytical equivalent of white noise. In this book McCabe finally adds some much-needed clarity and insight to the debate.

Myths and easy assumptions in political discourse have been around so long that nobody even considers them odd. This book is the first major attempt to tackle these myths and wrong-headed certainties and as a result is extremely engaging.

McCabe outlines the structural problems in the economy and their roots in the decisions made by successive Governments since the foundation of the state. Along the way he tackles all the major strands that eventually tie the knot we find ourselves in today: housing, agriculture, industry, and finance. The book builds momentum as it carefully details how policy in these central areas has been deliberately and consistently designed to benefit an elite class of middle-men whose stunted vision of capitalism has shaped the Irish nation.

The process is patient, methodical and scholarly but always readable and clear. This book is a must for all those who wish to develop a thorough understanding of our present economic predicament.

■ Conor McCabe will deliver the People's Movement's Crotty Memorial Lecture, 2011, in October. Details to follow.

Greaves School on the EU

This year's Desmond Greaves Summer School will take place in Dublin on Friday–Sunday 9–11 September at the Pearse Centre (27 Pearse Street, Dublin). Two items on the programme may be of particular interest to readers:

The international economic crisis: making the periphery pay

Friday 9 September 7:30 p.m.

Speaker: Fred Magdoff (professor emeritus, University of Vermont; director of Monthly Review Foundation; has written on the explosion of debt and speculation and the current financial crisis in America's leading radical journal, *Monthly Review*) Chairperson: Cllr Catherine Connolly (Galway City Council).

Ireland and the euro-zone crisis

Saturday 10 September, 2 p.m.

Speakers: Anthony Coughlan (director, National Platform), **Fabio de Masi** (consultant to the chief economist of Die Linke in the Bundestag). Chairperson: Karen Devine (School of Law and Government, DCU).

Debtocracy

For those who missed the screening of this important documentary by the Progressive Film Club last Saturday it can be viewed at www.dailymotion.com/video/xik4kh_debtocracy-international-version_shortfilms.