PEOPLE'S NEWS

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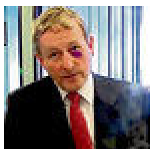
Latest treaty draft retains permanent austerity provisions

The latest draft of an international treaty to toughen the enforcement of EU budget rules—the third in less than a month—dilutes the requirement to adopt a rule on a constitutional basis, binding governments not to exceed EU deficit and debt limits. Instead it says that the rule could be applied through "provisions of binding force and permanent character, preferably constitutional, that are guaranteed to be respected throughout the national budgetary processes."



It is possible that, if it survives further drafts, such language might strengthen the Government's case in avoiding having to insert the rule in the Constitution and hence having a referendum. Instead the Government might attempt to enact the Fiscal Compact Treaty through secondary legislation—a move that could be challenged only through the courts. The dilemma for the Government is that if the legislation were struck down in those circumstances it would go into the resulting referendum on the back foot.

A measure of the Government's fears on the issue was the report last week suggesting that Government officials have discussed whether the President should ask the Supreme Court to rule on whether the compact would require a referendum .

The Government has made no comment on any of the draft texts, but the minister of state for European affairs, Lucinda Creighton, has suggested that the negotiation presents a fifty-fifty likelihood of a referendum.

The draft is the subject of continuing talks in Brussels, with agreement expected in a few weeks, and includes a specific date for entry into force: 1 January 2013. The treaty is being drafted behind closed doors in Brussels, with no democratic input.

The number of countries that need to ratify the treaty before it enters into force is now twelve—down from fifteen. Its provisions would apply only to the countries that have ratified it, meaning that countries outside the pact would be subject to different rules.

A nasty sting in the tail is that compliance with article 3 (2) "shall be considered as a condition for the granting of assistance under the European Stability Mechanism as soon as the transposition period mentioned in Article 3(2) has expired," that is, one year after the entry into force of the treaty.

Article 3 incorporates the permanent austerity clauses:

"The Contracting Parties shall apply the following rules, in addition to and without prejudice to the obligations derived from Union law:

"(*a*) the budgetary position of the general government shall be balanced or in surplus and

"(*b*) the rule under point (*a*) above shall be deemed to be respected if the annual structural balance of the general government is at its country-specific medium-term objective as defined in the revised Stability and Growth Pact *with a deficit not exceeding 0.5 per cent of the gross domestic product."*

The new text emphasises that governments with an excessive deficit "shall put in place a budgetary and economic partnership programme including a detailed description of the structural reforms which must be put in place and implemented to ensure an effective and durable correction of their excessive deficits."

Another change is that the Commission will not be allowed to submit proposals or recommendations to countries with an excessive public debt but only to those running excessive deficits.

The treaty text states that the objective of the heads of state or government of the euro-area member-states and of other member-states of the European Union is "to incorporate the provisions of this Agreement as soon as possible into the Treaties on which the European Union is founded." And though it stresses "the need to respect the role of social partners, as it is foreseen in the law of each of the Contracting Parties, in the implementation of this Treaty," one cannot expect much from this window-dressing, as the Government does not engage even on mundane issues.

The EU Parliament goes even further, proposing that "the Contracting Parties, within 5 years of the entry into force of this Agreement, shall propose the amendment of the EU treaties in accordance with Article 48 TEU to integrate this Agreement." Article 48 is the much-discussed self-amending clause, which got a good airing during

both Lisbon referendum campaigns. If this proposal is accepted and article 48 were subsequently used successfully, it would mean that, irrespective of whether a member-state was a member of the euro zone or had ratified the treaty, the provisions would be applied to them through the EU treaties!

A further amendment from the EU Parliament seeks that the contracting parties commit themselves to "engage constructively in the discussion and implementation of the Commission on the Financial Transaction Tax, through the appropriate legislative and budgetary procedures"—bringing to mind Enda Kenny's statement of "constructive engagement" in the discussion and implementation of a common consolidated tax base. We will no doubt be subjected to more of the same guff as he goes in the back door, cap in hand.

It's not entirely clear at this stage whether David Cameron will try to block the use of the EU institutions in implementing and enforcing the fiscal compact or merely insist on the EU institutions not being used for single-market issues. This was never a concrete proposal, but a general concern that the European Court of Justice, in particular, would be used to advance a eurozone-specific agenda—though it seems that it's okay for that institution to engage in competence creep!

We hope that a comprehensive opposition can be mobilised in Ireland against this compact. Surely the majority of trade unions cannot acquiesce this time around, when the prospect of long-term stagnation and austerity faces their members?

This compact must be vigorously opposed on the grounds of its undemocratic basis and its gutting of sovereignty through its permanent imposition on Irish governments of the inability to act on the social priorities of the Irish people.

But it's not all plain sailing!

The treaty continues to create divisions throughout Europe. The Czech minister of foreign affairs has threatened to take his party out of the governing coalition if the Czech Republic does not join the agreement; but President Václav Klaus has made it clear that he has no intention of signing.

Poland is also reconsidering its commitment to joining the treaty, given that the agreement in its present form would not allow non-euro countries to be present at meetings of euro-zone leaders.

And the European Central Bank has responded critically to the latest draft, describing it as a "substantial dilution" and calling for the proposed measure that would allow states to exceed the deficit threshold of 0.5 per cent of GDP in "exceptional circumstances" to be significantly tightened.

However, it has also been reported that the Danish government believes that, because it has an opt-out from joining the euro, it will not have to hold a referendum if it decides to sign the treaty, while the Swedish prime minister, Fredrik Reinfeldt, has said that Sweden may join, provided that the budget rules entailed in the pact don't apply to Sweden.

A fourth draft is now being prepared and should be available before the meeting of EU ministers of finance on 24 January.

The untold story

How Germany is primarily responsible for the euro crisis—and its banks are the main beneficiaries of the bail-outs!

To comprehend the centrality of German banking to the euro-zone crisis we need to understand the extraordinary increase in the importance of banking in the world today.

The huge growth in global savings and therefore in investment funds, much of which are reflected in the assets of banks and finance houses, is a major factor in our present crises.

The former British prime minister Gordon Brown has spelt it out: "Even now a fundamental truth about the current state of European banks remains unspoken: German, French, Italian and British banks that have lent recklessly to the periphery are owed billions not just by the Greeks but by the Irish, Portuguese and Spanish, and have losses still to take from toxic assets and the real-estate collapse."

In April 2011 the *Economist* reminded us that "German banks are owed twice as much by banks in the three bailed-out countries as they are by governments. Once corporate loans and other exposures are included, Germany's vulnerability is clear: its banks are owed some €230 billion. These numbers would ratchet up further were Spain to default. German banks have an exposure to Spain that is about three-quarters as great as it is to Portugal, Greece and Ireland combined."

George Soros has noted that European banks hold nearly a trillion euros of Spanish debt, of which German and French banks hold half. Simply put: if the "contagion" takes hold in Spain or Italy, some German banks with high leverage and minimum capital will either fail or, more probably, require sig-

nificant bail-out funds from various levels of the German government.

The structural need for Germany to export (because of high savings and its corollary, low internal consumption) generated massive surpluses, which had to be invested somewhere. Much of these funds were deposited with the state-owned *landesbanken*. The onward investing of these huge funds in Germany promised low returns (low risk, low return), while investing abroad in higher-risk countries or assets promised higher returns.

Bank DnB NORD

The *landesbanken* pumped billions into securities backed by sub-prime mortgages in the United States, various financial products (including derivatives), loans to banks abroad that were involved in significant property lending, loans to banks in countries that subsequently got into significant difficulties (including Greece, Ireland, and others), and loans to eastern Europe and to emerging markets.

DekaBank

The banks have not yet properly provided for these poor investment decisions. That is why stress tests for euro-zone banks have been such a failure: the *landesbanken* were initially excluded and, when eventually included, did all in their power, with the assistance of various levels of authority in Germany, to dilute the stress tests of July 2011.

Few in Germany want to put billions of euros into these failing, or highly exposed, banks. In the meantime many of them are getting a full return on their unwise investments from the peripheral states. In other words, some of their bad or doubtful assets are being repaid out of peripheral countries' bail-out loans.

A simple example illustrates how the EU-IMF bail-out supports the German economy rather than those of the stricken peripheral states, and shows why Germany has been so resistant to recapitalising its banks.

Suppose German banks were owed €1 billion by Irish banks and €2 billion by the Irish state at the beginning of the crisis. Ireland draws down a bail-out loan from the EU-IMF rescue funds and uses it firstly to recapitalise problem Irish banks, which then repay the €1 billion owed to German banks.

They then begin using the remaining loan funds to repay the €2 billion owed by the Irish state to German banks.

After a while, German banks have converted problem assets of €3 billion (which should have been funded by the German state through a bank recapitalisation) into cash.

But who is the only real loser? The other side of this transaction is an extra €3 billion owed by the Irish taxpayer to the EU-IMF. The Irish taxpayer is paying both for the bad investment decisions of Irish bankers and the bad investment decisions of German bankers.

The Nobel Prize-winning economist Paul Krugman pulls no punches. "*. . . The rest of Europe needs to start holding Germany to account: the Germans may regard themselves as models, but their surpluses after 2000* [*to pay for unification and a rapidly ageing and declining population*], *by flooding the rest of Europe with cheap money, played a large part in creating the real estate bubble in Europe's peripheral economies. And Germany's continuing reliance on export-led growth is in effect a beggar-thy-neighbour strategy of growing at its neighbours' expense.*"

A decade of extraordinary downward pressure on German wages has led to a significant reduction in the share of national income going to labour, further increasing German reliance on foreign consumers for their economic growth. According to a report by the International Labour Organisation in December 2010, real earnings in Germany dropped by $4\frac{1}{2}$ per cent over the past decade.

The introduction of the euro in 1999 fused Germany to countries whose competitiveness, as measured by the cost of each unit of labour, had stagnated, particularly Greece, Ireland, Italy, Portugal and Spain but also France. Germany's competitiveness has increased by nearly 20 per cent since 1999.

Germany wins more business around the world when it competes against other euro-zone countries to sell its exports, and even outperforms them in their home markets. About 80 per cent of Germany's trade surplus comes from its trade with the rest of the European Union. So, German economic growth is over-dependent on foreign rather than on German consumers. The majority of those consumers are in the EU.

The world has thus become unbalanced in a way that markets cannot fix. These so-called trade imbalances, generated by the global trade surpluses produced by the major exporters, such as Germany and China, require the deficit-consuming countries to buy their products.

So the policies of Germany, and countries with a similar major export surplus, make beggars of their neighbours, not just in helping create the present problems but also in ensuring that the countries now in most economic or financial difficulty are almost incapable of climbing out of the hole they are in.

Germany, despite being in a position to expand domestic demand, is adopting deficit-reduction policies, leaving the euro area facing declining demand in one of its largest and most prosperous

member-countries. This will lead to lower growth generally and a reduced ability to repay debt, personally and by countries and banks, leading to a potentially downward spiral in the euro area. This will hurt countries in greatest economic difficulty and is a major barrier to their ability to recover.

Deutsche Bank

Peripheral countries need to improve their competitiveness, increase their exports, and "trade out of their difficulties." To allow this, existing surplus countries, such as Germany, need to boost their spending, allow their wages and prices to increase, and thereby allow deficit countries to compete with them fairly. Germany is putting deficit countries in an unsustainable position.

Paul Krugman sums up the present situation. *"What the European Central Bank is in effect signalling is that no inflation in Germany will be tolerated, placing all the burden of adjustment on deflation in the periphery. From the beginning, eurosceptics worried about one-size-fits-all monetary policy; but what we're getting is worse: one-size-fits-one, Germany first and only. That's a recipe for a prolonged, painful slump in the periphery; large defaults, almost surely; a great deal of bitterness; and a significantly increased probability of a euro crack-up."*

Beggar thyself and thy neighbour

Henry Ford used to tell would-be purchasers of his model T that they could have any colour—but that it had to be black! The published draft of the "Fiscal Compact" Treaty is a bit like Ford's model T: signed-up countries can have any social and economic policies they want—but they have to be austerity and deflation.

Signing up to the treaty would represent a qualitative change in the nature of the outside interference with the budget, taxation and public spending capacity of the Irish state. Michael Noonan deliberately confused this point when he told a meeting in London that "there is external consultation already on the types of budgets that we put in place. For example, we have to reach agreement with the European authorities and the IMF—and have done so—on the level of deficit that we run in all budgets up to 2015."

He also boasted that he has "a fiscal control bill drafted already which in certain respects goes further than is required."

His audience of City of London financiers and bankers might have missed the travesty of the principles of sovereignty, democracy and independence that he was espousing, but European democratic opinion, and in particular its Irish section, cannot be equally blind. Today, his fiscal control bill can still be defeated or repealed in a parliament that is answerable to the Irish people, and even the IMF-ECB-EU "troika" will ultimately have to leave these shores.

But the effect of the Fiscal Compact Treaty would be to turn the state in effect into a permanent province of a Franco-German-dominated euro zone.

While the Government has not indicated any particular worries about the specifics of the draft treaty, it has moments of panic about whether it will have to concede a referendum on it.

In a little-publicised announcement made to the Press Association over the holiday period Enda Kenny announced that he is going to "set up the Referendum Commission on a much more permanent basis so that the commission will be able to reflect in readiness as to what is actually going to happen."

One can be certain that Kenny wants a Referendum Commission that would serve as a Government propaganda arm; and he will get this, unless the proposal is carefully scrutinised in the Dáil and Seanad and vigorously opposed if that becomes necessary.

The referendum body must fulfil its legal responsibility to explain in an impartial, fair and accurate manner what the referendum would actually have to decide.

Could Ireland be thrown out of the euro zone if it rejects the Fiscal Compact Treaty? Already this line of argument has raised its head in direct proportion to the level of referendum phobia besetting the Government. The answer is clearly No! as there is no treaty provision for a member-state to be expelled from the EU or EMU.

"Beggar thyself and thy neighbour" is a mantra that can be applied to the Fiscal Compact Treaty. It offers us no future. It might achieve a stabilisation of the euro-zone crisis, but only at the cost of recession and the imposition of huge burdens on people.

It is a step too far, and the People's Movement will campaign vigorously against it.

Transparency!

France, Germany, Italy and Spain are opposing plans to grant full access to any European Parliament, Commission and Council documents, including preparatory texts and the negotiating positions of individual member-states.

MEPs endorsed a draft regulation last month, despite resistance from the centre-right European People's Party. (Enda Kenny is a vice-president of the EPP.)

Danish EU presidency off to an auspicious start

As Denmark inaugurated its EU presidency with "green jobs" high on its priority list, the Danish company Vestas, the world leader in the wind turbine industry, announced that it would cut 2,335 jobs by the end of the year.

The announcement upset the news conference that the prime minister, Helle Thorning-Schmidt, gave alongside the president of the European Commission, José Manuel Barroso. Despite the festive mood, all questions from Danish journalists referred to the fresh news that Vestas would cut more than two thousand jobs.

Creating green jobs features high among the objectives of the Danish presidency. "Green growth," "green technology" and "green standards" were among the keywords repeated by various Danish representatives. Thorning-Schmidt said she had heard the previous day the "very, very sad news. This is one of the businesses that we thought will be the new way of doing things."

Danes don't hesitate to burn bondholders

while we bow to ECB diktat

The Danish authorities have done something—twice during the past year—that the Irish dare not do: impose losses on senior creditors in a failing bank

Here in Ireland we are preparing to repay another €1¼ billion to senior bondholders in Anglo-Irish Bank on 25 January; so is there anything to learn?

Denmark wasn't in the news, nor did the ratings agencies mention it after it hit the bond-holders, but some personal customers, municipalities and companies did lose large deposits. So what's different?

Firstly, the country is not in the single currency, so the European Central Bank is not the prime player that it is in the euro zone. So, the ECB's refusal to countenance any burden-sharing with senior creditors doesn't affect them.

Secondly, the separation of Danish banks from euro-zone lenders means that the risk of contagion is reduced—a perennial fear of the ECB, which fears that any senior bond losses in Ireland would puncture confidence in the entire stock of weakened bank debt in the euro zone.

It is true that the loans in the Danish banking system were not as large as in Ireland, and the losses incurred in its property crash were not as great, while a scattered banking sector with more than 120 lending institutions facilitated the development of different policies for small banks and the bigger, systemically important ones.

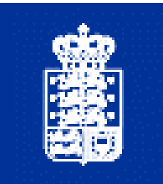
Denmark experienced a 20 per cent collapse in the property market and large defaults on agricultural loans, which led the state to prop up banks. By the end of 2010 no fewer than ten lenders had been rescued when the government introduced a new policy designed to minimise the exposure of taxpayers. This policy allows non-systemic banks to fail if there is no reasonable prospect of retrieving their business.

The first test came last February when one lender, Amagerbanken, demanded further cash injections if it was to be saved. The government baulked, and decided instead to let it fail. Amagerbanken's private shareholders had already been wiped out. The next move would see other investors—including senior bond-holders and depositors, who have an equal standing in Danish law—incur a loss estimated at 44 per cent, later reduced to 15 per cent, with the possibility of a further claw-back For depositors, the loss was applied to any sum greater than the equivalent of €100,000 protected under statute.

Shares in other banks came under pressure, however, and both the government and the central bank issued statements reassuring investors that Danish banks were safe; but the government did introduce a new provision designed to make it more attractive for a stable bank to take over a stricken bank.

The government still reserved the right to make a bank fail, but this mechanism was employed in October to prevent the failure another small lender, Max Bank.

So, whether Denmark burns bond-holders again remains to be seen, but, under conditions of their own choosing, they have shown that it can be done. The most important of these conditions is possessing an independent currency.



A governor of the Danish central bank has said it should be within the powers of the authorities in the euro zone to impose losses on senior bank creditors, a policy pursued by non-euro Denmark but resisted in the single-currency area by the European Central Bank.

When Ireland sought to do the same with unsecured, unguaranteed senior bond-holders in the former Anglo-Irish Bank, the ECB blocked the move, on the grounds that it would undermine confidence in the debt of weakened euro-zone banks generally.

Per Callesen, one of the three governors of Denmark's central bank, said the failed banks Amagerbanken and Fjordbank Mors were considerably smaller than the Irish institutions. He acknowledged a contagion effect on other Danish banks last year after the failure of Amagerbanken and Fjordbank Mors and the losses imposed on their senior creditors but said this dissipated after a while.

He said it was feasible to take similar measures in the euro zone and pointed out that such interventions were common in the United States. "We took the step in two cases last year. That's not the only approach we have to bank resolution but it's one of them. If there's no other solution to be found within the sector, it could be done." When asked whether senior creditors could be burned in the euro zone he replied: "Of course it can be done."

Yes, it can get worse

Troika spells out 2013 budget

The EU Commission and the International Monetary Fund have disclosed details of proposed measures for Ireland's 2013 budget. Total savings of a further €$3\frac{1}{2}$ billion are planned: €$1\frac{1}{4}$ billion in new taxes and €$2\frac{1}{4}$ billion in cuts. This assumes that there will be growth in the economy, an eventuality that even the most optimistic must consider unlikely. If there is not, then a mini-budget cannot be ruled out some time in mid-year.

Officials from the troika will arrive in Ireland this week for a ten-day mission to evaluate Ireland's compliance with the bail-out programme during the last quarter of 2011. The two biggest areas identified for the €$2\frac{1}{4}$ billion in cuts are social welfare and the numbers of public-sector employees. The IMF has stated that social welfare will "contribute the bulk of savings," expected to be upwards of €500 million for 2013.

The disposal of state assets has led to continuing disagreement between the troika and the Government and will play a major part in this month's discussions. The Government has committed itself to divesting only €2 billion in state assets, while the IMF has suggested €5 billion. The Government is likely to agree to the higher figure this month, publicly stating that the proceeds will be used for a jobs stimulus package, rather than debt reduction.

What will he get up to next?

The president of the European Council, Herman van Rompuy, is to send two hundred "world leaders" *The World Book of Happiness,* a collection of essays by a hundred happiness experts from fifty countries, in an effort to "spread a little joy" as citizens of member-states attempt to come to terms with EU austerity.

Maybe it does beat his book of haikus!

Kenny says No!

Enda Kenny has rejected a call from Fianna Fáil for a referendum on the Fiscal Compact Treaty, regardless of whether or not one is required by the Constitution. He dismissed comments by the Fianna Fáil leader, Mícheál Martin, who said it would be appalling if a referendum on the treaty was not held one way or another.

"The only time you hold a referendum is when you want to change the Constitution," said Kenny. "So if the Attorney-General's legal advice formally to the Government says that this agreement and the text that is being signed off requires a referendum, then one will be held."

Dismissing the political expediency of holding a referendum, Kenny said: "You don't go holding a referendum unless you have to, and clearly the advice of the Attorney-General is what the Government will act on, as we've always done."

He also announced that he was going to set up a permanent Referendum Commission to ensure that its members are prepared should the public be required to vote on changes to EU treaties.

The Referendum Commission, which was established in 1998, convenes only before a referendum is held. But Kenny said that operating on a more permanent basis would mean it would be better prepared for the vote and to adequately inform the public of the arguments for each side.

Those who opposed the Lisbon Treaty and observed the "educational" efforts of the Referendum Commissions will be loath to depend on the new commission to inform the public of their arguments! Rather, it suggests a long-drawn-out campaign if a referendum on the compact is held, with plenty of Government-inspired information

Kenny claimed that "on the last occasion—in October—there was some confusion, and that's one of the reasons I want to set up the Referendum Commission, to be able to reflect more clearly on these things and the need for a political discussion." On that occasion the people rejected a Government proposal to grant increased power to the Oireachtas.

Declan Ganley shows his colours

It may have been a surprise to some people when the founder of Libertas, Declan Ganley, called for a "United States of Europe" in an essay written with the historian Brendan Simms of the University of Cambridge. However, he had already revealed his "conversion" and the creation of a new mission a number of months ago, and has even said that he was always a federalist (echoes of Fintan O'Toole's expansive "I was always a Europhile" on a recent edition of "The Frontline").

He has also begun discussions on founding a new party that would contest the European Parliament elections in 2014, though there are others from the same side of the political spectrum engaged in similar explorations.

Ganley argues that Europe should replicate the structures and constitution of the United States at the time of its foundation. Such a move would require participating states to cede large degrees of their sovereignty, including the areas of fiscal policy and foreign policy.

"We now see Europe's choice as this: either learn from the lessons of history and take the calculated but worthwhile risk to unite fully in a democratic and federal union, or see this project fall apart," they write in the joint essay, which was published in the *Sunday Business Post.*

They also believe that major reforms should take place before full federation could advance. That would be discussed at a special convention, after which states could opt in or opt out.

Given that it is unlikely that Ganley will oppose the fiscal compact, his declaration may simplify the range of aspects informing the debate, and simplify it for voters.

Goldman Sachs consolidates

Bank of Ireland has appointed two new directors to its board. One of them, Patrick Mulvihill, spent most of his career with Goldman Sachs, where he filled the role of global head of operations, covering capital markets operations, asset management operations and payment operations. He also sat on the firm's risk, finance and credit policy committees.

He is a non-executive director of Goldman Sachs Bank (Europe) PLC, and is a member of their audit committee.

And Goldman Sachs could be paid as much as €7.8 million for advising the Government on the recapitalisation of Ireland's banks, according to Michael Noonan, who said the National Treasury Management Agency, had appointed Goldman Sachs as corporate finance advisers to evaluate the banks' plans.

"Fees of up to €7.8 million may be payable, depending on the completion of transactions and performance," Noonan said. The recapitalisation brief represents the second NTMA appointment in favour of Goldman Sachs, which also advised on Anglo's plan to take over Quinn Insurance.

In September last the central Bank of Ireland fined Goldman Sachs €160,000 following an investigation into regulatory breaches. Sure they're well worth €7.8 million!

Fiscal compact stands on shaky legal ground

The Fiscal Compact Treaty that emerged from the December EU summit is causing headaches for legal experts in the German Bundestag. Patrick Sensburg, a Christian Democrat member who chairs the Bundestag Subcommittee on European Law, says there are still questions over the treaty's legal soundness.

"There are actually European and international lawyers who say that this is not possible [to have an intergovernmental agreement], because EU law takes precedence. They argue that such a new treaty amounts to a conflict between EU law and international law." As a consequence, he said, "this separate agreement would not be binding" on its signatories, because EU law would remain above the new treaty.

"If a state were to say, 'I do not consider myself in the fiscal political pact,' then it would indeed vio-

late the new international treaty, but it would be acting in accordance with European law."

Taking as an example the new qualified majority voting agreed under the international agreement, which is different from the EU treaties, Sensburg said: "If a signing party decides that it will not accept the new stability criteria any more, you could not accuse it of violating EU law. The ECJ would have to consider the conflict with the EU treaties."

So, if a signatory decides that it does not accept the new stability criteria any more, the European Court of Justice could not accuse it of violating EU law: it would merely be violating an agreed consensus. In effect, the ECJ would be powerless in this case, and the other signatories to the pact could only rely on political pressure to ensure continued compliance.

Watch this space!

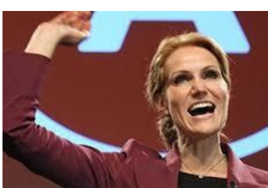
Former German president argues for repatriation of power from Brussels

A former president of Germany and former chairman of its Constitutional Court, Roman Herzog, warned that the euro-zone crisis could be a threat to democracy. He also argued that "the EU was not conceived as a superstate. It will not work. We live in a world that depends on flexibility and the individual initiatives of states. Even today the EU is hamstrung by the masses of rules produced by Brussels . . . First of all around half of the 70,000 pages of EU regulations ought to be repealed."

And a former president of the Federation of German Industries, Prof. Hans-Olaf Henkel, has described Angela Merkel's claim that "if the euro fails Europe fails" as a "fallacy," perceptively arguing that "the guarantor of peace is democracy, and not the euro . . . The increasingly undemocratic attempts at crisis management—the constant meddling of German politicians in the affairs of other countries, the limitation of the budgetary control of member-states' parliaments by undemocratically elected centralist supervisors—are leading to a dangerous erosion of democracy."

Denmark's awkward presidency

Denmark took over the six-month rotating presidency of the European Union on 1 January; but not being a member of the single currency means that politically it is already on the back foot with the Merkel-Sarkozy alliance.



The newly elected prime minister, Helle Thorning-Schmidt, found this out very quickly when she spoke out at the December summit about the importance of keeping the EU 27 together. Sarkozy rejected the overture: "You're an 'out,' a small out, and you're new. We don't want to hear from you," he said, according to an account in the *Financial Times*. Nevertheless Denmark agreed to eventually sign up to the fiscal compact agreed at the summit.

The coming weeks will be dominated by efforts to nail down the details of the compact. But this presents its own problems for Denmark, which is keen to make sure its contents will not trigger a referendum. Internal Danish politics means that this may be an impossible goal for Thorning-Schmidt, whose coalition government is propped up by a Euro-critical left-wing party that is against the pact and is calling for a referendum on it.

Denmark will be in charge as the effects of the "six-pack" begin to be felt. The six new laws, massively increasing the EU's supervision of national budgets and committing member-states to a new European semester, came into force in mid-December. The March summit will be the first test of the new system, with member-states supposed to agree recommendations by the Commission on their budget spending policies.

Here in Ireland we were well served once again by Government and media: hardly a whisper about the six-pack, which will institute permanent troika-style economic governance, coming into force.

Anglo-Irish and Irish Nationwide repayments to bond-holders in January 2012 will total €2.28 billion.