

THE IMF AND IRELAND: WHAT WE CAN LEARN FROM THE GLOBAL SOUTH

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EXECUTIVE SUMMARY

Learning from the Global South

This paper highlights a number of concerns about the nature of the EU-IMF loan agreement with Ireland. It is based on the experience of global justice organisations that have long monitored the impact of IMF policies in the Global South. The paper first takes up that experience and highlights the pernicious impacts the IMF – whose governance is skewed towards the interests of rich countries – has wreaked throughout the Global South. These include:

- Increases in poverty rates as a result of inappropriate liberalisation measures in countries such as Mali;
- Reductions in education and other social sector expenditures in countries such as Zambia;
- The erosion of democratic principles in the Global South as countries are browbeaten by the IMF into accepting certain, specific policy conditionalities.

However, the experience of the Global South also shows that it is possible to resist IMF prescriptions, such as Argentina did when it partially defaulted on its debt in the early 2000s and boosted its economic recovery as a result. There are important lessons here for Ireland.

The EU-IMF Loan Agreement and the Erosion of Irish Democracy

Drawing from this experience of the Global South, the paper highlights the fact that the EU-IMF loan agreement robs Irish people of their right to build a just society. This is because the loan agreement:

- Locks Ireland into a very specific neo-liberal economic model dominated by policies which impose suffering on the less well off in Irish society.
- Is coercive: policy conditionality, both explicit and implicit, is at the core of the document and is central to the process of its proposed implementation. Cash disbursements will depend on the implementation of the agreement and there is virtually no political flexibility to allow for changes to the content of the agreement.
- Gives huge powers to the lenders in micro and macro level analyses and decision-making.
- Is driven by a desire to meet deficit level targets, and not by a desire for fair outcomes, as evidenced by the strong emphasis on deadlines for policy and legislative changes rather than social and distributional outcomes.
- Locks in the establishment of new decision-making structures with unclear mandate and/or membership (including a budget advisory council).

The agreement diminishes Irish democracy as it removes important facets of economic decision-making from democratic deliberation. It should be rejected so as to allow Irish people decide and advocate for the economic model they wish to be pursued.

The Default Option

By examining some proposals for bank debt default and unpacking the unnecessarily fearful discourse surrounding them, the paper finally reveals that people in Ireland are unjustly paying for mistakes of the European Central Bank (ECB) which allowed European banks to recklessly lend to Irish banks (themselves guilty of extremely reckless behaviour), and are thus being forced to protect German, French and other banks from the financial losses that they deserve to bear. The paper highlights that there are plenty of feasible proposals in circulation (such as debt restructuring through debt to equity swaps) that should be considered as alternatives to repaying unjust debts. We should suspend bank debt repayments (the state is funded until the middle of next year, which allows us do this); carry out a debt audit, the outcomes of which would illustrate the nature and amounts of public and private debt, and what portion of it is legitimate and what is not; do not repay the unjust portion of the debt; instead, ensure that the ECB and other European actors that are largely responsible for creating this unjust debt are made to pay for it.

The concerns surrounding debt default proposals are unpacked and found not to stand up. The concerns highlighted relate to:

- Punishment of Ireland by the financial markets. However the paper points out that the idea that the markets would ‘punish’ Ireland for a partial default is undermined by the fact they are *currently* punishing Ireland (through exceptionally high rates being charged on Irish bonds and downgrades in Ireland’s credit rating) for trying to service an unsustainable debt.
- Injustice to banks that lent after the bank guarantee was issued. However, the paper explains that the bondholders at the time the guarantee was issued can still be identified and levied to the amount that they would (and should) have lost out on had a proper debt restructuring then taken place.
- Fears that Irish people’s private pensions may be impacted by a debt default. However, the paper asks why people with private pensions in the crisis should be better protected than people on social welfare who are being targeted by the cuts demanded to pay the debt. It also emphasises that we do not know which Irish pension funds are at stake and how much money is at issue. Thus, we need to know who this money is owed to and the terms on which it was lent. The paper therefore calls for a debt audit, along the lines of similar initiatives in the Global South, to determine the precise sums and actors involved – and until that audit is completed, debt repayments should be suspended. In the words of the Italian playwright Dario Fo, we need to insist that we “can’t pay, won’t pay” – and *shouldn’t* pay.

THE IMF AROUND THE WORLD: A RECORD OF DISASTER

IMF Governance and Policy Conditionality

The IMF was created in 1944 and is governed by its member country governments. It currently has 187 countries as members. Rich countries dominate decision-making procedures through having seats at the level of board of directors. Voting shares are decided based on the size of the country's economy, which also determines the size of their vote in the IMF. The managing director of the IMF described recent governance changes at the institution as 'historic' due to the shift of 6 per cent of the vote to 'emerging economies' and Southern countries. However, according to civil society group Bretton Woods Project, the 'changes will make China the third largest shareholder and will vault India, Russia and Brazil into the top ten. However, more than half of the 6 per cent shift will come from other developing countries.'¹ Thus, there will be little change with the US retaining its veto in the institution at 16.5 per cent, and Africa's share actually reducing from 6 per cent to 5.6 per cent. The total share of the so-called 'Least Developed Countries' in the institution is 4.1 per cent.

Countries often go to the IMF as a last resort, when their payments are greater than their income. They will not be considered for a loan unless the country agrees to implement certain specified policies agreed between the government and the IMF. In Southern country contexts, the World Bank and IMF often co-operate with each other in deciding policy conditions. (In the case of eurozone countries the EU has worked with the IMF in setting policy conditions). The IMF also acts as a 'gatekeeper' to debt cancellation and aid flows to Southern countries. As an international and powerful voice on macroeconomic conditions, failure to gain IMF approval can lead to decreased investment, aid and lending from other sources.

The IMF in the Global South: Promoting Poverty, Eroding Democracy

The IMF has generally had a detrimental impact on Southern countries' societies. Take the example of Mali, one of the poorest countries in the world where 90 per cent of the population live on less than US\$2 per day.² As part of its lending conditions, the IMF promoted the privatisation of the electricity sector and the liberalisation and privatisation of the cotton sector. Oxfam International and Malian civil society organisations highlight that the devastating results of these conditions included:

- Dramatic price increases in electricity costs (making Malian electricity the most expensive in the region) with limited additional coverage. The few Malians who had been able to access electricity in the first place (for example teachers in urban areas) either had to stop using electricity or were forced to reduce other basic consumptions to meet the price increases.
- A 20 per cent drop in cotton prices for 3 million Malian farmers as a result of liberalisation in a highly distorted international market due to rich-country subsidies to their cotton farmers. According to an unpublished study by the World Bank this was viewed as likely to increase poverty by 4.6 per cent across the country.

¹ <http://www.brettonwoodsproject.org/art-567128>

² This case study is based on Oxfam International, 'Kicking the Habit: How the World Bank and the IMF are Still Addicted to Attaching Economic Policy Conditions to Aid', *Briefing Paper* 96, Oxfam International, November 2006

- The blocking of Official Development Assistance (ODA) to the tune of US\$72 million by the World Bank when the Malian government failed to privatise its cotton industry as part of World Bank and IMF policy conditions. Oxfam estimated that this money could have been used to pay the salaries of 5,000 teachers for the next ten years, in a country where only 17 per cent of women between 15 and 24 are literate.

It is not surprising that, in response to these disastrous outcomes, in 2005 President Amadou Toumani Touré of the Republic of Mali noted at an opening speech of a development cooperation forum in Washington:

‘True partnership supposes autonomy of beneficiary countries in requesting aid and in determining its objectives... Often programmes are imposed on us, and we are told it is our programme... People who have never seen cotton come to give us lessons on cotton... No one can respect the conditionalities of certain donors. They are so complicated that they themselves have difficulty getting us to understand them. This is not a partnership. This is a master relating to his student.’³

Many social sectors central to development have been negatively impacted by IMF policy conditions. ActionAid and the Education For All Campaign show how tight macroeconomic policies promoted uniformly by the IMF across different countries – despite unique and specific challenges in each country – have prevented many so-called ‘Low and Middle Income developing countries’ from investing in education.⁴ They highlight how the IMF has made it ‘difficult or impossible to provide education for all citizens. Many [governments] are therefore unable to meet their obligation to fulfill the fundamental right of free, basic education for all children, despite their commitment to do so in international agreements such as the Millennium Development Goals and under their own constitutions.’⁵ Their report highlights the real life impact of this on children’s education, including:

- A 2004 ban on hiring teachers in Zambia as a result of an IMF policy condition on the public sector wage bill, at a time when Zambia was highly indebted (with the IMF as one of its major creditors). This meant leaving thousands of teachers unemployed and a pupil–teacher ratio in Zambia of 100 to 1 in some schools. Conservative estimates at the time suggested that a further 6,000–7,000 teachers were needed if a basic desired student–teacher ratio of 40:1 was to be achieved.
- The privatization of 20 per cent of pre-primary and primary school education in Guatemala as a policy condition to reduce the fiscal deficit, resulting in low quality education due to an inappropriately reduced role for the state, high transfer of costs to local communities and poor quality of teaching due to the use of unprofessional teachers.

So severe has the impact of IMF policies been that one recent academic study has found a

³ *Ibid*, p.3

⁴ Education for All Campaign & ActionAid International, ‘Contradicting Commitments, How the Achievement of Education for All is Being Undermined by IMF’, September 2005; see also ActionAid International, ‘What Progress? A Shadow Review of World Bank Conditionality’, 2006

⁵ *Ibid*, p.4

clear link between the adoption of IMF programmes and the outbreak of civil war.⁶ Southern countries who dare to disagree with such policies, however, are often blocked from receiving aid flows by the IMF – as per the example of Mali mentioned above. And many others had their debt cancellation processes delayed as they were declared ‘off track’ in their implementation of IMF policy conditions. These include Honduras which was declared ‘off track’ when the government increased teachers’ wages when it was chosen as one of the first recipients of the ‘Education for All’ Fast Track donor initiative.⁷ Malawi was declared ‘off track’ when the government borrowed money from domestic banks to prevent its citizens from dying during an acute drought.⁸ In 2006, donors did not deliver \$25 million in promised budget support to Sierra Leone, because the country did not meet IMF conditionality.⁹

Has the IMF Improved?

There has been much discussion on whether the IMF has improved its track record. At the onset of the financial crisis the IMF did support protection of priority social spending and in some cases supported fiscal stimulus. However, these changes were short lived and the IMF is again calling for the ‘usual suspects’ – low fiscal deficits, low inflation rates, flexible exchange rates, and trade and financial liberalisation.¹⁰ Thus around the world the IMF continues with its usual prioritisation of short term macroeconomic variables over and above social welfare, reducing poverty and investing in human development. For example in Pakistan, where people are suffering the impacts of massive flooding, the IMF has required government to end energy subsidies, increase fuel and electricity tariffs and increase regressive excise and sales taxes. In Jamaica teachers and other public sector workers have not received negotiated reimbursements of salary arrears. In Romania as part of a 2010 loan, public sector wages were slashed by 25 per cent and pensions by 15 per cent. In September, 12,000 Romanians protested in Bucharest to demand authorities stop the layoff of public sector workers.¹¹

Resistance is not Futile

Despite this dreadful record, the IMF is not irresistible. Argentina is a striking example of a Southern country, used as a ‘free-market experiment’ by its political leaders, the US and IMF, which defaulted and stood up to its creditors. On the untimely death of ex-Argentinean President Néstor Kirchner who challenged the creditors to Argentina, Walden Bello wrote

⁶ Hartzell, C.A., M. Hoddie and M. Bauer (2010) ‘Economic Liberalization via IMF Structural Adjustment: Sowing the Seeds of Civil War?’, *International Organization* 64: 339-56.

⁷ Education for All Campaign & ActionAid International, ‘Contradicting Commitments, How the Achievement of Education for All is Being Undermined by IMF’, September 2005, p. 31

⁸ <http://www.jubileedebtcampaign.org.uk/Response%20to%20the%20Liberal%20Democrats%20International%20Development%20Consultation%20Paper+5289.twl>

⁹ See Eurodad and Campaign for Good Governance, ‘Old Habits Die Hard: Aid and Accountability in Sierra Leone’, January 2008,

http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Old%20habits%20die%20hard.%20Aid%20and%20Oaccountability%20in%20Sierra%20Leone.pdf

¹⁰ Eurodad ‘Standing in the Way of Development: A Critical Survey of the IMF’s Crisis Response in Low Income Countries: A Eurodad & Third World Network report’, April 2010

¹¹ Recent analysis of IMF crisis lending is available at Jubilee USA, ‘Unmasking the IMF, The Post-Financial Crisis Imperative for Reform’, October 2010,

http://www.jubileeusa.org/fileadmin/user_upload/Resources/Policy_Archive/Oct_5_IMF_Report.pdf

that ‘Kirchner defied the creditors. More importantly, he got away with it.’¹² In December 2001, the Argentine government fell amidst mass protests, rising unemployment and the collapse of the peso. This signaled the end of an economic experiment that, until a few years earlier, had been widely regarded as a proud example of free market reform. In the midst of economic turmoil, Argentina defaulted and announced a unilateral moratorium on the repayment of its public external debt.

Argentina’s deep economic decline continued following the default. But the default did not cause the decline. It was the other way round – dire economic circumstances left Argentina with little choice but to default on its debt payments. By 2002, the economy was at rock bottom, with first-quarter GDP down by 16.3 per cent on an annual basis. The banking system had collapsed and bank accounts were frozen. Official unemployment peaked at 21.5 per cent with another 20 per cent underemployed. More than half the population had sunk below the poverty line.

Throughout this period, Argentina was negotiating with the IMF for a rescue package that would help the economy recover. But the IMF continued to recommend the same harmful policies, such as decreasing the money supply, which had drawn out the economic depression. It also used the opportunity to demand politically unpalatable changes that were unrelated to economic recovery. On 25 May 2003, Néstor Kirchner was sworn in as president. He pledged not to ‘return to paying debt at the cost of hunger and exclusion of Argentines’. He appeared to be prepared to stand up to the IMF by refusing to implement at least the most unreasonable and harmful policies it was pushing for. Kirchner announced that the government would offer only about 25 cents on the dollar to the private holders of its defaulted debt. After much complaint and lobbying, a large majority of Argentina’s creditors surrendered their claims before the deadline of 25 February 2005 in exchange for new bonds worth roughly 35 cents on the dollar.

Argentina had broken the rules in a spectacular way: a huge sovereign debt default, combined with what was widely denounced in the business press as a refusal to bargain with creditors, and a dangerous confrontation with the IMF and its backers. The consensus amongst the experts was that Argentina would suffer severe long-term consequences, such as a long drawn-out depression and isolation from international markets. But the result has been quite the opposite. The spectacular post-default growth of the economy has surpassed even the rosier predictions. Within a few months of the default, economic recovery was underway in Argentina and there was positive growth in the last three quarters of 2002. The economy grew by 8.8 per cent in 2003 and 9 per cent in 2004 and is still going strong with fundamentals having improved significantly since the successful debt restructuring. Unemployment dropped from 14.5 per cent in 2003 to 12.1 per cent in 2004. Investors started to return, especially after a bond rescheduling in April 2005. As *The Economist* put it: ‘Capital markets appear to have a remarkably short memory’.

Argentina’s example was followed by many other countries. Brazil, Thailand, Bolivia, Indonesia, Uruguay and Ecuador were among those who also paid off their debts to the IMF, with President Correa of Ecuador declaring ‘We don’t want to hear anything more from that

¹² <http://www.cadtm.org/Argentina-Defy-the-Creditors-and>. The rest of this section is drawn directly from Christian Aid, ‘Enough is Enough, The Debt Repudiation Option’, 2007, http://www.eurodad.org/uploadedFiles/Whats_New/Reports/Debt%20Repudiation%20Christian%20Aid.pdf

international bureaucracy'.¹³ President Chavez of Venezuela advanced plans for a 'Bank of the South' as an alternative source of balance of payments support for poor countries unwilling to accept IMF support.¹⁴

THE IMF (AND THE EU) IN IRELAND: DENYING DEMOCRACY, DEFENDING THE RICH

The Politics of Denying Democratic Choice

Ireland has been a member of the IMF since 1957.¹⁵ Despite ongoing calls from global justice groups for Ireland to reform the undemocratic governance of the IMF and to end the damaging impact of the IMF's policy conditions, Ireland has failed to influence the institution in a pro-democracy or anti-poverty direction. Partly as a result of these failures of successive Irish governments, Irish people are now confronted with the same anti-democratic and immiserising consequences the IMF has imposed around the rest of the world. The parallels between Ireland and the Global South are particularly striking in respect of one of the key personnel involved in the Irish negotiations.

Ajai Chopra, the head of the IMF team negotiating the Irish 'bail out', previously worked in the IMF's Asia-Pacific department and led its 'rescue' mission to South Korea after a financial collapse in 1997. So how did that work out? State interventions were curtailed and the government budget was slashed (leading to massive redundancies), despite the fact that government overspending had nothing to do with the Korean crisis. Between 1996 and 1999, South Korea's unemployment rate tripled and the proportion of the population identifying themselves as middle-class fell from 64 per cent to 38 per cent.¹⁶ Korean trade unions and other forces opposed these policies but they were quickly assured that their opposition would count for nothing, as documented by Naomi Klein:

'the end of the IMF negotiations coincided with scheduled presidential elections in which two of the candidates were running on anti-IMF platforms. In an extraordinary act of interference with a sovereign nation's political process, the IMF refused to release the money until it had commitments from all four main candidates that they would stick to the new [IMF] rules if they won. With the country effectively held at ransom, the IMF was triumphant: each candidate pledged his support in writing... [Y]ou can vote, South Koreans were told, but your vote can have no bearing on the managing and organisation of the economy'.¹⁷

In like manner, EU Commissioner Olli Rehn has called for 'political consensus' on the Irish economic plan.¹⁸

The agreement (hereafter simply referred to as the document or the agreement, for ease of

¹³ Bretton Woods Project, 'Just Say No: Vocal Rejection of Bank, Fund Increasing', March 2007, www.brettonwoodsproject.org

¹⁴ *Ibid.*

¹⁵ The latest annual report of Ireland's participation in the IMF and World Bank can be found at: <http://www.finance.gov.ie/viewdoc.asp?DocID=6272&CatID=45&StartDate=1+January+2010&m=p>

¹⁶ Klein, N. (2007) *The Shock Doctrine: the Rise of Disaster Capitalism*, London: Penguin, p. 272

¹⁷ *Ibid.*, p. 270

¹⁸ <http://www.irishtimes.com/newspaper/breaking/2010/1108/breaking13.html>

presentation) between Ireland and the EU-IMF¹⁹ highlights what constitute ‘prior actions’ – the conditions necessary to be implemented for the first tranche of funds to be disbursed (in this case, after submitting the budget to the Dáil) and ‘structural benchmarks’ – the policy areas that the lenders view as the most critical areas (largely relating to banking and credit union assessments, stress tests, banking recapitalisation, banking legislation, the establishment of a budget advisory council and the introduction of new expenditure frameworks). While the lenders will argue that the very large number of other policy and legislative changes are within the remit of the Irish government, clearly the method of development of the programme jointly with the Department of Finance, Central Bank and the lenders, the fact that they had to be included in a time-tabled fashion in the loan agreement, the indication in the agreement that changes may only be made in exceptional circumstances, and the need for continued and ‘close contact and consultation’ with the lenders, demonstrates that the democratic right of the Irish people to demand change to the content is deeply diminished.

The agreements lock a very specific neo-liberal economic perspective into a hugely influential national loan agreement. This perspective is massively focused on expenditure cuts, rather than on job creation or economic stimulus, and on taking money from the less well off rather than from the wealthy. The document also emphasises the need for a ‘business friendly environment’ (p.2), ‘vigorous action to remove remaining restrictions on trade and competition’, and a strong emphasis on private sector involvement and claimed efficiency (for example, regarding the electricity and gas sectors) (pp.16 & 31). This is despite the fact that there are plenty of alternative policies which the Irish government could pursue, and which should be the subject of democratic debate and deliberation.²⁰

The loan document reaches deep into decision-making on the economy and society including in the areas of: bank recapitalisation, debt reduction and restructuring; subordinated debt; the minimum wage (the reduction of which is a condition not previously imposed on any other country undergoing IMF-sponsored ‘structural adjustment’²¹); employers’ freedoms; unemployment and social welfare; taxation; pensions; public sector spending, including pay and jobs; capital spending; deficit control; personal debt; natural resources; Ireland’s ‘credit institutions’; legal and medical professions; competition law; the size of retail outlets; retirement ages; local government funding; bankruptcy law; and many others.

The document is coercive: explicit or implicit conditionality is at the core of the document upon which cash disbursements depend; there is virtually no flexibility for changes to the content. Ireland was not to receive financial disbursements until the Budget 2011 was passed (Budget 2011 was obviously based on the loan agreement). This control will continue throughout the loan period. The document indicates the draft budget for 2012 ‘will be provide[d] in line with the National Recovery Plan and the programme and including the detailed presentation of consolidation measures amounting to at least € 3.6 billion’ (p.15). The document is clear that deviation will be extremely difficult. It indicates ‘in exceptional

¹⁹ The agreement is comprised of 2 ‘letters of intent’ to the EU presidency, European Commission and European Central Bank, and to the IMF from Minister for Finance Brian Lenihan and Central Bank Governor, Patrick Honohan; a Memorandum of Understanding on the whole loan package; and, as per the IMF’s usual approach to loan contracts, a Memorandum of Economic and Financial Policies and a Technical Memorandum of Understanding. See <http://www.finance.gov.ie/viewdoc.asp?DocID=6601>

²⁰ See, for example, www.socialjusticeireland.org; www.communityplatform.org; and www.unitetheunion.org

²¹ There is some indication that pressure for this move may have come from the EU more than the IMF: <http://www.irisheconomy.ie/index.php/2010/12/13/sargent-ask-olli-rehn-about-the-minimum-wage/>

circumstances, measures yielding comparable savings could be considered in close consultation with European Commission, IMF and ECB staffs' (p.7). There is a hugely influential role given to the lenders in micro and macro level analyses and decision-making. Ireland commits to consulting with the lenders on the adoption of areas that are not consistent with the loan agreement (p.7). Ireland's public servants will report to EU/IMF lenders on particular data and policy areas on a weekly, monthly and quarterly basis. State assessments (such as on the electricity and gas sectors) will be reviewed by the European Commission (p.16) and, presumably, the new legislation that is flagged in the documents – such as new personal debt legislation and bankruptcy legislation – will also be reviewed by the lenders (p.17).

There are numerous deadlines and they are driven by a desire to meet deficit level targets, not by a desire for fair outcomes. The document is divided into 'quarters', linked to policy change deadlines. The policy targets are strongly linked to achieving the deficit targets set out in 'EU Council Recommendation on excessive deficit procedures'. The deadlines do not indicate any need to ensure that the timelines allow for adequate analysis or consultation with affected groups.

Ireland commits to the EU and IMF to taking additional unknown measures beyond what is in current public documents such as the 4 Year Plan. Given the already harsh content of the loan agreement, it is highly disturbing that Ireland indicates 'We stand ready to take any corrective actions that may become appropriate for this purpose as circumstances change' (p.6). The agreement locks in the establishment of new decision-making structures with unclear mandate and/or membership. In particular, a budgetary advisory council (identified as a 'structural benchmark') will be established to independently assess the government's budgetary position and forecasts (p.13), but no further detail is provided on the mandate or membership of this potentially critical body.

This agreement is fundamentally undemocratic. Matters of economic policy must be decided upon democratically and no particular vision of how an economy should be organised belongs in a loan agreement. In addition, the silences in the document are equally deafening. For example, there is a section on 'burden-sharing with holders of subordinated debt in relevant credit institutions', but no reference to burden sharing with *senior* bank bondholders. In fact, senior EU officials have reportedly gone further and assured senior bondholders that a change in government will not result in their suffering any losses whatsoever despite the fact that this is not (formally) included in the agreement.²² This is the subject of the next section.

The Debt Default Option: Why the IMF-EU Deal has to be Rejected and Those Responsible for the Crisis Made to Pay for It

'The [bank] debts were incurred, not to pay for public programs, but by private wheeler-dealers seeking nothing but their own profit. Yet ordinary Irish citizens are now bearing the burden of these debts'²³: Paul Krugman, winner of the Nobel Prize for Economics.

Sticking with the current EU-IMF agreement, and with the closely related 4 Year Plan, will impose savage pain on the most vulnerable sectors of Irish and global society, including those

²² *Irish Independent*, 9th December 2010

²³ Krugman, P., *New York Times*, 27th November 2010

on the minimum wage and on social welfare, those with disabilities and their carers, and those who will suffer in Africa and elsewhere as overseas aid is further reduced. It does not have to be this way. It is one of the ironies of the current crisis that some of the most radical proposed responses are coming from relatively mainstream economists – both Irish and international. David McWilliams, for example, has explicitly called for a default on Irish bank debt in the following terms:

‘We are witnessing a monumental struggle between the innocent average Irish person and the guilty creditors of the bust Irish banks. [R]ather than force the ECB to account for its own monumental culpability in allowing out-of-control German and French banks to lend recklessly to Irish banks, the Irish negotiators turned sides and acted as debt collecting agents of foreign banks. So the very banks that should be punished for their failures are being bailed out by the Irish citizens and, worse still, they will get paid more interest from us in the loans they are now extending to us, to save themselves.’²⁴

As McWilliams puts it, ‘corporate welfare, not social welfare, will sink this country’.²⁵ Wolfgang Munchau, a columnist with the *Financial Times*, calls on Ireland to revoke the full extent of the bank guarantee (depositors would still be protected) and to oblige all bondholders to convert their claims into equity stakes in the banks. Munchau then calls for the debt to be restructured on the basis of reasonable economic growth projections – and if this means that European banks and the ECB end up with some losses then ‘Let the German government pay for the German banks, and for the recapitalisation of the European Central Bank.’²⁶ (This is not to suggest that the German government bears unique responsibility for these matters, but German banks have played a particularly prominent role). Munchau acknowledges that that this could pose problems for institutions such as pension funds on which ordinary citizens depend (this is discussed further below), but argues that such problems are preferable to dumping the entire ‘bailout’ cost on the Irish people.

‘A default would cause havoc, no doubt, and would cut Ireland off from the capital markets for a while. But I would suspect that the shock would only be temporary. With a more sustainable level of debt, and the benefit of a real devaluation, Ireland should be able to pull through this. Once the market recognises that solvency is assured, I would bet international investors would once again be willing to lend. Even Argentina was able to gain funding from investors a few years after its default.’²⁷

This is also the position adopted by Trinity College economist Constantin Gurdgiev:

‘Morally, the idea of underwriting banks’ debts with taxpayers’ money is simply an antithesis of a civilised functioning democratic society. But forget morality. Economically and financially, the proposition that the levels of debt – well in excess of 150 per cent of our national economy as measured by GNP – can be sustained in the medium term is so out of touch with reality that those espousing it betray deeply rooted ignorance of simple principles of finance. [We need to push] an ‘erase’ button on our unsustainable debts. Far from triggering a panic in the markets – a panic that is currently already running like a wildfire due to the unwillingness of this Government

²⁴ *Irish Independent*, 1st December 2010

²⁵ *Irish Independent*, 9th December 2010

²⁶ *Irish Times*, 2nd December 2010

²⁷ *Ibid.*

to deal resolutely with the debt crisis – the orderly restructuring will most likely lead to a gradual, but fast-paced restoration in our own and markets’ confidence in the future of this country.’²⁸

Why then, in the face of such compelling arguments, is the default option not seriously on the political agenda? Three reasons can be adduced.

1. Ireland would be isolated from international markets

The first is that Ireland would be isolated from international financial markets and be unable to raise the funds to keep basic state services running. Thus, Minister of State at the Department of Finance Martin Mansergh claims that any diminution of bondholder claims would generate ‘unpredictable and cataclysmic consequences.’²⁹ Donal Donovan claims that Argentina was only able to ‘get away’ with default because it had an independent currency that could be devalued and because the primary commodity exports on which it depended fortuitously rose in value in the wake of the default.³⁰

Response:

The possibility of Ireland leaving the eurozone, reestablishing an independent currency and devaluing it against the euro should not be dismissed, and the idea of a ‘progressive exit’ from the eurozone has in fact been proposed as a response to the crises in Greece, Portugal and Spain.³¹ And Ireland, like Argentina, could also enjoy a boom in primary commodity exports if action was taken to ensure that the state had a proper stake in the Corrib gas field and other natural resources – estimated to be worth in excess of €400 billion – coming on stream off the west and south coasts of the country.³² In any event, the idea that the markets would ‘punish’ Ireland for a partial default is undermined by the fact they are *currently* punishing Ireland (through exceptionally high rates being charged on Irish bonds) for trying to service an unsustainable debt. The ratings agencies are downgrading Ireland’s credit rating precisely because they see the attempt to repay bank debt in full as futile.³³ Drawing a clear line between the portion of the debt that guarantees the bank bondholders (and which should not be paid) and that portion that is the government’s own debt would actually serve to calm the markets,³⁴ and, in all probability, allow Ireland borrow the money necessary to cover its costs at a rate of interest lower than the 5.8% stipulated in the EU-IMF agreement. And any market ‘punishment’ would almost certainly be short-lived – recent research suggests that markets, on average, fully ‘forgive’ defaulters within three years (though at least partial access to the money markets recovers well before then).³⁵ The recent experience of Iceland – which defaulted on a portion of its foreign debts and is now able to borrow at reasonable rates – supports this point.³⁶

²⁸ *Irish Independent*, 28th November 2010

²⁹ *Irish Times*, 3rd December 2010

³⁰ *Irish Times*, 3rd December 2010

³¹ Lapavistas, C. *et al* (2010) *The Eurozone Between Austerity and Default*,

www.researchonmoneyandfinance.org (September). Argentina’s pegging of the peso to the dollar had to be broken to allow economic recovery – there may be a parallel here with Ireland’s position in the eurozone.

³² Storey, A. and M. McCaughan (2009) *The Great Gas Giveaway*, Afri: Dublin (www.afri.ie)

³³ *Roubini Global Economics Monitor*, 13th December 2010

³⁴ Eichengreen, B., www.voxeu.org, 3rd December 2010

³⁵ http://dge.uma.pt/portal/docs_para_download/pej_papers/15.pdf

³⁶ Wilson, S. www.moneyweek.com, 3rd December 2010

2. It would be unjust to lenders for Ireland to default

A second argument against default is that it would be in some sense unjust – the debt now owed is largely owed to agents who lent to Ireland (and its banks) *after* the bank guarantee was issued, while the bondholders of Anglo Irish Bank and others at the time of the guarantee have already been paid off.³⁷ For example, it has been claimed that a €7.9 billion payment was made on the 30th of September 2010 to Anglo Irish Bank’s senior bondholders using an ECB loan.³⁸

Response:

If it is true that this payment was made to Anglo Irish Bank bondholders – and it is a scandal if it is – then a simple solution suggests itself: the bondholders at the time the guarantee was issued should be identified and levied to the amount that they would (and should) have lost out on had a proper debt restructuring then taken place. The think tank TASC has already proposed that the ECB should tax European banks as part of the alternative to the Irish ‘bailout’.³⁹

3. Irish People would suffer as a result of a default

A third argument against default is that Irish people would suffer as a result because some at least of the bond holders who would get ‘burned’ are Irish banks, pension and insurance funds. Economist Antoin Murphy asks the question: ‘Does the Irish public wish for such a result that would shift the problem to their pensions invested with the pension funds and insurance companies?’⁴⁰

Response:

Part of the answer must be: yes, why should those who had the money to invest in private pensions, for example, be protected while people receiving social welfare are pushed into penury?⁴¹ But part of the answer here must also be another question: which Irish pension funds are we talking about and how much money is at issue? The answer to that latter question is, remarkably, that we don’t know. Donal Donovan notes that ‘details on the institutional composition of the bondholder category have not been made available publicly, probably because of data problems and confidentiality reasons’.⁴² This is nonsense – we need to know who this money is owed to and the terms on which it was lent (e.g., was it before or after the bank guarantee was issued?) A first step in a default should be the establishment of a debt audit to determine the precise sums and actors involved – and until that audit is completed, debt repayments should be suspended (which itself would be an incentive for the creditors to cooperate with the audit). The Irish state, we are assured, is fully funded until the middle of next year so we have plenty of time to do this.⁴³ This initiative would mirror

³⁷ McHale, J. *Irish Independent*, 9th December 2010

³⁸ <http://www.politicalworld.org/archive/index.php/t-5131.html>

³⁹ www.tascnet.ie

⁴⁰ *Irish Independent*, 28th November 2010

⁴¹ It is probable that the pension funds are, in any event, insured against loss. The question of the pension funds raises another important, long-term issue – the inadvisability of relying on financial speculation to guarantee workers’ incomes on retirement.

⁴² *Op. cit.*

⁴³ See, for example, Brian Cowen’s remarks on this in the *Irish Times*, 17th November 2010

comprehensive debt audits that have been carried out throughout the Global South, including the official debt audit commission established by Ecuador in 2007 to assess the legitimacy (or lack of it) of historical lending to that country.⁴⁴

Thus, the stated reasons for opposing a debt default do not stand up to scrutiny. But the real reasons are very different to the stated reasons. As Lapavistas *et al* have observed in relation to the Greek ‘bailout’ of May 2010,

‘Although the rhetoric of European leaders was about saving the European Monetary Union by rescuing peripheral countries, the real problem was the parlous state of the banks of the core. The intervention was less concerned with the unfolding disaster in Athens and more worried about European (mainly German and French) banks facing a wave of losses and further funding difficulties.’⁴⁵

Greece’s debt burden is as unsustainable as Ireland’s. A recent report by Citigroup plausibly argues that at the end of Greece’s three-year ‘adjustment’ period, debt restructuring will still have to take place – but that, by then, at least half the debt will be owed to the EU and the ECB.⁴⁶ In other words, the private institutions will have gotten off the hook to a significant extent and the write-downs will be largely borne by the public sector. This is the same logic driving the Irish ‘bailout’ – the privatisation of profits and the socialisation of losses. It is a logic that must be resisted – radical opposition to the EU-IMF intervention, and to the government’s cutbacks, must demand a default on bank debt and not just a reorganisation of which sectors of Irish society should bear the cost of debt repayments. In the words of the Italian playwright Dario Fo, we need to insist that we ‘can’t pay, won’t pay’ – and *shouldn’t* pay.

Conclusion

The EU-IMF agreement locks Ireland into a deflationary, neoliberal economic policy regime and aims to foreclose the possibility of revising economic policies on the basis of democratic debate and deliberation. It also rules out (implicitly at least) the option of Ireland defaulting on bank debt – an option that it is imperative be exercised on the grounds of both justice and economic sustainability. The IMF’s record in the Global South means that its (and the EU’s) approach to Ireland should come as no surprise – it has long functioned as a vehicle for the institutionalisation of neoliberalism and for the transfer of wealth from ordinary people to corporate interests. But its record in the Global South also shows that it can be successfully resisted and its prescriptions rejected or overturned: this is what urgently needs to happen now in Ireland.

⁴⁴ Jubilee USA Network, ‘Recent Developments on Odious and Illegitimate Debt’, *Briefing Note 5*, 2008, www.jubileeusa.org

⁴⁵ *Op. cit.*

⁴⁶ Buiter, W. (2010) ‘Chief Economist Essay – Sovereign Debt Crisis Update’, *Global Economic Outlook and Strategy*, Citigroup Global Markets (29th November)