PEOPLE'S MOVEMENT
GLUAISEACHT AN PHOBAIL

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The People's Movement campaigns against any measures that further develop the EU into a federal state and to defend and enhance popular sovereignty, democracy and social justice in Ireland.

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THE PEOPLE'S AGENDA

with some notes

- **Repudiation of the debt**
- **National control of natural resources**
- **Opposition to EU competition policies and privatisation**
- **Defence of Irish neutrality and sovereignty**
- **Repatriation of powers from Brussels**

Repatriation of powers from Brussels

From 2014, as a result of the Lisbon Treaty's population criterion, our voting strength in the EU Council will be 0.8 per cent of the total votes—or one-third of what it is at the moment. In effect, our influence in the EU, where the major decisions affecting our lives are made, is negligible.

A little over 70 per cent of our laws came from Brussels in 2009; and with this figure due to increase,; and our independence further eroded by the recent EU-IMF loan, it is imperative that we assert our independence if we are to have any chance of economic recovery.

Germany and France, because of their joint population, can now block any EU law if they can get two other countries to vote with them.

National control of natural resources

Fish

The Marine Institute says that the value of fish caught in Irish waters by international fleets in 2010 was €1.18 billion. The Irish share of that is €0.18 billion—while trawlers lie rotting around the coast. Over a million tonnes of fish was caught in Irish waters last year, 90 per

cent of it by foreign boats. By contrast, 500,000 tonnes of fish was caught in the Mediterranean. It has been estimated that Ireland provides up to 40 per cent of the EU fish catch.

Oil and gas

Through Statoil, the citizens of Norway own 25½ per cent of the gas from the Corrib field—which is precisely 25½ per cent more than the citizens of Ireland do.

In 2006 the Department of Communications, Energy and Natural Resources estimated that the amount of gas and oil in the Rockall and Porcupine Basins, off Ireland's west coast, is 10 billion barrels of oil equivalent. Based on the current price of a barrel of oil at $100, this works out at $1,000 billion, or €730 billion. Capped wells and the recent discovery of shale oil under the Irish Sea must significantly add to this figure.

Last year Éamon Ryan gave away—free—exploration licences for 250,000 sq. km. on the continental shelf.

Mineral wealth

Minerals Ireland says that in spite of its relatively small size Ireland has a notably diverse geology, that is prospective for a range of mineral deposits.

The Irish midlands are host to one of the great orefields of the world. Since 1960 fourteen significant zinc-lead deposits have been discovered, including the world-class ore body at Navan. Ireland is ranked first in the world in terms of zinc discovered per square kilometre and second in the world with respect to lead. The high-grade, shallow occurrence and clean metallurgy of these ore bodies all result in a relatively low cost of mining.

An application for a lease or licence for a mine development involving the construction of a new processing facility costs €18,450 plus €0.125 per tonne of the annual output of ore for the mine at full production, as projected by the applicant.

■ Department of Communications, Marine and Natural Resources: "The Top 55 Deposits."—This is scary!

At Tara alone, 200,000 tonnes of zinc ($352 million) and 40,000 tonnes of lead ($80 million) are extracted. That's a total of almost half a billion dollars. In 2008 Tara paid €1.8 million in corporation tax.

The land

80 per cent of agricultural land is devoted to grass (silage, hay, and pasture), 11 per cent to rough grazing, and only 9 per cent to crop production. One has only to visit the local shop to see that the majority of foodstuffs do not originate in Ireland. Instead we run beef for export. Ireland exports nine out of every ten of its beef animals, making it the largest beef exporter in the EU and one of the largest in the world.

We should incentivise food production for the home market, paid for by a land value tax to incentivise land use and prevent speculation.

Opposition to EU competition policies and privatisation

EU law aims to privatise the postal service throughout the EU by 2011 in the Postal Services Directive. Ireland at present has a one-year derogation, so 2012 may see a new postal service at your door—if you are living next to a road.

The real reason for the introduction of punitive water charges is the Water Framework

Directive from the EU Commission, which seeks to commodify the provision of water through the establishment of the principle of recovery of the costs of water services. Article 9 of the directive requires member-states to adopt water-pricing policies that provide adequate incentives to promote the efficient use of water resources by 2010; but you may recall that Dempsey got a derogation until 2011.

As a result of the EU-IMF forced loan, and in line with competition policy, ESB International and An Bord Gáis—at least—will be sold.

The forthcoming review of employment regulation orders for low-paid workers in such trades as hairdressing and catering and of registered employment agreements mainly for craftspersons will be under the direct control of the EU Commission.

And remember Coillte—the state monopoly that owns almost 10 per cent of the land surface of the country. A Swiss-Chinese consortium, headed by Bertie Ahern, is trying to buy that!

Defence of Irish neutrality and sovereignty

Defence of peace and neutrality

Debt repudiation: a likely scenario

We could accept austerity, remaining within the euro zone and putting up with recession, or stagnation, for the indefinite future.

When austerity fails and the EU creditor-led restructuring does not produce decisive results, the option of debtor-led default will emerge for Ireland but, unfortunately, if present policies are pursued, in the midst of social and economic chaos caused by failed austerity.

Alternatively, we could prepare for debtor-led default accompanied by exit from the euro zone. This option would of necessity bring about a radical transformation of the economy and of Irish society.

Debtor-led repudiation (by the Irish state) of the debt would mean, in the first instance, unilateral suspension of payments—an implied or actual threat of 100 per cent burning of the bondholders. The country would then have to decide which among its foreign obligations to honour, and in what order.

There would have to be a public audit of debt following the suspension of payments. This would allow the people to know what is owed to whom as well as the terms on which “loan” agreements were struck. (The memorandum covering the EU part of the forced loan has not been published).

Negotiations to settle the debt would follow at the initiative of the Government, with a view to being concluded as rapidly as possible. The objective of the enterprise would be to achieve a deep “haircut,” the degree of which would impossible to ascertain before the audit.

We would be likely to be cut off from capital markets for a period.

Repudiation of the debt would run the risk of precipitating a banking crisis, as substantial volumes of public debt are held by both domestic and foreign banks.

For Argentina and Russia, default and devaluation resulted in rapid recovery.

The Irish economy is rich in resources and could become an immediate beneficiary of primary commodity exports if resources were either taken into state ownership or taxed realistically.

(Norway taxes oil production at 78 per cent and has amassed a sovereign wealth valued at more than €500 billion!)

Tourism and parts of the services sector would respond positively to devaluation.

Replacing the euro could be achieved in the following way. The decision would have to be announced suddenly in order to minimise the flight of capital; there would be an extended bank holiday; and banks would be instructed to convert deposits and other domestic liabilities and assets into the new currency at a nationally chosen rate.

When the banks reopened there would be parallel domestic circulation of the euro and the pound, resulting in twin prices for a range of goods and services.

Eventually prices and monetary circulation would adjust to the pound, while the euro would be excluded from the domestic economy. The international value of the pound would inevitably fall. The new currency would create inflationary pressures, as import prices would increase, particularly energy prices; real wages would fall as a result.

Capital and foreign exchange controls would also have to be imposed to prevent the export of capital and to minimise speculative transactions. Support for real wages could then be provided through a policy of income redistribution effected through taxing higher incomes and wealth.

The tax system would be restructured by expanding the tax base to include the rich and capital itself.

Default and exit would create problems in public finances, which would be somewhat ameliorated as recovery began after default.

The Government could also borrow from the nationalised banking system as well as monetising the deficit to a certain extent by issuing Government securities or notes.

The struggle over who would carry the costs of the crisis could continue without outside interference from the EU, ECB or IMF and under more favourable conditions for the people at large.

The incentives for the EU to intervene positively in these circumstances would be high, especially as another banking crisis would be set in train, and there is no mechanism for throwing us out of the EU.

We should immediately begin negotiations with the other peripheral countries that are experiencing difficulties in order to explore the possibilities for co-ordinated joint action. In our natural hinterland, Britain, Denmark, Sweden and Norway are not members of the euro zone, and so are a natural trading bloc. We should now concentrate on expanding our trade with these countries and away from Germany and France. But trade with these countries would not cease in the event of debt repudiation, as we would, through devaluation, enjoy a competitive advantage.

(The American share of Irish exports was 21.2 per cent in 2007. The share of Irish exports going to the EU-15 countries (excluding Britain) was 34 per cent—not substantially different from the position in the early 1980s. The share of Irish exports to the ten new member-states of the EU reached 1.4 per cent in 2007, while exports to Britain reached 22.3 per cent. This had fallen to 18.4 per cent by 2009, when, surprisingly, Germany took only 6.9 per cent of our total exports and France 5.8 per cent.)

Debt repudiation: The cases of Argentina, Russia, and Iceland

The crisis in the periphery of the euro zone, which is inherently similarity to those of the global periphery, is the latest in a line of sovereign debt crises.

Argentina

In December 2001 Argentina suspended payments on almost its entire public debt of $144 billion. The fixed exchange rate, binding the Argentine peso to the US dollar, was abandoned a few months later.

GDP collapsed by 11 per cent the following year. Yet a year later the Argentine economy bounced back. Growth for the last three quarters of 2002 was positive and was sustained at between 8 and 9 per cent annually from 2003 to 2007, while GDP per capita returned to its pre-crisis peak in 2008.

In September 2003 bondholders were offered a 75 per cent "haircut," lower interest rates, and longer debt maturities. Creditors reacted angrily, and the IMF refused to recognise an improved offer from the Argentine government of a 45 per cent "haircut" in January 2004. The government acted unilaterally, and by February 2005, one year later, 76 per cent of Argentina's creditors had agreed to the new credit terms.

International debt markets were reopened to Argentina in the following year, 2006, with the sale of $500 million worth of five-year bonds.

In other words, there was an initial collapse in GDP followed by an economic recovery beginning one to two years after initial default, and sustained growth for the following five years, a heavy "haircut" after a year and a half, and a return to the bond markets after four to five years.

Default can therefore be treated as a policy option, with both costs and benefits.

The depth and severity of the Argentine crisis was primarily due to the fixed dollar peg run by a currency board. Fixing the exchange rate contributed to a current account deficit that was only closed through recession.

Russia

Russia spent the 1990s in transition to free-market capitalism under IMF tutelage.

After the onset of the 1996 Asian crisis, the ruble came under speculative attack. The prices of oil and non-ferrous metals, together accounting for around two-thirds of Russian exports, began to fall.

Political unrest followed as the economy faltered. Tax collection was extraordinarily weak, in a parallel to our dependence on various construction-based levies; and the ratio of debt to GDP reached 90.2 per cent in 1999—close to Ireland's present level.

In August 1998 Yeltsin announced that Russia was devaluing the ruble, and suspending payments on all foreign currency liabilities by Russian financial institutions. Further political unrest put further pressure on the ruble, and it plunged to less than a third of its value relative to the dollar. The attempt to defend the peg from October 1997 to September 1998 had cost roughly $30 billion—about what we have paid so far to defend the euro.

Devaluation had the effect of pushing the cost of servicing dollar-denominated debt sky-high. In January 1999 credit-rating agencies declared Russia to be in complete default. The government quickly opened negotiations with bond-holders, and by May 1999 agreement was secured, with 89 per cent of non-resident debt-holders receiving "haircuts" estimated at about 53 per cent.

Growth resumed, reaching 6.3 per cent in 1999 and 10 per cent in 2000, never falling below 4 per cent annually until the recession of 2008. The fiscal balance shifted into surplus for the first time in 2000, and Russia had repaid its debts to the IMF fully by 2005.

Much of this success was determined by sharp rises in primary commodity prices, especially oil, from about 1999 onwards, suggesting that we should take a hard look at our own

resources at a time when oil prices are again rising and we still have some minerals left to exploit.

But the recovery also helped domestic producers, as consumption shifted from expensive foreign goods to locally produced commodities. Household consumption also recovered strongly on the back of sharp rises in real disposable incomes. There is little doubt that such growth would have been impossible, even with rising oil prices, had Russia still attempted to maintain the overvalued rate of the ruble.

Default can therefore be treated as a policy option, with both costs and benefits.

Fundamental to the crisis in both Argentina and Russia was the attempt to maintain an overvalued exchange rate, ostensibly for the purpose of stabilising prices. In Ireland we are attempting a *de facto* devaluation through an attack on wages and benefits while adhering to the ECB dictates on price stability.

Default and devaluation, while carrying significant economic costs, created the conditions for rapid economic recovery. Both countries underwent debt renegotiation relatively smoothly, without official IMF support. Access to international capital markets was regained not long after default, though Argentina continued to rely on some bilateral Venezuelan loans. Even so, default did not leave the two countries without access to credit.

Russia's government acted decisively to default and devalue. The process took five months, while renegotiation of the bulk of debt finished a year later.

Argentine governments, in contrast, clung to the unworkable currency board for years, while generally adopting the view that orthodox methods would resolve the worsening economic crisis.

Iceland

Iceland's total external debt had reached close to 1,000 per cent of its GDP in 2008. By the end of the year Iceland's entire banking system was crushed, and the stock market dropped by more than 95 per cent from its 2007 highs.

The Nobel Prizewinning economist Paul Krugman explains: *"Iceland has followed the classic adjustment path of a debt crisis-stricken economy: the krona was devalued by more than 60 per cent against the euro and the government was forced to implement draconian austerity programs.*

The country's President, Ólafur Grímsson, spells out starkly the difference of approach to the banks: 'The difference is that in Iceland we allowed the banks to fail. These were private banks and we didn't pump money into them in order to keep them going; the state should not shoulder the responsibility.'"

Krugman said that Iceland has been able to start on its road to recovery sooner because it never joined the euro. *"Iceland devalued its currency massively and imposed capital controls. And a strange thing has happened: although it experienced the worst financial crisis (anywhere) in history, its punishment has been substantially less than that of other nations.*

"This is the proper process. If you go through a bubble economy and you need to correct it, the answer is not to convert private debt into public debt. Rather it is to restructure the debt to the level of the assets."

In Ireland, the boom in property prices triggered a massive borrowing binge, driving total private non-financial-sector debt to almost 200 per cent of GDP, among the highest in the euro-area economy. In stark contrast to the Icelandic situation, however, the Irish economy has become stuck in a debt-deflation spiral. The Government has no other options but to accept the €85 billion bail-out package from the EU and the IMF.

“The big problem for Ireland is that fiscal austerity without a large currency devaluation is like committing economic suicide—without a cheapened currency to re-create nominal growth, fiscal austerity can only serve to crush aggregate demand and precipitate an economic downward spiral. The sad reality is that unlike Iceland, Ireland does not have the option of devaluing its own currency, implying that further harsh economic adjustment is likely.”

Ireland's debt will continue rising for another three years to 120 per cent of GDP. The contrast will be very stark by the middle of the decade. On the other hand, Iceland may have a lower sovereign debt than Germany by then.

For Ireland, on the other hand, all the future holds is a prolonged period of “bankrupting yourself to recovery!”

Repudiating the debt would create opportunities to shift the balance of power in favour of labour, opening the way for public ownership and control over banks, the regulation of capital flows, public control over other areas of the economy and industrial policy, and redistribution of income and wealth.

The eventual outcome of default depends on social struggle. This is the challenge that is now confronting working people in the periphery of the euro zone and particularly in Ireland.