THE EU PERMANENT AUSTERITY TREATY

The Government seems determined to push ahead in the next few months with the ratification of two important treaties: the “Treaty on Stability, Coordination and Governance in the Economic and Monetary Union” and the revised “Treaty on the European Stability Mechanism” (ESM).

The two treaties would make member-states of the euro zone into regimes of economic austerity, involving deeper and deeper cuts in public expenditure, increases in indirect taxes, reductions in wages, a sustained liberalisation of markets, and the privatisation of public property.

It would really be more accurate to call the first treaty the EU Permanent Austerity Treaty and the second the Conditional Support Treaty.

Whatever they are called, the two treaties represent a seriously dangerous threat, and democrats should be mobilising to resist them.

The cumulative effect of being bound by both treaties would be an obligation to insert a balanced-budget rule “through provisions of binding force and permanent character, preferably constitutional or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes.” It would put Irish budgets under permanent and detailed supervision by the euro zone; make the existing subordination of Ireland’s interests to those of the “stability of the euro area as a whole” even more systematic and pronounced; impose conditions of “strict conditionality,” without limit, for ESM “solidarity” financial bail-outs; and require Ireland to contribute some €11 billion to the ESM fund when it is established later this year.

The European Commission and the European Central Bank are obsessed with “economic governance,” which would require smaller euro-zone states in particular to make themselves permanently amenable to a regime under which Germany and its allies would regularly and permanently vet members’ fiscal policies and impose punitive fines on those failing to observe deflationary budget rules.

When politicians like Enda Kenny urge us to stomach a particular draconian measure, claiming that it would help us to ultimately “restore economic sovereignty,” they conveniently fail to mention that this is the sort of “economic sovereignty” they have in mind. For them, permanent austerity plus the IMF is “national shame”; permanent austerity minus the IMF is “national recovery.” The latter is what is on offer through the EU Permanent Austerity Treaty and the Conditional Support Treaty.

Of course it is totally irrelevant to this Euro-fanatical mindset that the draconian fiscal measures imposed on Greece have only worsened the problems of that country. Also conveniently ignored in this version is the fact that Ireland in the euro zone had to adopt unsuitably low interest rates in the early 2000s, because this suited Germany at the time. In the immortal words of Bertie Ahern, this made our “Celtic Tiger” boom “boomier.” And of course it inflated the property bubble.

The former Taoiseach John Bruton and others have contended that the failure of the ECB to supervise adequately the credit policy of central banks in relation to the commercial banks in Ireland and various other euro-zone countries was significantly responsible for the emergence of asset bubbles in those countries in the early and middle 2000s, and thereby contributed hugely to the financial crisis they are now in.

And the then head of the European Central Bank, Jean-Claude Trichet, was probably engaging in a variety of “economic governance” when he told Brian Cowen and Brian Lenihan on 29 September 2008, at the time of the criminally irresponsible blanket bank guarantee, that Anglo-Irish

Bank must on no account be allowed to go bust and that the foreign creditors and bond-holders must be paid every penny.

When the Irish people ratified the Maastricht Treaty in 1992, setting up economic and monetary union, and when they ratified the Lisbon Treaty, establishing the European Union on a new constitutional basis, in 2009, they approved membership of an economic and monetary union whose member-states would follow rules that would be enforced by a system of surveillance by the Commission and formal recommendations and warnings for delinquent states, followed by sanctions in the form of compulsory deposits and fines of an appropriate size in the event of a member-state persisting in breaches of these provisions.

The member-states adopted the rule that the annual budget deficit would be no higher than 3 per cent of GDP and national debt no higher than 60 per cent of GDP to ensure that member-states of the euro zone would avoid excessive deficits and consequent borrowing, for that would affect all euro-zone states using the same currency.

But the excessive-deficit articles were not enforced once Germany, France and other states broke the limits in the early 2000s.

Recommendations of measures to repair excessive deficits were made by the European Commission to a number of member-states, including Ireland, in the early 2000s; but when in 2003 France and Germany found themselves in violation of the excessive-deficit criteria the European Council failed to take any of the other steps set out in the rules to remedy their breaches.

No proposal to impose sanctions for breaking the rules was ever put by the Commission to the Council of Ministers, and no sanctions were adopted against countries violating the rules. As a result, several member-states ran up huge annual government deficits and national public debts that were near to, or in some cases well over, 100 per cent of GDP.

IS DEBT ALWAYS A BAD THING?

Obviously not, in the private sector, as corporations regularly borrow money for expenditure they don't want to meet out of retained earnings, while most households aim to have a long-term mortgage.

Public debt is not a burden passed on from one generation to the next. The stock of public debt is a problem only when its servicing—i.e. the payment of interest—is unaffordable, such as in times of recession, when growth is nil or negative or when the interest rates demanded by the financial market are soaring.

The question is, When is the debt sustainable? Sustainability means keeping the ratio of debt to GDP stable in the long term. If the GDP at the beginning of the year is €1,000 billion and the Government's total stock of debt is €600 billion, the debt ratio is 60 per cent; the fiscal deficit is the extra borrowing the Government makes in a year —so it adds to the stock of debt.

But, although the stock of debt may be rising, as long as the GDP is rising proportionately the ratio of debt to GDP can be kept constant, or may even be falling.

The rule is that, as long as the real economy is growing by at least as much as the real rate of interest on debt, the debt-GDP ratio doesn't rise. This holds true irrespective of whether this ratio is 60 per cent or 600 per cent.

But there's a catch. In a modern economy, the public sector accounts for about half the economy. If a country panics about its debt ratio and cuts back sharply on public-sector spending, this reduces aggregate demand and may lead to stagnation or even recession. When an economy stops growing, the financial markets decide that its debt ratio may rise, and so they become more cautious about lending and may demand a higher bond yield, i.e. interest rate. The gloomy prophecy of growing public indebtedness becomes self-fulfilling.

THE WAY OUT CANNOT BE GREATER AUSTERITY

What works for a single household or firm doesn't work for the economy as a whole. A household can tighten its belt by spending less, or saving more, thus "balancing the books"; but an economy cannot. If everybody saves more, national income falls. As no euro-zone country can devalue, to ask each country to balance the books by running an export surplus is empirically and logically impossible.

The way out of the "debt trap" is the same as the way out of recession: if the private sector won't invest, the public sector must become the investor of last resort. It doesn't matter whether new investment is financed by more government borrowing, quantitative easing, or redistribution (some combination of the three would be optimal). What matters is growth.

WHY THERE MUST BE A REFERENDUM

Contracting parties must apply the balanced-budget rule "through provisions of binding force and permanent character, preferably constitutional or otherwise guaranteed to be fully respected and adhered to throughout the national budgetary processes."

As the professor of constitutional law at TCD, Gerry Whyte, told the *Irish Times* on 3 February last, "legislative provisions do not have a 'permanent character' inasmuch as it is always open to the Oireachtas to amend legislation and, in my opinion, it is not constitutionally open to the Oireachtas to put any Act beyond amendment."

A majority of the Supreme Court in the Crotty case in 1987 (which found that a referendum was necessary to ratify significant changes to EU treaties) held that an organ of the state cannot agree to circumscribe or restrict any unfettered power conferred on it by the Constitution.

In this judgement Mr Justice Walsh said that the freedom to form economic policy was an aspect of the state's sovereignty. This meant that article 3 (1) would have to be protected by article 29.4 of the Constitution, which ratified the Maastricht Treaty, if it was to be constitutionally valid.

However, article 29 refers to treaties of the European Union, whereas the proposed treaty will be a treaty agreed only between 25 of the 27 member-states, so it will not be covered by article 29.

"Given the UK and the Czech Republic have opted out of the proposed treaty, it would seem very difficult to argue that the treaty is 'necessitated' by our membership of the EU," Prof. Whyte said.

These rules and policy conditions in turn provide considerable scope for financially hard-pressed member-states to be pressured to take steps against their national interest, including in relation to harmonising corporate taxes.

Establishing this permanent enhanced fiscal architecture would be a major step towards an EU fiscal and political union, something that has been recognised in statements by leading EU politicians.

This implies a significant diminution of national state sovereignty going far beyond the scope of the existing European Union and the monetary union that it embodies, which only the people themselves can agree to.

The absence of limitations on the "strict conditionality" that will mark financial disbursements from the proposed ESM fund—such as might have been set out in an accompanying protocol, for instance—emphasises further the dangers to the state's interests that could arise from harsh or excessively onerous conditions attaching to financial assistance that might be offered to member-states seeking assistance from the fund.

THE EUROPEAN STABILITY MECHANISM: WHAT WILL IRELAND'S FINANCIAL LIABILITY BE?

The state will be legally obliged to the ESM to the tune of approximately €11.13 billion: €1.28 billion in cash and the rest in the form of callable capital and guarantees. Described by Angela Merkel as a "solidarity" measure, the ESM will not have retrospective effect so will not be of any help to Ireland in its present situation.

Furthermore, countries such as Germany, whose sovereign bonds have an AAA rating, would not need to put up actual money to cover any shortfall of paid-in capital: a guarantee would do. But countries with a lower rating, such as Ireland, would have to pay cash.

So we are in a perverse situation. Countries with easy access to capital can provide cheap guarantees, while the weaker countries must put forward cash . . .

In addition, "callable" capital means that the fund can ask shareholders to supply new capital if existing capital gets wiped out. But how realistic is this for a country such as Ireland with debt edging up to 120 per cent of GDP? How will it find the tens of billions for a bail-out of another member-state?

In response to a question from Thomas Pringle in Dáil Éireann on 13 April 2011, Éamon Gilmore gave a figure of €9.87 billion; but in fact the country's contribution is a set 1.59 per cent of the total subscribed capital of €700 billion, i.e. €11.13 billion. Gilmore confused the figure for subscribed capital (€700 billion) and the figure for callable capital and guarantee (€620 billion) when making the calculation.

Gilmore also claimed that "the manner in which the ESM is structured means that each country's contribution will not impact on its general government deficit." But there is no cheap way out of the present crisis—certainly not through buying into the ESM. Ireland will have to issue debt to raise the money to be able to pay the €1.29 billion of paid-in capital for the ESM. This is money that could make a substantial contribution to the survival of the country's health service or our social welfare and education systems.

And after 2013 will be the worst time to be lumbered with such a commitment. According to the Government we should have left the present EU-ECB-IMF "bail-out" regime from late 2012 and returned to the market. The country would (in theory) have to refinance a lot of its own debt from the bail-out, and at the same time go into additional substantial debt to pay its share of the ESM.

In short, the ESM would make our bonds riskier and more susceptible to restructuring and simultaneously require more of those very bonds to be issued in order to pay for itself. (Read our pamphlet at www.people.ie/eu/esmref2.pdf.)

The ESM would need €700 billion in order to borrow the €500 billion that would constitute its lending capacity—€80 billion in paid-in capital and €620 billion of "committed callable capital." And Ireland, Greece and Portugal, the three countries that are now being subjected to euro-zone austerity policies, will together be required to cough up or guarantee €49 billion of that sum.

It's not "solidarity," its robbery!

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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