Sunday Tribune
Mounting Debt

Nation caught in Death Trap

I'm Not Leaving

THE IRISH TIMES
Health Education cuts to pay Debt

Sunday Tribune
Mounting Debt

Repudiate the debt

CAPITALISM

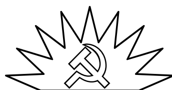
It's their debt not ours
People Resist

We won't Pay

FOR A BETTER FUTURE

Repudiate the Debt

For a Better Future



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Introduction

This pamphlet is a contribution to the debate that is urgently needed in every home, village, town and city, by all public and private-sector workers, the unemployed, small business people, the self-employed and family farmers in relation to what our establishment calls Ireland's "sovereign debt." The socialisation of private and corporate debt, making our people pay a debt they neither caused nor are responsible for, constitutes the biggest transfer of wealth ever from working people in Ireland to foreign banks in Germany, France, and Britain.

Our country is being dictated to and controlled by the European Union and the International Monetary Fund, not in the interests of our people but in the service of global finance houses. Our people, our children and future generations have become virtual indentured labour for as long as it takes to pay off the debts of a speculative clique—the Golden Circle—that has controlled our country. They will sell off more and more public companies and assets, including our rich natural resources, in their efforts to pay back money owed to these bankers.

We are calling for the repudiation of this illegitimate, perpetual and unpayable debt. Working people have a choice to make. Do we sacrifice all that we have struggled for over many generations? Are we going to sacrifice our children and grandchildren and future generations to pay a debt that does not belong to us?

Join the campaign to repudiate this debt. Demand a referendum, so that the people can be allowed to vote on this debt placed on their backs.

Build the people's resistance! Build the people's alternative!

Eugene McCartan
General Secretary, CPI
February 2011

1
The crisis in Ireland and the need to build a transformative economy

If one had landed on Earth from another planet in the midst of this Great Financial Crisis one could reasonably have assumed that the public sector, and in particular public-sector workers, had caused the greatest crisis of capitalism since the Great Depression, such was the vitriol spat out at public-sector workers and public services by media commentators, "experts," politicians, and senior business people.

This pamphlet, complementing the Communist Party's earlier publication *An Economy for the Common Good,* seeks to place the attack on public services, and those who provide them, in the context of a sovereign debt crisis that is very much a part of the current Great Financial Crisis—a cyclical crisis whose root causes lie in the logic of capitalism in its current "financialised" phase.

It is not an exhaustive analysis of the so-called sovereign debt crisis, and does not claim to present all the relevant factors, but aims to show the historical causes of the debt crisis and to point to a political and economic way out that benefits the majority of people in this country, which must start with the repudiation of the illegitimate debt that has been loaded on people and on future generations.

In essence, we hope to show that as manufacturing stagnated globally because of the limitations of capitalist production—despite post-war reconstruction and increased military spending—the mass of capital accumulated in the system required a new area of investment. Finance provided that opportunity, first in stocks and shares and later in the highly complex "financial products" that exist today. Finance has become the dominant source of profit and growth for the capitalist system, replacing what is often described as the "real economy."

With this financialisation came increasing instability and speculative bubbles. Debt became a tool, used to fund consumption as wages declined both in real terms (purchasing power) and in relation to profits. For governments also debt became a tool to cover for the declining tax revenue that resulted from declining wages

and from tax cuts in favour of big business and capital and the privatisation of profitable state enterprises.

As the system has come to rely on finance to absorb accumulated capital and facilitate its reproduction, finance has also greatly increased its political importance, to the point where today, in order to save the economic system, states have had to intervene to bail out and support finance, and politicians increasingly sound like spokespersons for bond-holders. Only in this context do the bail-outs make sense; and it is these financial bail-outs and currency stabilisation (in the case of the euro) that are causing the sovereign debt crisis that now exists.

2
Financialisation and crises

What has been missing from the debate presented by the establishment media is an analysis of the economic system within which the crisis exists. The debt crisis—sovereign and private—is a result of the logic of the system, political and economic, in its present phase.

Here are some comments that those who deny certain characteristics of the system will find it hard to ignore:

> Only a crisis—actual or perceived—produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function . . . The politically impossible becomes the politically inevitable.
> —Milton Friedman, 1982.[1]

> Corporations do not aim at creating employment; they employ people (as few and as cheaply as possible) to make profits. Healthcare companies are not in business to save lives; they provide healthcare to make profits.
> —George Soros, 1998.[2]

> There's class warfare, all right, but it's my class, the rich class, that's making war, and we're winning.
> —Warren Buffet, 2006.[3]

> The pursuit of the regulatory and supervisory agenda implies the setup of a new EU coordination framework which was long overdue in view of the integration of financial systems. An important framework for coordination of fiscal policies exists under the aegis of the

> Stability and Growth Pact. *The revamped Lisbon strategy should serve as the main framework for coordination of structural policies in the EU. The balance of payment assistance provided by the EU* is another area where a coordination framework has been established recently, and which *could be exploited also for the coordination of policies in the pursuit of economic convergence.*
> —European Commission, Report on Crisis, July 2009.[4]

These quotations show a number of important features of the system. (1) It exists to create profits. (2) It is not just an economic system but also a political one. (3) Politics and ideology are used to engage in warfare to secure the most beneficial environment for the creation of profit. (4) Moments of crisis create the perfect conditions for changes that would ordinarily be perceived as too much for the public to stomach.

The present crisis has exposed the quicksand that was the foundation of Ireland's so-called economic development and has also exposed the very weak foundations on which capitalism is now operating. Far from being the high-class and innovative system some would have us believe, with its iPhones, iPads, and iPods, it is actually a system in serious crisis, stumbling from one bubble to the next, with periodic explosive bursts.

The numerous booms and busts the system has been through in recent times are well documented and widely acknowledged, including the stock market crash of 1987, the savings and loans collapse of the late 1980s and early 90s, the Asian crisis of 1997 and 98, the Argentine crisis from 1999 to 2002, and the "dot-com" bust in 2000. And this is not an exhaustive list.

In addition, in Ireland we have seen repeated scandals in the banking system, including the DIRT (deposit interest retention tax) scandal of the mid-90s, the Allfirst scandal of 2002 (large losses due to the activities of a rogue trader at Allfirst Financial, an American subsidiary of AIB), and repeated and industry-wide overcharging scandals. The greatest of all crashes in Ireland has of course been the bursting of the property bubble and the subsequent exposure of our economy, which almost overnight reduced our gross national product by 20 per cent, with GNP for 2010 at about the 2003 level. (Gross national product is the total market value of all products and services produced in one year by labour and property supplied by the residents of a country. Gross domestic product is the total market value of all the goods and

services produced within the borders of a country during a specified period.)

Financialisation, as a process, has been occurring for several decades. Although there are different versions of the analysis, it can be simply described as the process by which finance capital, and financial operations, have become the primary source of investment and growth in the capitalist system. This has occurred as a result of the deep stagnation that exists in manufacturing and the productive economy. As masses of capital were accumulated by monopoly capital, new investment opportunities were required to soak it up and to facilitate its reproduction and the continuance of the economic system. The capital created in this process is not socially useful capital or "real," in that it is merely a claim on or an inflated reflection of goods produced elsewhere. It is defined very simply by John Bellamy Foster and Fred Magdoff as the shift in gravity of economic activity from production and services to finance.[5]

Increasingly, the classic economic formula of M—C—M (money—commodity—more money), which describes profit creation and investment through commodity production, is being replaced by M—M (money—more money), where profit and investment are in capital only. However, it is easy to see that real wealth, as opposed to fluctuating paper wealth, still derives from the exploitation of labour in the M—C—M process, as evidenced by the growth of China, which is based on manufacturing.

One can immediately identify the significant impact on jobs that the loss of the commodity production phase (C) will have. But there are other significant consequences of the increasingly systemic reliance on finance capital for profit and investment, such as sharp periods of boom and bust.

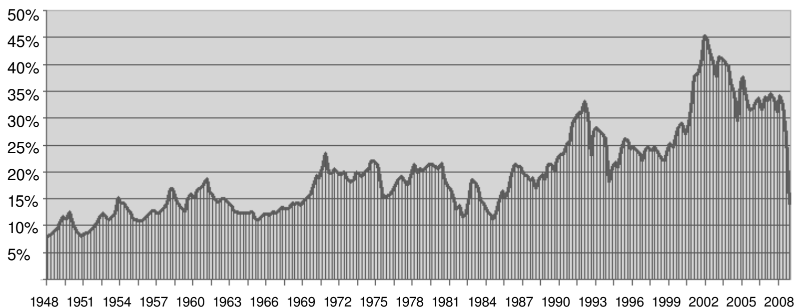
Once an avenue is identified for a quick return, it is flooded with speculative investments, often causing entire national economies to be distorted, as in Ireland's case with the property boom. As supply inevitably far exceeds demand, the bubble consequently bursts. Boom-bust cycles are inevitable within the capitalist system, whether driven by commodity production or by speculative finance capital. However, it would appear that the sharpness of the present crisis is a result of the systemic move to finance capital.

Evidence of the shift in the economy from production to

finance can be seen in the proportion of profits recorded from manufacturing compared with finance. In 1959 corporate profits from manufacturing in the United States were $26.5 billion. This grew slowly over the next four decades, to $97.7 billion by 2003, that is, 3.6 times the 1959 figure. Corporate profits from finance were $7.6 billion in 1959 and grew to $274.6 billion by 2003—a whopping thirty-six times the 1959 figure.[6]

The following graph illustrates the gradual growth of finance into the most significant source of profit for the system, to the point where today it is the most important source of growth for capitalism.[7] This shift has been replicated globally, to the extent that it has recently been estimated that the size of the real economy is $48.1 trillion, while the size of the financial economy is $151.8 trillion—three times that of the real economy.[8]

Fig. 1: Percentage of domestic corporate profits from financials, 1948–2008



To illustrate this change in Europe one can cite figures issued by the European Central Bank in 2010 that show the growth of financial assets relative to GDP from 1997 to 2008. In Ireland, financial assets grew from 262 per cent of GDP to 760 per cent. Reflecting the peripheral position of Ireland, the assets of foreign credit institutions were about 50 per cent, compared with an EU average of about 25 per cent.[9] In addition to this, by 2007, credit from banks to the private sector as a share of gross domestic product reached 200 per cent.[10] The particular exposure of Irish banks to the European inter-bank lending market has meant that the bail-out of Irish banks, and more recently of Irish sovereign debt, is more easily understood as a bail-out of big European lenders and of the euro as a single currency.

Understandably, with an increasingly systemic economic role for finance capital has come its political role. Like industrialist-dominated society in times past, now very clearly it is finance capital, its institutions and individuals that increasingly call the shots, to the extent that national governments are more concerned about "perception" and "confidence" and the opinions of unelected central banks, discredited rating agencies, financial journalists and investors than they are about their citizens. The present crisis has exposed the hollowness of parliamentary democracy and the class nature of the state, confirming what James Connolly wrote a century ago: "Yes, friends, governments in capitalist society are but committees of the rich to manage the affairs of the capitalist class."[11]

An example of this overt political role came in mid-2010 when Jean-Claude Trichet, unelected president of the European Central Bank, proposed that members of the euro zone in breach of the region's rules on public finances should be excluded temporarily from the European Union's political decision-making. This was seen even by the uncritically pro-EU Labour Party as a blatant and unacceptable interference in the political process by unelected technocrats representing the interest of capital.[12]

This political role can also be seen in the absolute subservience of the Government to the opinions of international investors. The then Minister for Finance, Brian Lenihan, almost daily in late 2010, before the bail-out imposed by the European Union and International Monetary Fund, attempted to quell their fears and convince them of the structural soundness of the Irish economy (although telling them we had enough capital to last us till June 2011—as a selling point!—might not have been the best way of doing this).

As investors saw through the lies constantly iterated by the Government and financial authorities, the EU and IMF considered it necessary to take direct political and economic control of the country and to impose a loan and an economic plan with the political objective of stabilising the euro through the sacrifice of working people. (We will look at this in more detail later.)

There is no doubt that the present crisis is far deeper and more significant than previous ones and arguably that it shows, as John Bellamy Foster has put it, that capitalism has reached its historical

limits. While we are conscious of the huge resourcefulness of capitalism, the present crisis is clearly exposing the irrationality and inhumanity of the system as well as its fundamental structural weaknesses.

The productive economy of manufacturing and its associated services peaked half way through the last century and has existed since then on the brink of over-production, often tipping over that edge. Consider the recent merger of Hewlett-Packard and EDS, two profitable companies that, once merged, had to reduce their global work force by nine thousand—not because they were not profitable but because they had to reduce their productive capacity so as to prevent over-production. Likewise the merger of Pfizer and Wyeth: the vice-president of Pfizer, Paul Duffy, explained the subsequent redundancies by stating, "It is a difficult operating environment globally and there is *excess capacity globally*."

These are just two examples of a global symptom of the present state of capitalist production. Over-production does not mean that the capitalist system has produced too much for humanity to consume, because that of course would be welcome in a world in which more than 3 billion people live in constant poverty. Over-production means that capitalist producers have produced more than can be bought on the market. As profit is made at the point of production through the exploitation of labour and is realised only in exchange, capitalists seek to increase profits through producing more and producing it cheaper. However, the concentration on producing more without a substantially increased market for consumption leads to the production of more goods than can be consumed, causing stagnation and a crisis in profit creation.

An oft-cited example of over-production and the fundamental irrationality and inhumanity of the capitalist system is the over-production of food within the European Union. In 2009 the EU spent £237 million buying 139,000 tonnes of dairy produce from farmers, joining 318,000 tonnes of sugar and 16,000 tonnes of maize and wheat to rot in silos around Europe in an attempt to save capitalist production from its own contradictions.[13]

A unique feature in modern times of this financial crisis, and further evidence of the crisis in the productive economy, as opposed to previous financial or speculative crises, is the devastating number of job losses, resulting from the exposure of the weak-

nesses of the real economy. The reliance of the real economy on credit from the financial system, its involvement in speculative practices and its operation at full productive capacity have exposed its structural weaknesses.

The lack of employment growth in the United States following the official declaration that the recession was over prompted the writer of one report to say: "What's really unique about this recession is the amount of unemployment *in combination* with the slowness of the recovery."[14] Evidence shows that following previous recessions in the United States the economy recovered lost jobs reasonably quickly when growth in the productive economy was possible. However, this has not been the case for some time. Following the recessions of June 1990 to March 1991, March 2001 to November 2001 and December 2007 to June 2009 the jobs lost were not recovered.

Where capitalism largely relies upon finance capital for growth, jobs are not an automatic product. Owners of capital can create profit through M—M without employing large numbers of people.

Before the crisis erupted, unemployment in Ireland was 4.8 per cent; by the end of October 2010 it was 13.6 per cent at a conservative estimate (discounting those who emigrated, those who had not registered, the long-term unemployed who have fallen off the register, and those who had their working hours reduced).[15] Add to this the 40,000 who left the country in 2009—the highest level in the European Union and more than twice that of the second-highest, Lithuania—and one can begin to see the real employment cost of this crisis.[16]

To avoid crises, or to mitigate their worst consequences, the state usually intervenes in various ways to save the system. It may seek to support consumption, it may seek to destroy excess goods, it may seek to destroy productive capacity, or do all of these. Traditionally, war has been the most successful manner of overcoming such a crisis, in that it destroys productive capacity while simultaneously creating productive demand, thereby tipping the scales back in favour of the supply side, increasing profits and driving growth.

In the absence of a major technological innovation, and in the absence of a world war, debt has played a crucial role in funding consumption to avoid crises.

3
Debt—private and public

A marked characteristic of contemporary capitalism is its reliance on debt and its use of debt. Debt is increasingly used both by individuals and by states to fund consumption, to meet everyday expenses and life-styles, and ultimately to maintain the economic system in positive growth.

It is also increasingly seen and used as capital and as a means by which more capital can be lent and more capital created. This was recently described expertly in two articles in *Monthly Review,* "The financialisation of accumulation" by John Bellamy Foster[17] and "The wisdom of property and politics of the middle classes" by Jan Toporowski.[18]

Foster showed how the accumulation of debt in the system appears as an accumulation of capital and how "the modern credit system has vastly changed the nature of accumulation, as the ownership of real capital assets became secondary to the ownership of paper shares or assets—leveraged ever higher by debt." M—M has replaced M—C—M.

Toporowski links the economic role, and the equally important ideological role, of property ownership and the middle-class obsession with the "property ladder" to the economic basis of their wealth and life-style, which was the ever-inflating house price that served as a security for more debt to be amassed and used. The extraordinary rise of household debt in Ireland can be seen in the table on the following page, which shows the record level it has reached today.

Debt has increasingly been used as a tool in developed economies to fund the consumption needed to stave off a collapse in consumer spending. It did so successfully for some time; the present crisis, however, sparked by the sub-prime collapse in the United States, has exposed the rotten nature of debt in both society and the state in Ireland.

One could be forgiven for asking why debt was so necessary if workers' wages have increased so much, as we are constantly told by the establishment media. The fact is that wages have *not* increased in real terms: they have at best stagnated and in many ways have declined. If one considers the spending power of an

average household sixty years ago, one middle-income job could provide a comfortable standard of living for a family of four. Today it would take two highly paid jobs to provide an equivalent standard of living.

Ratio of household debt to disposable income:
Percentage change, 1995–2006

	1995	2008	Increase
France	66	72	9 %
Canada	103	130	26%
Britain	106	173	63 %
Spain	59	130	120%
Ireland	48	176	267%

Source: *Spotlight* (Oireachtas Library and Research Service), no. 3, 2010, p. 9.

Wages as a share of national income have also declined. Indeed a report in the United States showed that in 2006 wages were at their lowest relative level since this data began to be recorded in 1929.[19]

Banks provided cheap credit to fund consumption in the absence of real increases in wages. This cheap credit, which was available as a result of the super-profits being accumulated under monopoly capitalism, also acted as fuel for speculative investment in the property bubble, which created the super-profits demanded by the finance sector while encouraging and exacerbating debt-dependence. Cheap credit was also a policy of the European Central Bank to support the stagnating German economy and facilitate its export of capital, as it ran current account surpluses with no room for domestic investment, which had a significant impact on countries such as Ireland, Greece, and Portugal. This is expertly outlined in a report for Research on Money and Finance entitled "Eurozone crisis: Beggar thyself and thy neighbour."[20]

The stagnation in real wages, coupled with the ideological commitment to reducing taxes, led the Irish state to increasingly rely on debt as a means of funding investment and expenditure. During the so-called "Celtic Tiger" period employment grew, but the state's tax intake became increasingly dependent on the property boom. The collapse of this boom had an immediate effect on the

state's revenue, with an almost 20 per cent decrease in revenue for 2008 compared with the previous year.[21]

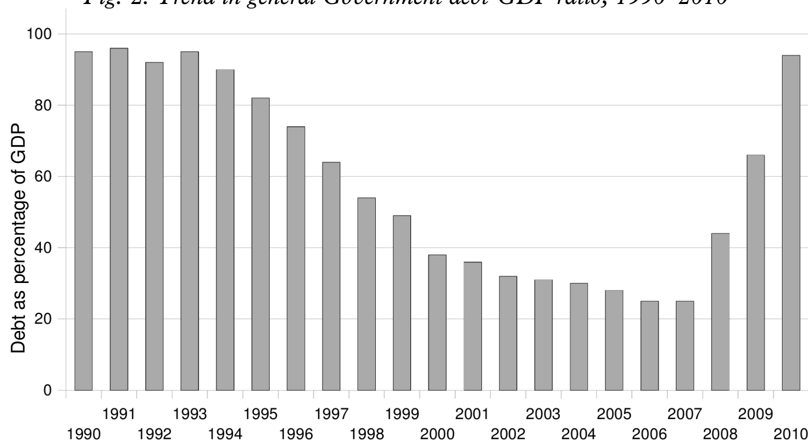
Although as a proportion of GDP this is a decrease from 1990 to 2007, this reflects the extremely high level of national debt that existed in the 1980s and also the revenue received by the state from the property bubble. If one makes the required adjustments to take into account the speculative growth, as Barclays in a recent report have done, it is clear that Ireland was running "large structural budget deficits in the years leading up to the financial crash." Although Barclays will argue this as a justification for cuts and so-called austerity programmes, the reality this actually reflects is the debt-dependent nature of Ireland as a peripheral country prevented from utilising its resources and economy to the benefit of its people rather than as a recipient of excess capital produced from the surpluses being amassed in the German economy (as we will see later). Our debt today stands exactly where it was in 1990, only now it is getting worse, with no bubble to hide it and with more bank debt to cover.

By the end of 2010 the NTMA reported the national debt as €93.2 billion, or 94 per cent of Ireland's GDP. These figures do not include the all-important losses from the National Asset Management Agency, undisclosed losses from banks, potential losses that will occur, recapitalisation that will occur in 2011, and the imposed EU-IMF debt.

Even before the socialisation of bank debt and the recapitalisation of the banks, therefore, and taking into consideration the unproductive property bubble, Ireland was running a very dangerous policy of debt-dependence. With the necessary export of capital from the German economy, this explains the position of peripheral EU countries and also helps to put into context the importance of controlling the Irish debt position today for the stability of the euro. A professor of economics at the University of Munich recently reported that, "on average, from 1995 to 2008, no less than 76% of aggregate German savings (private, governmental and corporate) were invested abroad . . ."[22] Only through understanding the crisis of over-production, the need for capital to reproduce itself and the necessity of profit maximisation that exists in the system can we understand why the surplus being amassed in Germany could not

be reinvested in Germany but had to be exported to peripheral countries, where it drove speculative bubbles.

Fig. 2: Trend in general Government debt-GDP ratio, 1990–2010



It is important to note that as the German economy drove and profited from the creation of the property bubbles in the periphery, it is now blowing up such a bubble internally, as it requires a speedy investment opportunity, as is reported by the same professor of economics at Munich. The German surplus, lacking outlets in peripheral countries, is now developing a speculative property bubble of its own.

The Irish state is not bailing out banks to provide credit to the Irish economy but to protect German bond-holders and banks, which are systemically important to the euro. "They have created a revolving door, with the state borrowing from French and German banks, then handing those borrowings over to Irish banks, which then hand them back to the very same banks to pay off previous debts."[23] These lenders then demand higher interest rates for the purchase of sovereign debt as the risk of default by the Irish state increases—a win-win for finance (M—M).

At the time of writing, the cost of Irish borrowing is at a record level, and the likelihood of state bankruptcy has begun to hit home in the establishment media, with the financial information service Bloomberg reporting that the Irish state would run out of cash by June 2011 unless it could raise money.[24] Indeed the situation

became so critical to European finance that both the EU and the IMF intervened to recapitalise the insolvent Irish state and provide further funding to the revolving doors of Irish finance. (This imposed loan is discussed in more detail later.)

The sovereign-debt scenario greatly worsens when one adds the debt accumulated both by private individuals and by banks socialised by the state and that now counts as sovereign—though entirely illegitimate—debt that is yet to be realised or recorded.

This socialisation of debt was brought about through a blind and blanket guarantee of bank liabilities in September 2008 and the subsequent creation of NAMA to buy billions in speculative development loans, of which a majority are referred to as "toxic." The total cost of these actions and of the recapitalisation of the protected banks is still unclear but is expected to reach more than €50 billion in 2011, with the true cost of NAMA becoming clearer only over the next ten to fifteen years but likely to be more than €40 billion.

The establishment presented the bank guarantee as a last-minute decision to ensure that the banks opened the following Monday, but it is highly unlikely that this strategy had not been discussed and agreed with the EU and European Central Bank before it was announced by the Fianna Fáil-Green coalition Government (as unlikely as Cowen and Fitzpatrick not discussing Anglo-Irish Bank during their infamous round of golf). It is hard to believe that the European Central Bank and the Central Bank of Ireland were not aware that financial institutions had become massive lenders to Portugal, Spain and Greece and of the role the International Financial Services Centre played in filtering money through Ireland to other peripheral countries, with the risks this created.

Adding these factors to our existing debt problems, the economist Morgan Kelly estimated that sovereign debt would grow to 90 per cent of GDP by 2012. (Even these figures, estimated in mid-2010, must now be greatly increased.) Adding presumptions about the likely cost of NAMA failing—as its success depends on rising property prices—our national debt in 2012, according to Kelly, will be 115 per cent of GDP. And if we use the GNP figure instead (for Ireland a more accurate reflection of the tax base and ability to service the debt) it will be closer to 140 per cent.[25]

Supporting this trend, Barclays Bank recently issued a report that suggests that Irish public debt by the end of 2012 would be 86 per cent of GDP (again, the NTMA now quotes a figure of 94 per cent of GDP), not including 25 per cent liabilities owned by NAMA. If we uses GNP as a more accurate figure for Ireland, this report appears to support Kelly's assumptions.[26] And this is still before the EU-IMF imposition is added.

It might be appropriate to give an example of just one bank to exemplify the disproportionate and irrational size of banking in Ireland, and the cost of protecting finance capital. In March 2010 Anglo-Irish Bank posted losses of close to €12 billion—the largest in Irish corporate history and a loss in one year roughly equivalent to 6 per cent of GDP in 2008. This bank will cost the state about €30 billion—approximately 15 per cent of our GDP of 2008!

It seems that Irish financial institutions played a filtering role in borrowing at very low interest rates from British, German, French, Dutch and Belgian banks and then themselves lending to such countries as Greece, Portugal, Italy, and Spain. The total exposure of European banks to both public and private debt in Ireland is €508.6 billion. Of this amount, Britain holds €148.5 billion, Germany €138.6 billion, Belgium €54 billion, France €50.1 billion, and the Netherlands €21.2 billion. Britain and Germany between them hold more than 56 per cent of the total exposure of European banks to debt in Ireland.

The much-feared contagion of defaults, bankruptcies and insolvencies that threatens the euro and that makes further direct takeovers of Portugal and Spain by the EU and IMF inevitable is equally a result of the lending practices of peripheral countries such as Ireland. For, as Ireland received capital from core countries, what could not be pumped into the Irish speculative bubble was exported to other speculative bubbles, in Greece, Portugal, Spain, and Italy.

Irish lenders are now exposed to the amount of €5.1 billion to Portugal, €25.3 billion to Spain, €40.9 billion to Italy, and €7.8 billion to Greece. Proportionately, this makes Ireland one of the largest lenders to these countries. Indeed Ireland is the fifth-largest lender in the world to Italy, Greece and Portugal and the seventh-largest to Spain.[27]

This all makes further banking losses highly likely and, as a

result, Ireland's illegitimate debt even greater. And all these factors greatly increased the probability of Ireland defaulting on its debt, an event that international investors seemed all the more certain was going to happen. Auctions of government bonds in 2010 were not successful, reinforcing these concerns by investors.

The servicing of national debt alone (interest and other servicing costs) in 2010—and before the exorbitant EU-IMF debt has been added—cost the Irish state €4,837,239—up from €3,213,953 in 2009.[28] This equates with 3.7 per cent of our GNP in 2009[29] or, in rough calculations, about €3,000 per working person. Given that the Government tax take in 2010 was €35 billion, this means that 14 per cent was spent on servicing debt. It also compares with the €14 billion that was budgeted for health care in 2010. These servicing payments are going to greatly increase as the years pass and as the EU and IMF impose more debt on this country.

An important fact in this context is that fundamental to the German post-war recovery was the London Agreement of 1951, which deemed a substantial part of German debt to be unpayable. If annual interest payments on a national debt were more than $3\frac{1}{2}$ per cent of export income in an economy, it considered that debt to be unpayable. The Irish state's servicing payments (largely interest) in 2010, as we have seen, were 3.7 per cent of our entire GNP, making this debt clearly unsustainable.

Equally crucial to Argentina's recovery was its suspension of payments and its lengthy renegotiation of debt. Following the suspension of payments Argentina, rather than going under, as many forecast, recorded very positive economic growth rates of 8 and 9 per cent in the following two years, setting the foundation of its economic recovery.[30]

We are now hearing much talk of an export-led recovery; but while exports have grown, this does not represent, by itself, a sustainable way to create jobs, as the growth in exports is largely based on cost-cutting in production, or increased competitiveness. Given the crisis of over-production that exists, it is difficult for companies to increase profits through increased production, and therefore increased profits must come from decreased costs in production. Consequently, growth in jobs is unlikely to come on a large scale from an export-based recovery.

It was with the very real likelihood of state bankruptcy and default, and the knock-on effect this would have on other peripheral countries, on big European banks and ultimately on the euro, that the EU and IMF imposed a loan on the state that means, in the words of Morgan Kelly, that "we are no longer a sovereign nation in any meaningful sense of that term."[31]

The EU Commission established the European Financial Stability Facility "to provide for swift and effective liquidity assistance, together with the European Financial Stabilisation Mechanism (EFSM) and the International Monetary Fund, and on the basis of stringent programmes of economic and fiscal policy adjustments to be implemented by the affected Member State and ensuring debt sustainability."[32]

On 1 December 2010 the Government published the EU-IMF "Programme of Financial Support for Ireland." This agreement between the European Union and European Central Bank on the one hand and the Irish Government and the Central Bank of Ireland lays down the economic and financial policies an Irish Government will be forced to carry through from the 2010 budget up to the end of 2014 (the Government secured an extra year to meet the EU's deficit target of 3 per cent of GDP), in return for loans from the EU and IMF. This is the condition attached to the €85 billion in "loans," which will be made up of €17½ billion from the National Pension Reserve Fund and other state sources—taxpayers' money—with €45 billion from the EU and €22½ from the IMF. These loans, with varying maturity dates, demand an average interest of 5.8 per cent per year (compared with Greece's average of 5.2 per cent).

The implementation of the economic and fiscal policies laid down in these conditions will be monitored by the EU and IMF, with both weekly and quarterly reports to be submitted by the Government, describing in detail what has been completed, amounts saved, and the reductions in public services, to ensure that the public spending cuts are fully adhered to. There are also time limits for the dismantling of registered employment agreements, which protect some of the most vulnerable workers, commitments to the sale of state-sponsored companies and the privatisation of services, a direction to increase the retirement age, and further cuts to public-sector workers' wages and pensions, among

other plans. The utterly discredited "Washington Consensus"—reduce public spending, privatise public assets, dismantle labour law—that the IMF has introduced around the globe is once again given life in these documents; and whatever sovereignty Ireland had has now been signed away.[33]

Deliberately, the letters that introduce these conditions are written from the Minster for Finance and the Governor of the Central Bank to the EU and the IMF (though in reality they were written *by* the EU and IMF), presenting them as a proposal from the state rather than as economic blackmail by the EU and IMF. As if to add comfort to the governing authorities in Brussels and Washington, the minister and the governor assure them that the Irish state "*stands ready to take any further measures that may become necessary for this purpose* . . . in close contact and consult with the European Commission, the ECB and the IMF." That is to say, any actions you tell us to carry out we will obediently implement.

They are presented in this way so that the EU and IMF can blame the state—as they always do—when inevitably their policies do not reduce debt and do not bring about growth in the economy and so that they can also maintain the illusion of the independence of the sovereign state. They will, however, have achieved their real aim of funding European finance to save the euro, further opening up the already highly exposed Irish economy, and creating new avenues of investment and profitability for finance capital.

Of course this imposition of further debt and repayment obligations on the state will do nothing to convince the precious investors that Ireland is a safe bet: in fact it will only further exacerbate fears of a state default and ultimately has removed us from the private market, leaving us totally dependent on and subject to the EU and IMF. But of course for the European Union the people of Ireland, and other peripheral countries, are not a concern: this loan was imposed for the purpose of funding the debt owed to major German, French and British banks that are the key to the stability of the euro.

This is very much a back-door bail-out of the euro, as was explained recently (with regard to French banks' exposure to sovereign debt risks) in an article published by the Economist Intelligence Unit. "Regional bailout facilities in place to support

struggling euro area countries have reduced the risk of another near-term financial shock, but the interconnectedness of the larger European banks and their exposure to the weaker member states suggest that liquidity, and possibly solvency, concerns could emerge should the sovereign debt crisis take a sudden turn for the worse."[34]

The article illustrates the exposure of French banks to both the public and the private sector in Greece, Ireland, Portugal, and Spain, revealing that Crédit Agricole has the fourth-largest exposure to Irish government bonds (€929 million) and that BNP Paribas and BPCE are in seventh and eighth positions, respectively, followed by Société Générale in tenth position (€491 million).

4
The assault on public services

The existence of a public sector is a tribute to a society and a recognition of the need and desire for a publicly controlled and resourced infrastructure. Public services provide much-needed services considered by most people as rights, such as health care, education, and housing, funded by the taxes citizens pay to the state. But public services act as a restriction on private capital and the latter's ability to re-create itself.

For the last thirty years the public sector has come under huge pressure from private capital. Popularly known as neo-liberalism, such policies as deregulation, privatisation and downward pressure on wages have served to greatly reduce public capital and the services it provides. The present crisis provides an ideal opportunity for the political system that serves capital in its pursuit of private profit to go even further than what was previously perceived as politically acceptable, to apply the shock doctrine, as Naomi Klein perceptively called it.

In the weeks preceding the report issued in July 2009 by the Special Group on Public Service Numbers and Expenditure Programmes, commonly known as the McCarthy Report, there was hardly a single radio or television programme that did not concentrate on attacking those who provide public services. This report, commissioned by the Government and chaired by the economist

Colm McCarthy (an academic at University College, Dublin), not surprisingly recommended huge cuts in public spending and public services, including the cutting of 17,300 public-service jobs and a 5 per cent reduction in social welfare payments.[35] The report's function was to condition the public to the savage cuts to be imposed by the Government and to give the plan an air of objective necessity and academic validity.

The budget for 2010, as part of the then four-year plan that was part of the blackmail conditions laid out by the EU and IMF, further cut and attacked public services and working people through the well-practised IMF dogma of "cuts in the public wage bill, social benefits, education and health care . . ."[36]

The debate on public services as presented by the mass media had an even bigger agenda, as it also attacked the very idea of public services run for and by the public, conveniently setting the scene for a second report, whose interim findings are to be published early in 2011, one year after the first McCarthy Report. For the second review, this time of the commercial state sector, Colm McCarthy was again commissioned by the Government. However, this is not even intended to be an objective review, as McCarthy's terms of reference from the Department of Finance state: "To consider the potential for asset disposals in the public sector, including commercial state bodies, in view of the indebtedness of the State."[37]

Commercial state bodies include critical, socially useful—and profitable—infrastructure providers, such as the ESB, CIE, An Post, An Bord Gáis, Iarnród Éireann, Dublin Bus, three airport authorities, ten port companies, two national television stations, and more. Altogether the review will consider the potential sale of twenty-eight functioning companies. In addition it will review a number of intangible assets, such as the broadcasting spectrum, carbon emissions, and licences issued by the state, and consider them for disposal. (It is worth viewing the full list of what they propose to sell on the Department of Finance web site.)

In addition, it must be noted that new exploration licences for oil and gas are due to be issued in May 2011, probably under a new Government still ruled by EU-IMF dictate. Irish oil and gas, fully owned by private corporations, provide a massive potential for revenue to the state and capital for citizens.

This fire-sale approach to the disposal of national assets, reinforced by the Memorandum of Understanding, is both short-term and long-term folly, in that these are profitable state-sponsored enterprises, bringing in consistent revenue for the state and providing crucial infrastructural services to the people; it is even greater folly in the light of the fact that the dollars received will increasingly depreciate in value.

This approach of peripheral countries to selling national assets to raise necessary funds is set against the background of a market flooded with credit by the European Central Bank and the Federal Reserve System (the central bank of the United States). It is argued that this flood of credit, known as "quantitative easing," is driving the sale of national assets. There is a quick buck to be made in this market; and, sure enough, those who can are doing so. Indeed one commentator has described it as the new mode of warfare. "Who needs an army when you can obtain monetary wealth and asset appropriation simply by financial means?"[38]

As previously suggested, this process of asset disposal by the state has been given renewed urgency by the conditions attached to the EU-IMF loan, which specifically include the forthcoming second McCarthy Report, describing its purpose as "to assist in financing and to increase competition,"[39] leaving us in no doubt about the predetermined outcome of this review.

5
Building a transformative economy

What is capital's solution to this crisis? A massive and unprecedented transfer of wealth from labour to capital, from working people to finance capital, and equally a transfer of risk and institutional debt to working people. This strategy is being implemented by national governments on the orders of the European Union and of international institutions such as the IMF.

How has it manifested itself here in Ireland? In the guarantee of September 2008 that socialised billions in potential and existing debt, the recapitalisation of banking institutions, NAMA's relieving banks of impaired loans and toxic assets, cuts in social welfare, cuts in public services and spending across the spectrum, income levies, so-called pension levies, pay freezes and pay cuts, redun-

dancies, and recruitment freezes. Mortgage-holders now also face the prospect of rising interest rates as the banks seek to make their ordinary customers pay for the burst speculative bubble that they blew up. Rising electricity bills are also an attempt to make citizens pick up the bill for corporate customers as they plead "competitiveness."All this amounts to a transfer of wealth and resources from working people and their services to big business and finance capital.

The sovereign debt crisis and the threat to public services are part of the systemic crisis of capitalism. Whether one's response is geared towards serving the needs of people or serving capital will determine the proposed solution. The choice depends on whether or not one wants to challenge the hegemony of capital over people, over the environment, over humanity.

The choice of giving priority to people over profits, and indeed to the future of humanity over economic irrationality and waste, will lead people into direct confrontation with the economic and political system of capitalism. The only alternative is a struggle to transform the system through a thorough democratisation of political, economic and cultural life.

The CPI, in its pamphlet *An Economy for the Common Good,* identified a number of strategic demands that need to be advanced for a new political and economic direction. These include:

- support for indigenous industries and the protection of state and state-sponsored businesses
- the establishment of a State Development Bank to support families, small farmers and small businesses, constitutionally guaranteed
- the establishment of a National Development Corporation to give priority to and plan for sustainable growth in connection with public research facilities and funding
- the nationalisation of our natural resources and utilisation of the vast wealth and potential that exists
- the development of sustainable energy sources and of a technology-based export industry in this field
- the repatriation of power over our seas and marine life from the EU
- a progressive taxation system, including a wealth tax
- the democratisation of national and local state bodies, with a

national debate on the actual published contents of any proposed budget.

In addition to these strategic goals, the CPI also believes it is imperative that people demand that *the illegitimate, odious and perpetual debt that the state socialised and that was imposed upon working people must be repudiated.* The tens of billions in debt that has tipped this state over the edge, and caused us to be blacklisted by international markets and subjected to the rule of the EU and IMF, is not our debt. It is not debt created by expenditure on schools or hospitals; it is not debt the state incurred for serving its citizens: it is the debt of a tiny number of individual developers, financiers, and their political sponsors—the Golden Circle—that has been socialised and imposed on taxpayers and on future generations of our people.

"Odious debt" is defined as debt incurred by a regime not for the needs of the country but to strengthen the regime, contrary to the interests of the nation. The debt amassed by friends of Fianna Fáil, subsequently taken over by the state, is not in the interests of the nation but served to underpin the regime during the so-called "Celtic Tiger" years.

The starting point in building an economy that serves the people, and not private developers, financiers, and transnational corporations, is repudiating this debt and seeking investment from other sources, including sovereign wealth funds, that would lend to a new Ireland that was free of this crippling burden. Otherwise we will be subject to EU-IMF rule and an unpayable perpetual debt that will weigh upon working people's shoulders for generations to come.

Indeed the debt is so great that it is hard to see how the bonds will be paid by their maturity dates, and the likelihood is that they will need to be extended, with Ireland continuing to pay exorbitant interest that would pay off the loans several times over, with further loans needed to meet the payments. The reality of a crippling self-perpetuating debt, similar to that of countries in the Third World, is now upon Ireland unless people, trade unions, community organisations, parties and movements act and rally behind the cry to repudiate the debt and build a sovereign, democratic and transformative economy.

As well as repudiating the debt it is also essential that we leave

the euro. It is a crippling weight on the Irish economy that prevents the state being able to act in the interests of the people. It is a currency in deep crisis of its own making. Peripheral countries, such as Ireland, are caught up in a neo-colonial relationship with the central powers at the heart of the EU project and will be sacrificed in the attempt to save the euro.

The CPI pointed out when it opposed Ireland joining the euro that the state and the Irish people were handing over a central economic lever to an outside power, in the form of the European Central Bank. The whole euro project was sold on the trivial idea that you could go on holiday to Spain and not have to change money, while the strategy from the very beginning was to remove monetary, and then fiscal, powers away from national accountability and control, placing them beyond democratic influence; but it was not in the interest of the Irish establishment to challenge this.

EU treaties were sold on a pyramid of lies and coercion. We must now take back the power to decide our own priorities, take back economic and fiscal powers from the EU, if we are to break the growing spiral of debt, mass impoverishment, and mass emigration. We need to establish a currency that we have control over, and establish it at an exchange rate that meets the needs of our own level of economic and social development. This is a crucial step that needs to go hand in hand with the repudiation of the illegitimate so-called "sovereign debt."

The demands outlined above stand in stark contrast to big business and its political fronts. They are strategic demands, in that they challenge the central pillars of the existing economic and political system. Of themselves they do not constitute socialism, but popularising and rallying around these strategic and developmental economic objectives will bring a popular movement into conflict with the reality of the EU and the capitalist state and consequently place socialism firmly on the agenda. These demands, if supported and mobilised around, make socialism not merely a slogan but a real, living alternative.

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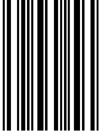

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