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Ireland should say No to "extend and pretend" treaty [1]

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Nothing summed up the farcical nature of Ireland?s referendum campaign on the European Fiscal Compact Treaty better than the Finance Minister Michael Noonan?s assurance that Ireland?s only contact with Greece was ?feta cheese and holidays?.

Members of the Yes campaign have, absurdly, claimed that rejecting the treaty, as the UK and the Czech Republic have already done, would mean expulsion from the EU. The hard-left No campaign has been even worse, framing the vote as a false choice between austerity and growth. (Cutting back the state is the only way to achieve growth.) Both sides have tried to create fear and confusion among the Irish electorate.

Like many other Irish expatriates, I have watched this with frustration. Despite the ugliness of most of Ireland?s No campaign, there is a strong case for Ireland to reject the Treaty.

The Treaty will introduce a constitutional amendment banning ?structural deficits?, and will give Ireland access to the European Stability Mechanism lending fund. In laying the foundations for automatic fiscal transfers between states, the Treaty is the first step towards true fiscal union between EU states.

Much of the Treaty may seem sensible. The ban on running a structural deficit is a welcome nod towards fiscal sanity ? at least, it would be if it meant something. In fact, the Treaty does not define what a structural deficit actually is.

Like the Stability and Growth Pact, which required member states to keep budget deficits under 3%, most governments will ignore the deficit rule. Since the Stability and Growth Pact?s ratification in 1997, twenty-four of the twenty-seven signatories have since broken the terms of this pact.

The goalposts have been moved in the past. As the Irish fiscal analyst Cormac Lucey has noted [3], the IMF and EU both recorded the Irish government as running a structural surplus in 2007. These organizations? methodology was later revised so that Ireland was found to be running a €15bn deficit in 2007.

States may find it politically easier to raise taxes than to cut spending, only doing more harm to their economies.

Banning structural deficits would not have avoided the Eurozone?s current problems. The welfare expenditures that have helped to bankrupt Eurozone periphery countries like Greece and Portugal are excluded from structural deficit calculations. Bank bailouts, which have been enormous in Ireland, are also excluded.

Apart from this measure, the key to the treaty is the access to the European Stability Mechanism (ESM), a

€700bn fund to lend to Eurozone government at below-market rates.

It is a cheap line of credit that is being extended to ensure Ireland stays addicted to debt and bank bailouts. Its structure is almost the definition of ?crony capitalism?: Article 32 of the ESM Treaty puts the ESM literally above the law, giving it ?immunity from every form of judicial process?.

About half of Ireland?s national debt has come from its massive bank bailouts ? €64bn, or 40% of GDP. As many of us argued at the time, Ireland should have let these banks fail.

Rescuing them was an exercise in crony capitalism, done to protect the rest of the European banking sector, not to spare Ireland any long-term economic misery. Ireland?s two million taxpayers now each face a €32,000 bill for these bailouts.

Access to the ESM would continue this cycle. Last Friday, Justice Kevin Feeney of Ireland?s Referendum Commission refused to rule out [4] the possibility that ESM money would be used to bail out banks again in the future. The ?low? rate provided by the ESM is like a heroin dealer giving a junkie a discount.

This cycle of bank bailouts paid for by more debt on the backs of taxpayers has to end. One of the few reasonable voices on the Irish No campaign, Declan Ganley, has argued [5] that bailed-out banks should be required to repay the bailouts recently injected to them. Those that cannot do so should be put through insolvency purges with their assets sold to the highest bidder.

If Ireland does not access the ESM, global bond markets would still lend to Ireland, albeit at a more costly rates. That may force Ireland?s government to let bad banks fail instead of letting taxpayers foot the bill.

Ireland?s debt addiction cannot be cured with more cheap debt. The ?extend and pretend? strategy of taking on more and more debt to avoid making tough decisions will eventually lead to disaster. However Ireland votes, it will still have to meet tough but necessary fiscal targets set by the IMF and European Union.

Ireland can?t kick the can down the road forever. Rejecting the Fiscal Compact Treaty would, at a minimum, force Ireland?s political establishment to accept reality and pull back from the crony capitalist course on which it has set itself.

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