

## Notes for ICTU Meeting, March 8<sup>th</sup> 2012

I am not a fan of the proposed Fiscal Compact treaty:

- Golden rule is too tight and, if implemented, would practically lead to the end of public debt in Europe.
- Will lead to countries that don't need to tighten doing so over next few years (e.g. Netherlands).
- The argument that a country must balance its books will be put forward as self-evident by many. In fact, there is no need for a balanced budget this as long as GDP is growing.
- Treaty rooted in the assumption that fiscal misbehaviour is the root of current problems. Not the case for Ireland or Spain.
- No attempt to address problem of dealing with systemic banking problems on a European basis.
- Risks to Ireland in the area of corporate tax and financial transaction tax. Article 9 says "Contracting Parties shall take the necessary actions and measures in all the domains which are essential to the good functioning of the euro area in pursuit of the objectives of fostering competitiveness, promoting employment, contributing further to the sustainability of public finances and reinforcing financial stability."

I think the ICTU should look to co-ordinate with European trade union movements to get the Treaty amended before it comes into force. A victory for Hollande could be help to get some changes.

However, for Ireland, I propose voting Yes. This is purely because I believe that it is in Ireland's best interests to have access to the ESM.

- The state is projected to run out of money in early 2014.
- Despite government rhetoric, it is unlikely that Ireland can return to market funding in 2013.
- Of projected €196 billion debt at end 2014, €67.5 will be EU-IMF, €22 billion is promissory notes, €22 billion owned by ECB. Only €84 billion is private and precedent has been set that these guys will bear the burden if debt is restructured. Large scale interest in Irish bonds is not likely to return until debt-GDP has decisively turned down.
- That said, it is somewhat more likely that a return to the markets can occur if ESM access is in place.
- There will be no political appetite in Germany or elsewhere for helping out a country that has refused to sign the Fiscal Compact.
- No reason to assume an IMF programme. Too large, current programme already very risky for IMF, precedent for PSI, unhappiness with paying off EU.
- David Begg has always argued for a more gradual fiscal adjustment. To turn down this Treaty is to put Ireland on the road to a short, sharp fiscal adjustment. Debt default and leaving the euro cannot be ruled out.