Ireland Gisela Stuart

Is the Euro to blame for Ireland's woes?

"The problem, for Ireland and the rest, is European Monetary Union..."

Gisela Stuart, MP for Birmingham Edgbaston

“Never again let it be said that Germans lack a sense of humour: last week Angela Merkel declared that the euro was “the glue that holds Europe together”. The opposite is nearer the truth. Proponents of economic and monetary union (EMU) argued that it would bring about the convergence of its participating economies, but it was always going to produce divergence. Even today its supporters are in denial, blaming the Irish, Greeks, Portuguese and Spanish (as well as bankers, regulators and so-called Anglo-Saxon capitalism) rather than the real culprit: EMU.

The central issue for Ireland and the others is not the state of public finances or the banking system, serious though they are, but how countries can regain competitiveness within monetary union. One off-bail outs, however large, or even debt restructuring do not address this issue - any “solution” would require a continuous transfer from current account surplus countries (in effect Germany) to those with deficits. If German politicians were mad enough to go along with that, it would wreck their own economy.

After unification Germany itself became uncompetitive. The main reason this was remedied within Europe was not “austerity” in Germany but the high inflation (which improved the relative competitiveness of German exports) and credit bubbles (which increased demand for these newly competitive German exports) in the so-called periphery economies. This was brought on by the European Central Bank (ECB) setting interest rates favorable to Germany but inappropriately low for these countries. And still Germany failed to consolidate its budget.

The prescription recommended for Ireland and the EMU is “austerity”; but without currency depreciation (an option outside EMU) expenditure cuts and tax increases simply make things worse. Ireland has had four austerity budgets already and its underlying budget deficit is 12 per cent with bond yield higher than before the crisis. However, Ireland is a much more open economy than other “peripheral” economies and to that extent it is possible to envisage the euro falling sufficiently to ameliorate its position, but a euro depreciation of a scale large enough to help the others is simply infeasible: within EMU, Spain, Greece and Portugal already insolvent.

The “Celtic Tiger” has never been liked by the EU establishment since its Anglo-Saxon nature threatened the more corporatist model favoured in core Europe. Despite this, Brussels was always happy to explain Ireland’s success in terms of Europe (as were most politicians in Ireland who are paid up members of the Brussels Club). In fact, the contrary is closer to the mark.

It was the large devaluation within the ERM in August 1986 that made it possible for the Irish government to begin fiscal consolidation and restoring the country’s international credit standing. That Irish devaluation was followed by a domestic boom in Britain, which was by far Ireland’s biggest trading partner. Irish growth suffered a setback as a result of Britain’s ERM-created recession in the early 1990s and Sterling’s depreciation after September 1992 led to intolerable strains for Ireland. Reluctantly, the government did the rational thing in January 1993 and devalued massively and, together with the widening of the ERM bands in August 1993, in effect gave the Ireland monetary policy independence for the first time in the country’s history.

The problem, for Ireland and the rest, is EMU. Those running the “project” either can’t admit this or, if they do (and some do), the current crisis is seen as an opportunity to further erode national sovereignty. The aim: to make Ireland (and others) a “Protectorate” of the EU. The wretched EMU is not only reaping economic damage but threatens residual sovereignty and freedoms within the EU.