CHASM | Centre on Household Assets and Savings Management

Briefing Paper

Socialising the Loss, Personalising the Responsibility, and Privatising the Response: The Irish policy approach to personal debt post 2008

The now infamous Irish Bank Guarantee Scheme, and subsequent IMF/ECB/EU ("Troika") Bailout, has effectively loaded the losses of the Irish banks onto the Irish people. It is hard to recall now, but at Celtic-Tiger peak in the mid-noughties, an industry-stoked, and government-facilitated, frenzy to encourage people to get on the property ladder before it was pulled up behind them, sucked in and quickly incorporated a new generation of owner-occupiers. Financial institutions further encouraged those already on the ladder to see their home as a kind of giant ATM, and borrowing on the strength of it, a way of securing their family's financial future. This was no accident - global capital, which had effectively targeted Ireland throughout the Celtic Tiger period, and provided the basis for the bubble, found here an open economy, a complicit government, a soft-touch regulator, a population inclined towards property ownership (mainly for historical reasons), and a range of institutions ready to relax responsible lending criteria in pursuit of a quick profit.

Now that the chickens are coming home to roost for both Irish institutions and State, global capital having long since switched away, it is interesting to note that responsibility for cleaning-up the arrears crisis is being placed more on the borrower than on the lender. Exhortations around the dangers of *moral hazard*, *strategic default* and *debt indiscipline* repeatedly emanate from the IMF, our government, the financial regulator and the financial services industry. These warnings are given credence by "expert" (though un-substantiated) estimates of the number of "won't pays", figures which fly in the face of the albeit limited data and evidence available. Not that long ago (June 2008 to be exact), as the madness was coming to an end, the

Central Bank reported that only 1.4% of mortgages were in default.[1] Those that work with debtors, principally money advisers, consistently note the moral imperative they place on themselves to repay their debts. Irish people evidently want to discharge their liabilities to the fullest extent possible, and the warnings appear directed more at an outside audience, namely "the markets".

Although bank losses have been socialised, the personal debt incurred as a result has not- it has been individualised. The government's policy response to the personal debt crisis (heavily influenced, or some might say 'dictated' by the Troika) betrays the thinking which underpins it. It has consistently ruled out societal options such as widespread debt restructuring - the term it uses, "debt forgiveness", is instructive as to its thinking here - and prefers a case-by-case approach whereby the balance of power remains in the creditors' favour. Banks are facilitated from fully crystallising their losses, lest these spook international investors and necessitate some form of second bailout. The policy talk on debt has been tough – the Governor of the Central Bank recently referred to new personal insolvency measures (see below) as embodying the principle of "an onerous fresh-start"[2] - again, presumably to assure the outside financial world that we are not soft on personal debt in Ireland.

It is now well over four years since the advent of the Global Financial Crash (GFC), but personal insolvency options are still not available for Irish debtors.[3] Out of court 'debt settlement' and 'personal insolvency' arrangements (DSAs and PIAs) are soon to be made available here, but a creditor veto is embodied within the associated mechanisms, the government having foregone the option of establishing an independent body to impose settlements on reluctant institutions. Further, to apply for such arrangements, a debtor will have to go private –to an approved Personal Insolvency Practitioner or PIP (most commonly a solicitor or accountant registered

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[1] Research by the Economic and Social Research Institute has further found that only 5.4% of Irish households were over-indebted in 2008.

[2] See: http://www.centralbank.ie/press-area/speeches/Pages/IntroductoryremarksbyGovernorPatrickHonohanattheCentralBankConferenceHowtoFixDistressedPropertyMarkets.aspx

[3] The Personal Insolvency Act 2012 has been enacted but no commencement order had been issued at the time of writing for several of its key provisions. Interestingly, the pre-amble to the Act refers to its aim being to *ameliorate* personal debt problems (rather than for example to *resolve* them).

with a newly created administrative body, the Irish Insolvency Service). No public insolvency service is to be established for those of lesser means who wish to avail of such arrangements,[4] and concerns are being expressed as to whether private PIPs will entertain people with limited resources if it implies a lot of work for them for little or no return.

On balance, therefore, in addressing the personal debt crisis in Ireland, our policymakers have, by and large, socialised the loss, personalised the responsibility, and privatised the response: this is the Irish 'solution' to what is far from being solely an Irish problem.

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[4] The state-funded Money Advice and Budgeting Service (MABS) will, however, be the authorised intermediary for the purposes of Debt Relief Notices, which are similar to UK Debt Relief Orders.