## THURSDAY JUNE 28th 2018 – FINANCE COMMITTEE

First and foremost, on behalf of the Ballyhea Says Know group I'd like to thank you for this opportunity. It's a significant day for us, probably the most significant since our campaign began because it allows us to ask you, directly, to please finish what we've started, to at least *challenge* the ECB on the injustice that has been done to Ireland, the injustice that is *still* being inflicted on us.

I would like also to pay tribute to the work of Fiona Fitzpatrick in securing this date, who, unfortunately, due to circumstances beyond her control, can't be with us here today.

### THE REASON BALLYHEA SAYS NO/KNOW EXISTS

There has been much coverage in the last few weeks of Anglo Irish Bank and events in the build-up to the banking crisis in Ireland.

There has been *no* coverage of the ongoing consequences of those events, and I'm not speaking just of the billions in interest we will be paying every year for many decades on the loans taken out to repair that damage, I'm speaking of the Promissory Notes Anglo debt legacy, the €500m destroyed by our Central Bank in 2014, the €2bn in 2015, €3bn in 2016, €4bn in 2017 and the €1bn – that we know of – destroyed so far this year.

***That's €10.5billion destroyed by the Central Bank of Ireland since 2014*** [1]***,*** a further €3bn in each of 2011 and 2012, €16.5bn in total, ***with another €14.5bn still to go - €31bn in all.***

Ballyhea Says No began in March 2011 simply as a protest against this socialisation of private bank debt, this massive bill presented to the people for the greed and excesses of so many in the financial private sector.

We realised very quickly we were going to get nowhere simply by protest, so we morphed into a campaign group. We went to Brussels three times and met senior officials from all three major EU institutions – the Commission, the Council and the Parliament; went to Frankfurt to the ECB HQ and presented a petition to a meeting of the Governing Council, 'nailed' our own list of protests to the door, in the manner of Martin Luther over 300 years earlier; sat down and spoke directly to senior ECB officials in Dublin, met the Governor of the Irish Central Bank on three separate occasions; had a Private Members Motion introduced in the Dáil. All this was backboned by a weekly march in Ballyhea, in Charleville, joined by others in such as Ratoath, Dublin, Tralee, Clonmel etc.

Through all those actions we learned two outstanding lessons: First, there is a willingness by the Institutions to engage with Ireland on this issue; second, willing as ***we*** are, that engagement will not be with the Ballyhea Says Know campaign – it has to be at official level. Which is principally why we're here today – to ask the Dáil to please set up a cross-party committee and to take this fight to Europe on behalf of the Irish people. And a fight it will be, we're under no illusions on that score.

### BACKGROUND TO A CRISIS

A currency requires many fundamental structural elements to enable it withstand the shocks it will inevitably face.

When the euro was being designed through the 1990s, and as politics took over from monetary common-sense, Member States – understandably – point-blank refused to make the kind of sovereignty concessions such a common currency absolutely requires. One by one many of those critical supports were removed, to such an extent that when the inevitable shocks came, the currency would inevitably collapse.

This isn't coming just from the Ballyhea Says Know campaign, this comes directly from those who were up close and personal with that euro design.

In the early 90s Bernard Connolly [2] was head of the European Commission unit responsible for the European Monetary System, a Member of the Monetary Policy and Foreign Exchange Policy sub-committees of the Committee of Central Bank Governors. In his book *The Rotten Heart of Europe: The Dirty War for Europe's Money,* published in 1995, Connolly warns at length of the potential consequences of what was happening. For his pains, he lost his job.

Though his professional credentials and expertise in this area can't be questioned (he now operates very successfully in New York), it has been argued that Connolly is a sceptic and thus this colours his views.

No such accusation, however, could be levelled at Paul de Grauwe.

Highly respected and oft-used by the European Commission itself, a professor at the London School of Economics, de Grauwe also warned of the disastrous potential consequences if the euro was launched with those inbuilt design flaws. In an article [3] published in the Financial Times in 1998 titled '*The euro and financial crises'*, he predicted almost to the letter what later happened in Spain and in Ireland:

*'Suppose a country, which we arbitrarily call Spain, experiences a boom which is stronger than in the rest of the euro-area. As a result of the boom, output and prices grow faster in Spain than in the other euro-countries. This also leads to a real estate boom and a general asset inflation in Spain. Since the ECB looks at euro-wide data, it cannot do anything to restrain the booming conditions in Spain. In fact the existence of a monetary union is likely to intensify the asset inflation in Spain. Unhindered by exchange risk vast amounts of capital are attracted from the rest of the euro-area. Spanish banks that still dominate the Spanish markets, are pulled into the game and increase their lending. They are driven by the high rates of return produced by ever increasing Spanish asset prices, and by the fact that in a monetary union, they can borrow funds at the same interest rate as banks in Germany, France etc. After the boom comes the bust. Asset prices collapse, creating a crisis in the Spanish banking system.'*

In 2013 he published a paper [4] titled 'Design Failures in the Eurozone: Can they be fixed?', and in another article [5] published in 2015, 'Design failures of the Eurozone', he explores this further. Others too, such as Milton Friedman [7] in Aug 1977 and Martin Feldstein [6] in Nov 1997, argued likewise, that the euro was fatally flawed from the outset.

All the above is proof positive that the euro as designed should never have been launched. When it was, all that was predicted by de Grauwe, all that was warned of by Connolly, happened, and Ireland – as we know only too well – was particularly hard hit. Billions poured into the country; banks – trying to keep up with each other, with Anglo to the fore very early on – lowered their lending standards; regulators and central bankers lowered their guard; property prices ballooned, til eventually, it all exploded.

**THE ECB**

According to its own website, the ECB '*manages the euro and frames and implements EU economic & monetary policy. Its main aim is to keep prices stable, thereby supporting economic growth and job creation.'*

What was it doing as the various banking crises developed all across the eurozone? What was it doing on keeping prices stable as property prices inflated to ludicrous levels in Ireland especially, but also in Spain? While regulators and central bankers ignored the kind of major breeches of legislation such as those reported by Jonathan Sugarman here, where was the ECB? Neither seen nor heard.

That all changed after the crash, however, and boy, how it changed, as the ECB suddenly appeared front and centre, the Commission's enforcer as the Troika came to town.

One of the first measures taken to address the banking crisis was the establishment of the Emergency Liquidity Assistance funds, the clue for which is in the name. The ECB website states that '*ELA aims to provide central bank money to solvent financial institutions that are facing temporary liquidity problems, outside of normal Eurosystem monetary policy operations*.'

The Irish banks, however, came up with a way around this.

Using the Asset Covered Securities Act of 2001 and the Asset Covered Securities (Amendment) of 2007, they applied pre-crash historic valuations to the assets they held on their books. This is in direct conflict with the most fundamental of accounting laws [8], which require that a true-and-fair reflection of the state of affairs *must* be presented.

A quote from an AccountancyAge article in June 2014:

'*THE TRUE AND FAIR accounting concept should be used to override compliance with reporting standards in exceptional circumstances, the UK's reporting watchdog has saId.*

*In a statement, the FRC (Financial Reporting Council) reconfirmed that the presentation of a true and fair view remains a fundamental requirement of financial reporting and said that, in the "vast majority" of cases, a true and fair view will be achieved by compliance with accounting standards. However,* ***where compliance with an accounting standard would result in accounts being so misleading that they would conflict with the objectives of financial statements, the standard should be overridden, the FRC said****.*

*“The requirement to present a true and fair view in financial statements is enshrined in EU and UK law. This statement confirms the fundamental importance of this concept to UK GAAP and IFRS,” said Stephen Haddrill, chief executive of the FRC.’*

Those hugely inflated values hid the true position of the Irish banks in the lead-up to the infamous blanket bank guarantee, hid that position again when applications were made for funding to the tune of billions from the ELA funds. As we were to finally discover in late 2008, those banks weren’t suffering temporary liquidity problems; had the true-and-fair valuations been used for the property collateral, they were in fact insolvent.

**THE PROMISSORY NOTES**

Probably the most reckless of all the Irish banks through this period was Anglo Irish Bank. Through the publication of the so-called Anglo tapes we know of the attitude of some of those at the most senior levels – casual in the approach to legal standards and requirements would be putting it charitably. The eventual cost to the country is enormous.

€35bn was poured into Anglo, €25.5bn by way of Promissory Notes, with a further €5,5bn for INBS, literally notes signed by then Finance Minister, the late Brian Lenihan, offering a guarantee to the ECB on behalf of the government if Anglo should fail to repay those billions. In total, those Promissory Notes amounted to €31bn.

**Given how Anglo was disguising its true financial situation, those guarantees were offered under false pretences; given that the ECB, as the central bank of central banks in the eurozone, should have been aware of this misreporting, those guarantees are null and void. Yet, under enormous pressure from the ECB, that is the €31bn currently being borrowed by the NTMA, given to the Central Bank in exchange for the P Note bonds, and then destroyed [9], taken out of circulation. This ongoing obscenity MUST end; at the very least, it must be challenged.**

Which brings me back to the start.

**MYTH-BUSTING**

The Troika’s intervention in Ireland in 2011 is presented as a bailout for Ireland; it wasn’t, it was a bailout ***by*** Ireland of the eurozone, a bailout in which successive governments were strong-armed by the EU, Germany and France especially abusing their combined political and economic muscle.

Including the €5.5bn from NAMA, we poured a mind-boggling total of €69.7bn [10] into our banks – a world record of the undesirable kind. Against that we got ***loans*** – not gifts – of €67.5bn from the Troika, and loans at inflated interest rates at that, the EU rate reduced *only* after the second Greek intervention and then only because they couldn’t be seen to be charging one country a higher rate than another.

**Germany – rock of financial sense?**

All those interventions by the ECB weren't to save Irish banks – it was to save the megabanks in the bigger EU countries. A Bloomberg article [11] from May 2012 quotes a Bank of International Settlements report [12] which outlines how *'German banks had amassed claims of $704 billion on Greece, Ireland, Italy, Portugal and Spain, much more than the German banks' aggregate capital. In other words, they lent more than they could afford. When the European Union and the European Central Bank stepped in to bail out the struggling countries, they made it possible for German banks to bring their money home. As a result, they bailed out Germany's banks as well as the (German) taxpayers who might otherwise have had to support those banks if the loans weren't repaid. Unlike much of the aid provided to Greece, the support to Germany's banks happened automatically, as a function of the currency union's structure.'*

It should be noted also that it wasn't just in Europe that German banks and German bankers were irresponsible – up to and even during the Wall Street crash they were in over their heads, way over their heads, as exposed by Michael Lewis in his brilliant book (later a film), The Big Short [13].

**BURDEN-SHARING**

We accept that when the bank crisis hit, the ECB and everyone else involved faced an emergency situation, took emergency measures to save the eurozone's banks, some of which meant a very loose interpretation of rules and regulations. We accept also that as a full member of the eurozone from day one, Ireland must share the cost of what happened.

What we don't accept is that the banking collapse was Ireland's own fault, and it was most certainly not the fault of the people; what we don't accept either, however, is that Ireland's own bankers acted any worse than bankers elsewhere, and certainly were no worse than bankers in Germany; what we ***WON'T*** accept, now or ever, is that we should be forced by the EU and by the ECB in particular, to bear a disproportionate cost for that banking collapse across the eurozone, a cost that has a direct impact on all the current crises being suffered in this country, from homelessness to housing, to what's happening in our health service, and all points in between.

We've taken this as far as we can, and it has not been easy. Today, as the Irish people's elected representatives, we're asking ye to step forward and take over this campaign from us. Those Promissory Notes *must* be challenged.

[1] http://thechatteringmagpie14.blogspot.com/2017/08/ballyhea-says-no-unfinished-business.html

[2] https://en.wikipedia.org/wiki/Bernard_Connolly

[3] https://qz.com/wp-content/uploads/2017/05/ft-1998-the-euro-and-financial-crises.pdf

[4] http://www.lse.ac.uk/europeanInstitute/LEQS%20Discussion%20Paper%20Series/LEQSPaper57.pdf

[5] **https://voxeu.org/article/design-failures-eurozone**

[6] **https://www.foreignaffairs.com/articles/europe/1997-11-01/emu-and-international-conflict**

[7] https://www.project-syndicate.org/commentary/the-euro--monetary-unity-to-political-disunity

[8] https://www.accountancyage.com/aa/news/2348677/frc-true-and-fair-overrides-accounting-standards

[9] http://thechatteringmagpie14.blogspot.com/2017/05/burning-borrowed-billions.html

[10] https://namawinelake.wordpress.com/2012/07/08/e69-7bn-the-gross-cost-of-bailing-out-irelands-banks-so-far/

[11] https://www.irishtimes.com/business/financial-services/near-collapse-of-german-bank-and-its-irish-subsidiary-shrouded-in-mystery-1.1509849

[12] http://www.bloombergview.com/articles/2012-05-23/merkel-should-know-her-country-has-been-bailed-out-too

[13] http://www.bis.org/publ/qtrpdf/r_qa1203.pdf

[14] https://www.nytimes.com/2010/03/15/books/15book.html