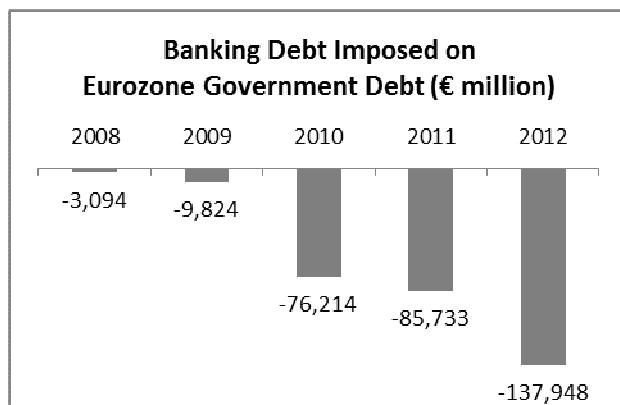


Breaking the Link

Ireland and the Eurozone are suffering from an increasing level of banking debt, a crisis that originated in the financial sector. Attempts to break the link between banking debt and the state have faltered over arguments about who will be liable. Meanwhile, the ECB is on the verge of reinforcing that link. We must not only break the link, we must purge public finances of private debt – past, present and future. The responsibility for the private financial debt belongs to the sector that caused it. Below, Unite outlines how this can be done.

The banking debt crisis is deepening.



By 2012, €138 billion of banking debt had been imposed on Eurozone Governments' balance sheets. In addition, Eurozone governments are still on the hook for €164 billion in net banking liabilities and €578 billion in contingent liabilities. Eurozone governments are potentially responsible for nearly €900 billion in bank debt.

Ireland suffers from over €39 billion in banking debt officially on the public books, with a potential exposure of €158 billion more. This could deteriorate further when the bank stress tests take place in 2014. ECB policy will require that national governments backstop the capitalisation requirements of those banks that fail.

If European economies are to return to sustained growth, the burden of bank debt will have to be removed. The most efficient, equitable way to do this is to place the responsibility for repaying the debt on the sector that caused it – namely, the financial sector.

The Financial Transaction Tax: The Means of Paying off the Debt

Eleven EU countries are committed to introducing a Financial Transaction Tax (FTT). The FTT is a fractional levy (between 0.01 and 0.1 percent) on certain financial transactions. This is intended to both reduce speculative trading and raise revenue. Agreement on the distribution of the revenue has yet to be finalised – but it is likely to involve a formula whereby some revenue is directly raised for the EU, while some revenue will be used to fund national governments' contributions to the EU budget.

Ireland has not signed up to the FTT. While the Government claims it would undermine our financial sector, no evidence has been put forward to support this claim. Financial companies still enjoy considerable tax advantages in Ireland; the FTT would only be levied on a part of their activity; and, regardless of where they are located, the FTT would still be levied on any traded instrument located in the countries that have a FTT. When it is considered that the tax on a €1 million derivative trade would come to only €100, it is hard to see how this would undermine an entire sector.



Eurozone governments are on the hook for nearly €900 billion in banking debt. Ireland is exposed to nearly €200 billion. This is neither equitable nor sustainable.

The Financial Transaction Tax (FTT) is a fractional levy on certain activities. This is the vehicle by which past bank debt can be repaid.

Example: How the Bank Debt would be Repaid

There are a number of formulae according to which past and future bank debt could be repaid out of the proceeds of the FTT. Below is just one example.

- A small portion of the proceeds (e.g. 25 percent) of the revenue from the FTT would be ring-fenced into a bank-debt compensation fund.
- Countries participating in the FTT would be repaid on the basis of the proportion of total bank debt they suffered. Ireland, for instance, has suffered 28.5 percent of the total bank debt. Therefore, it would receive that proportion annually from the compensation fund until the entire amount is paid off.

On this formula, Ireland would be repaid €2 billion annually over the long-term.

Alternative formulae could be devised where repayments are front-loaded, or priority given to the poorest countries (e.g. Greece, Portugal, Slovenia, etc.). Different repayments methods can be devised. At this stage, the formula isn't important – it is the principle that is the urgency.

Writing Down the Debt in the Developing World

For many, a tax on financial transactions has been seen as a redistributive measure from the wealthier countries to the poorest. The FTT can also play this role with regard to developing world debt. While there has been some progress on writing down developing world debt, many countries are still enmeshed in a debt trap whereby foreign debt is serviced at the expense of basic public services and investment.

Therefore, just as a small proportion of the proceeds of the FTT should go to repay the bank debt of the participating EU countries, a similar proportion should be set aside to write down the most egregious debt burdens in the developing world. While initially this would make only a small impact, over time –and as more EU countries sign up to the FTT – it could have a strong cumulative effect.

The Link Can Be Broken

This approach would not impact on the public finances of any country (unlike mutualising or sharing-out the debt). Why should workers in Europe shoulder the burden of private financial debt – whether they work in Cork, Lisbon, Athens, Hamburg or Ljubljana? This is not intended to replace other proposals to break the link but to complement them. We need a European solution to a crisis that originated in the European financial sector.

Unite puts forward this proposal for discussion and debate. We are not claiming this as the final answer. Hopefully, out of the discussion will emerge better proposals capable of gaining support in Ireland and throughout Europe. It is intended to provide practical support to the work and endurance of campaigns such as *Ballyhea Says No* and *Debt Development Coalition Ireland*. The key is to put the bank debt back on the agenda. Hopefully, this proposal will assist in that.

A small portion of the FTT revenue should be placed in a bank-debt compensation fund. Out of this, Ireland, other European countries and the developing world can be compensated for bank and illegitimate debt.



Unite is not claiming this is the final answer to bank debt. We put this forward for discussion and debate. But it is imperative that, together, we put bank debt back on the agenda.

Published by UNITE the Union, Research Department

Jimmy Kelly, Regional Secretary: Jimmy.Kelly@unitetheunion.org

Michael Taft, Research Officer: Michael.Taft@unitetheunion.org

Alex Klemm, Communications Officer: Alex.Klemm@unitetheunion.org