The media and the question of sovereign debt default in the European economic crisis: the case of Ireland

ABSTRACT

The role of the media in the current economic crisis has received little scholarly attention. This paper examines news organisations' coverage of the question of sovereign debt default, using the case of Ireland as an illustration. The existing literature assumes that there are large costs to defaulting, but paradoxically, it has been at pains to support this claim empirically, having concluded instead that the costs are usually short-term and not significant over a longer time period. This paper presents an alternative view of sovereign debt repayment that considers the power dynamics between creditors and debtors. It is argued that elites in both creditor and debtor countries share a similar interest in full debt repayment through the imposition of fiscal consolidation and austerity programs on taxpayers in debtor countries, a process which can be seen clearly in Europe today. The media, being part and parcel of the corporate establishment, share elite interests and views and have thus played an important role in making such policies acceptable to the public by dismissing the option of defaulting on sovereign debt, even if empirical and historical evidence shows that it could potentially be beneficial for countries like Ireland. This will be shown through a systematic examination of articles published in three leading Irish newspapers over the period 2008-2012.

KEYWORDS

Sovereign debt; sovereign default; mass media; economic crisis; Ireland.

INTRODUCTION

The role of the media in the current economic crisis has received little scholarly attention, both in Europe and the United States (Quiring and Weber, 2012; Starkman, 2009; Tzogopoulos, forthcoming). Yet, news organisations have played a crucial role in presenting government policy to the public in relation to the ongoing economic turmoil. This paper examines mainstream media coverage of the question of sovereign debt default, using the case of Ireland as an illustration. The existing literature on sovereign debt restructuring assumes that there are large costs to defaulting, but paradoxically, it has been at pains to support this claim empirically, finding instead that countries that choose or are forced to cancel the repayment of their debts usually suffer only short-term economic costs, while negative consequences over a longer period of time are not significant. A number of countries even benefit from defaulting on their debts, such as Argentina and Ecuador, whose post-default growth has been remarkable.

This paper presents an alternative way of examining why countries repay their debts, which considers the power dynamics between creditors and debtors. It is argued that political and economic elites in both creditor and debtor countries share a similar interest in full debt repayment through the imposition of fiscal consolidation measures and austerity programs on taxpayers in debtor countries, a process which can be seen clearly in Europe today. The media, being part and parcel of the corporate establishment, share elite interests and views and have thus played an important role in making such policies acceptable to the public by dismissing the option of defaulting on sovereign debt, even if empirical and historical evidence shows that it could potentially be beneficial for countries like Ireland.

The role of the media will be investigated through a systematic examination of all editorials and opinion articles published in three leading Irish newspapers over the period

2008-2012. In particular, the views presented in the media will be assessed in relation to a general sovereign default, the repayment of Irish banks' bondholders and promissory notes, as well as the concept of odious debt as related to the experiences of Ecuador and Argentina. It will be seen that the media have largely rejected the option of default, in line with government policy. This has been accomplished in two main ways. First, by simply not discussing to any significant extent the alternative of default itself and relevant concepts like that of odious debt, and second, by depicting such options negatively when they have been discussed.

A CRITICAL PERSPECTIVE ON SOVEREIGN DEBT DEFAULT

The literature on sovereign default has focused in large part on governments' external debts to private or official creditors, which is what this paper examines for the case of Ireland (for a study of default on domestic debt, see Reinhart and Rogoff, 2011). Existing research has sought to identify and explain the costs to countries that stop repaying their debts. The underlying assumption is that if debtors suffered no costs when defaulting, they would not repay their debts, and the international financial system would become chaotic and dysfunctional. However, this is not the case, as countries usually do repay their debts. Therefore, the argument goes, there must be negative consequences faced by countries that are unwilling or unable to repay their borrowings. Among the possible ones that have been investigated are reputational costs of a political or economic nature in future international relations, domestic political costs (such as the government losing power after defaulting), international trade exclusion costs, and costs to the domestic economy through the negative repercussions on the financial system (for a survey, see Panizza *et al*., 2009).

However, paradoxically, existing research has not been able to identify any significant, long-term costs related to default. Indeed, in a systematic study, the IMF

concluded that the ‘most robust and striking finding is that the effect of defaults is short-lived, as we almost never can detect effects beyond one or two years’. For example, ‘there is by now agreement on the fact that default does not lead to a permanent exclusion from the international capital market. Although there is some capital market exclusion period following a default, countries that defaulted in the last three decades have regained access to international capital markets fairly quickly’ (Borensztein and Panizza, 2009, pp. 722, 699; Kamalodin, 2011). Gelos *et al*. (2011, p. 243) confirm that default ‘does not reduce significantly the probability of tapping the markets’ and find that ‘the average exclusion from international credit markets following a default declined from four years in the 1980s to two years in the 1990s’. In an earlier publication, Gelos *et al*. (2004, p. 1) stated that they were ‘unable to detect strong punishment of defaulting countries by credit markets’. Likewise, Fuentes and Saravia (2010) find that capital inflows to a defaulting country increase as time elapses after the default (see also Eichengreen (1989) and Jorgensen and Sachs (1989) for historical studies in line with those findings).

Moreover, the level of bilateral trade between a defaulting country and its creditor countries tends to decrease initially, but it eventually recovers. Similarly, ‘Reputation of sovereign borrowers that fall in default, as measured by credit ratings and spreads, is tainted, but only for a short time’ (Borensztein and Panizza, 2009, pp. 722-3; Rose, 2005).

Defaults may have a negative effect on output growth (Sturzenegger and Zettelmeyer, 2006; De Paoli *et al*., 2006, 2009), but the effect is not as large as is commonly perceived, as there is ‘No statistically significant effect after the year in which the default takes place’ although there is a negative effect on GDP growth ‘ranging between 0.6 and 2.5 percentage points’ immediately after default (Borensztein and Panizza, 2009, p. 723), an assessment corroborated by Chuhan and Sturzenegger (2005) (see also Sturzenegger, 2004).

Furthermore, Levy Yeyati and Panizza (2011, p. 103; 2006) argue that the impact of default on growth is in fact even less negative than the consensus in the literature maintains. Using a fine-grained analysis relying on quarterly GDP data (instead of annual data), they conclude with ‘a simple and sobering message: contrary to what it is typically presumed, defaults have not been followed by output contractions. In fact, we find that the opposite seems to be the case: the default quarter coincides with the trough of the output contraction, and marks the start of the economic recovery’. This means that the negative output effects of default are likely related to anticipation of default rather than to the default itself—and once the latter has happened, growth picks up quickly. This does not mean that defaults are costless, as liquidity runs and financial turmoil can happen in anticipation of the default. Nevertheless, this finding has one important policy implication, which is that once the market anticipates a default, the formal decision to stop servicing the debt actually ‘does not entail any additional cost’, and at that point, ‘default is therefore optimal (or even overdue)’ (2011, p. 96). It could be maintained that the unemployment rate is a more meaningful measure of social well-being than growth and that defaults’ impact on it should be assessed. Levy Yeyati and Panizza (2011, p. 102) addressed the issue and found the same results as for output growth, namely, that whatever negative consequences on unemployment default may have, they materialise before a country formally defaults, and unemployment starts decreasing just as the event takes place.

In short, defaults, on average, tend not to involve significant long-term economic costs. This puts into question the assumption that countries pay their debts for fear of the negative consequences that may otherwise result. Even accepting that there are indeed certain (limited) costs to defaulting, it can at least be suggested that other forces are at work which lead governments to repay their debts. In this regard, this paper argues that one weakness in the mainstream literature is that it fails to consider the international and domestic power

relationships involved in the process of external debt repayment. It is maintained that an important reason why countries repay their debts is because international creditors put pressure on domestic elites in the debtor country to do so, and in turn, domestic elites seek to raise the funds from their own population, for example through austerity programs that cut welfare spending and increase taxes. Therefore, there is a loose alliance between creditors and domestic elites toward the aim of repaying sovereign debts. International elites to whom the debts are owed wish to be repaid, and national elites in debtor countries collaborate and in turn can increase their relative power within their own societies through structural adjustment programs that loosen labour regulations, reduce the minimum wage and cut social services. The dynamics can be understood through reference to a ‘transnational capitalist class’ (Carroll, 2010; Robinson, 2004; Sklair, 1997, 2001, 2002; van Appeldoorn, 2002) that has become more prominent over the last several decades, within the context of globalisation. The transnationalisation of capital thesis has generated much critical debate (Bello, 2006; Chang, 2008; Desai, 2007; Macartney, 2009, 2011; van der Pijl, 2005) which has argued that it should not be exaggerated, as domestic and international elites are not homogenous and national dominant classes have not lost all ties to their home country, as implied in some accounts (Hardt and Negri, 2000). Nevertheless, following Harvey (2005), the paper’s point is that although there are tensions and differences of interests among elites—both within and among nation-states—they still share strong common interests, for example, in the preservation of a (neoliberal) capitalist system and in the repayment of sovereign debts.

The current European debt crisis provides an obvious example of such dynamics, with ‘periphery’ countries like Ireland, Portugal, Greece and Spain being pressurised by EU institutions—led by the European Central Bank (ECB)—to repay their creditors, which are often financial institutions in European ‘core’ countries like Germany and France (Lapavitsas, 2012). In turn, domestic political and economic elites in periphery countries

have imposed fiscal austerity programs on their population in order to reimburse the debts. There are also parallels with the experiences of developing countries that have repaid debts to international creditors in the Western world, sometimes via IMF- or World Bank-designed structural adjustment programs. For example, Joseph Stiglitz (2002, pp. 208-9; see also Palat, 2003) explains how the process works in his discussion of the role of the IMF's 'rescue' packages to Russia and Asian countries facing financial crises in the late 1990s. His key point is that IMF bailouts seek to save creditors at the expense of taxpayers living in debtor countries. This is why 'bankruptcy and standstills were not (and are still not) welcome options, for they meant that creditors would not be repaid'. The bailout funds 'are often used to pay back foreign creditors, even when the debt was private'. In 'the Asian financial crisis, this was great for the American and European creditors, who were glad to get back the money they had lent to Thai or Korean banks and businesses or at least more of it than they otherwise would have'.

This paper examines the case of Ireland, whose government, in coordination with European institutions, has attempted to raise revenue from the Irish population through EU/IMF-sponsored austerity programs (Drudy and Collins, 2011; Kinsella, 2012; on EU/IMF lending, see Lütz and Kranke, forthcoming). The task of making acceptable to the public tax hikes and government spending cuts to repay German and French banks among others requires a substantial amount of ideological work. It is here that the media play a role in presenting favourably such policies to the population (Harvey 2005). In particular, the ways in which news organisations have offered negative views of default will be examined in detail below. The ideological role of the media can be interpreted in terms of establishing what Gramsci (1971) calls 'common sense' (by which he means 'the sense held in common') which typically grounds popular consent to government policies (although there are limits to such acquiescence, as shown by protest movements such as Occupy Wall Street). As such,

the examination of the role of the media clarifies the ways in which elites attempt to raise revenues from the (Irish) population in order to repay their borrowings.

IRELAND'S DEBTS

Ireland has adopted neoliberal policies for the last several decades (Allen, 2009; Kirby, 2010; Kitchin *et al*., 2012). The 'Celtic Tiger' period that preceded the crisis was composed of two distinct and successive booms. First, an export-based expansion in the 1990s enabled the country to emerge from a lengthy period of economic stagnation. The success of this phase was made possible by large investments from TNCs, attracted to Ireland due to its status as a 'tax haven' for US and other multinationals seeking access to the EU single market (Honohan and Walsh, 2002; Ó Gráda and O'Rourke, 1996).

As export growth rates fell sharply after 2000, a second phase characterised by a credit-fuelled construction boom sustained high rates of economic growth. Credit was made more freely available due to the significant fall in interest rates (including for mortgages) brought about by Ireland's entry into the EMU (Economic and Monetary Union of the European Union). As domestic lending increased substantially, Irish banks' deposits came short of providing sufficient funding. Therefore, banks filled this funding gap through foreign borrowing, which was in turn largely channelled toward the domestic property market. As a result, real residential property prices rose threefold between 1994 and 2006. The housing bubble started deflating in 2007, and as of this writing, prices are down to about 50% of their peak (Kelly, 2010; Nyberg, 2011).

Between 2000 and 2007, Irish government debt was kept at a low level and was even falling, thanks to the economic boom. For example, the gross government debt-to-GDP ratio stood at 37% in 2000, 30% in 2003 and 25% in 2007. In 2007, the government debt burden was one of the lowest in the EU, but has worsened considerably since then to become one of

the highest. The fall in real estate prices and subsequent implosion of the banking system and recession have increased state debt from about 25% of GDP in 2007 to 95% of GDP in 2010. In 2008, the government issued a blanket guarantee on bank deposits and other liabilities amounting to €365 billion, almost 2.5 times Ireland's GNP, announced that it would recapitalise Ireland's banks, nationalised Anglo Irish Bank in January 2009, and established NAMA (National Asset Management Agency) to buy financial institutions' 'toxic' loans in November 2009. The deepening recession and the large exposure of lenders to a property market in free fall made it difficult for the state to fill the capital hole faced by the banks. Because the government was not ready to default on its blanket guarantee, it assumed an additional large bank-related debt. However, soon unable to service its debts, the Irish state lost access to international capital markets in 2010. In need of external financing, and under pressure from the ECB, it agreed to a loan package of €85 billion with the EU and IMF to finance government borrowing and recapitalise the Irish banking system. Of this package, €50 billion was directed towards the fiscal position, while €35 billion was aimed at recapitalising the banks (FitzGerald and Kearney, 2011).

The current general government debt of Ireland stands at €169 billion (108% of GDP) and is composed of government bonds held by domestic and foreign investors (accounting for 50% of total sovereign debt), EU/IMF borrowings (21%), promissory notes (17%) and short-term and retail debt (12%) (FitzGerald *et al.*, 2012, p. 4). A recent deal in February 2013 replaced all promissory notes with long-term government bonds, but no debt was cancelled in this process. Bonds will thus account for some 67% of total sovereign debt, but it is useful to discuss the notes in this paper since they have been the object of much discussion over the past couple of years.[1] State debts are scheduled to be repaid over the next 40 years depending on the maturities of the borrowings. In particular, EU/IMF loans should be repaid in full by 2021, and the last bonds in 2053. Of course, this debt position is likely to worsen

significantly as time goes on if there is no debt relief, because more borrowing will be necessary to repay loans as they reach maturity. The extent of this further borrowing would be reduced if Ireland's economy was growing—generating government revenues through taxation—but it has remained sluggish since the crisis began. This is a result, among other things, of the austerity measures that have been implemented since mid-2008, first by the government on its own, and since late 2010, within the context of the EU-IMF bailout (Drudy and Collins, 2011).

Ireland's debt structure reveals three main potential points of default: on government bonds, EU/IMF loans, and promissory notes (Coffey, 2012; Gurdgiev, 2012; Kinsella, 2012). A default on bonds would involve losses for investors. EU/IMF loans were provided to the Irish government as part of the bailout package, together with bilateral loans of a smaller amount from the UK, Denmark and Sweden. A default on such loans would affect the creditors just mentioned and the losses would ultimately be shared by member governments of the EU and IMF.

As mentioned above, promissory notes have been replaced in February 2013 by long-term government bonds, but the debate that took place surrounding their (non)repayment over the last two years is instructive. The details related to the notes are complex, but can be summarised as follows. The Irish Bank Resolution Corporation (IBRC) was formed in 2011 by the merger of Anglo Irish Bank and Irish Nationwide Building Society (INBS). In order to pay those institutions' creditors, the Central Bank of Ireland (CBI) printed money in the form of Extraordinary Lending Assistance (ELA). But such monetary financing not being allowed under Eurozone legislation, the Irish government agreed to repay the funds to the CBI in annual installments totaling €47.9 billion until the year 2031 through the vehicle of promissory notes. In short, money was first created, then used to pay IBRC's creditors, and last, would be repaid over a number of years by the state (Whelan, 2012).

Not repaying the promissory notes would have only resulted in more euros in circulation, giving rise to worries about inflation. The point of repaying them was only to mop up the excess money first created to repay IBRC's creditors. Therefore, no creditor or investor would have been hit by defaulting on the notes—the only concern was inflation. Politically, even if the amount of money initially printed was very small relative to the size of the Eurozone, the ECB did not want to allow Ireland to default and set a precedent that could be followed by other countries. It is a matter of speculation as to how the ECB and European authorities would have reacted to a unilateral Irish default on the notes. Some alarmist commentators have claimed that the ECB could withdraw the large amount of funding it provides to Irish banks, leading to a collapse of the Irish financial system, or perhaps even expel Ireland from the Eurozone. However, others have maintained that the ECB would not have retaliated because widespread bank failures in one of its member countries, or expulsion, would have had devastating political consequences for the Euro project. In any case, it is clear that an Irish default on the notes would have had no significant negative economic impact, their amount being too small to trigger inflation in the Eurozone (for a detailed discussion, see Whelan, 2012).

In February 2013, IBRC was dissolved by the Irish government and the promissory notes arrangement restructured. The new deal is complex but boils down to the following. The notes have been eliminated and replaced by long-term government bonds. The repayment of the latter by the Irish government will take place over a longer time frame than the promissory notes (40 years). This is a benefit for the government, but there has been no debt cancelled, so that its nominal value remains the same. However, extended maturities will lighten the burden (Whelan, 2013).

THE ROLE OF THE MEDIA

This paper conceives of mainstream news organisations as large businesses embedded in a capitalist economic system and are thus integral parts of the broader corporate world. They feel the pressures of bankers, shareholders, and directors to generate profits. Links with other economic sectors are created and maintained through boards of directors as well as general business and social interactions. Media diversification in recent years has increased the integration of news organisations into the economy as a whole. Newspapers and television stations have acquired a range of other media and non-media firms while non-media businesses have taken stakes in media companies. Therefore, it is to be expected that news content will reflect economic and political elites' interests and views (McChesney, 2004).

Advertising also affects news content. The revenues it generates are crucial to today's media industry, which allows newspapers to be sold for a cheaper price, making them more competitive. Media unable to attract ads are at a serious disadvantage in the market and run the risk of bankruptcy. This affects news content because corporate advertisers tend not to subsidise television programs or news stories that seriously question or attack their own business or the political economic system of which they are part, which would be directly contrary to their interests (McChesney, 2004).

Another factor leading the media to report favourably on establishment views is news sourcing. Limited resources, time constraints and a competitive environment lead reporters to connect with those institutions that provide a steady flow of news, which in practice means large organisations that have themselves the resources to produce and release such a stream of material. The government and corporations are two such sources, with the result that their points of view are predominant in the media.

In Ireland, Independent News & Media (INM) is the dominant media conglomerate. It generates annual revenues of €558 million and owns numerous newspapers and magazines,

radio stations and online sites in Ireland, the UK, South Africa, India, Australia and New Zealand. Some of those are leading titles, such as the *Irish Independent* and *Sunday Independent*. Its board members and directors have included many political and economic elites, like Brian Hillery, a Director of the Central Bank of Ireland and former member of parliament, Dermot Gleeson, once chairman of Allied Irish Bank (AIB), and B.E. Summers, a director of AIB (INM, annual reports). Another influential paper is the *Irish Times*, whose board is also replete with individuals linked to the corporate and political establishment. For example, its chairman is David Went, who is also board member of Goldman Sachs Europe.

The Irish media receive a large amount of funding from advertising. A well-known case is that of property advertising, with most newspapers publishing weekly supplements for commercial and residential real estate. This undoubtedly influences news content, which has been very favourable to the real estate market during the housing bubble years. Shane Ross, former *Sunday Independent* business editor, noted that ‘Glowing editorial pieces about a new housing estate were often miraculously accompanied by a large advertisement plugging the same estate’, while ‘Unfavorable coverage of developers and auctioneers in other parts of the newspapers was regularly met by implied threats from property interests that advertising could go elsewhere’ (Ross, 2009, pp. 157-158; for a systematic examination, see This Author, 2013). A study of Irish journalism practices revealed that journalists ‘were leaned on by their organisations not to talk down the banks [and the] property market because those organisations have a heavy reliance on property advertising’ and that because of the need for regular contact and interaction with financial sources, ‘some journalists are reluctant to be critical of companies because they fear they will not get information or access in the future’ (Fahy *et al*., 2010, pp. 13-15).

During the Celtic Tiger years, because the housing boom was advantageous to key sectors of the Irish corporate and political establishment, it was never seriously challenged.

Rising property prices directly benefitted builders and developers, banks, the government and property firms, and indirectly, the broader economy, thanks to high levels of growth. The government, led by the Fianna Fail party, was able to collect large tax revenues from the property boom through stamp duty, capital-related taxes and income taxes on construction workers, and VAT on construction materials. Bankers could increase the size of their loan books and profits, just like builders and developers, as long as house prices kept rising. Those converging interests in sustaining the real estate bubble lubricated a thick web of corruption, bribery and unethical relationships between key officials in the public and private sectors, as the Tribunal of Inquiry Into Certain Planning Matters and Payments (Mahon Tribunal) has revealed (O'Toole, 2009). The media strengthened this 'vicious circle' of elites feeding off the property bubble by presenting a favourable picture of the real estate sector's growth (This Author, 2013). As will be seen in the analysis of default in the media below, news organisations' pre-crisis 'commitments' seem to have had a certain inertia and coloured reporting on the crisis, which still reflects elite views.

This article examines the print press through the *Irish Times* (IT), *Irish Independent* (II) and *Sunday Independent* (SI), the most popular and influential newspapers in Ireland. The *Irish Times* is often referred to as 'Ireland's newspaper of record' and has a readership of nearly 300,000, while the *Irish Independent* has 465,000 readers. The *Sunday Independent* is the most popular of the Sunday newspapers, with a readership of more than 900,000. Both the *Irish Independent* and *Sunday Independent* are owned by INM and the *Irish Times* by the Irish Times Trust (NNI, 2013).

Editorials and opinion articles published for the period 2008-2012 in those three newspapers were examined to find out their views on default in general (on any sovereign debt, including bailout funds) and in relation to the repayment of bondholders and promissory notes in particular. Specifically, the following methodology was used to conduct three main

searches on the LexisNexis newspaper database (simpler searches were also conducted on Ecuador and Argentina, as will be seen below):

Search 1: All editorials and opinion articles addressing the default question directly were selected and classified into those favourable to default, those against it, and those neutral.[2] Opinion articles tend to fall distinctly into one of these categories because by their nature, they are meant to express a clear viewpoint.

Search 2: All editorials and opinion articles discussing the subject of bondholders directly were selected and classified into those favourable to imposing losses on bondholders, those against this strategy, and those neutral.[3] Articles were easily classified given that they express a clear viewpoint.

Search 3: All editorials and opinion articles discussing promissory notes directly were selected and classified into those calling for not repaying the notes at all (a complete default), those advocating a restructuring of the terms related to the notes to make their repayment easier (for example, through extending maturities), and those neutral.[4] Articles were easily classified given that they express a clear viewpoint.

Default

The first important finding is that default on sovereign debt related to the EU-IMF bailout or elsewhere, has not been a subject discussed widely in the media. Only a total of 28 articles appeared in the three newspapers which addressed the subject directly over five years. Of those, 17 were favorable to the default option, 7 were against it, and 4 adopted a neutral stance. The fact that such a small number of articles addressed the topic, out of thousands of

articles about the economy since 2008, constitutes a strong piece of evidence to support the claim that the media present views that tend to be in line with those of elites.

It is interesting to look at the messages circulated by articles that are opposed to default. Some are alarmist, such as when one analyst writes that ‘Ireland may have, via the last default wild card, a finger on the fiscal equivalent of the nuclear button. However, the problem any future government faces is that if we do press the button, will we blow ourselves up first?’ (John Drennan, SI, 28 November 2010). There is constant talk about the need not to antagonise other European countries and the ECB, whose role in the crisis is perceived as helpful to Ireland, and there is much reference to ‘contagion’ that will ‘spread rapidly’ if bondholders are not paid, adding ‘fuel to the fire of an Irish debt-spiral’ (Donal O’Mahony, IT, 12 November 2010).

Enda Kenny, the prime minister, wrote an opinion piece in which he claimed that Ireland ‘cannot follow Greece into default on debts as this course of action would be disastrous for our embryonic recovery’. He outlined the official line that default would result in ‘cutting ourselves off from further international loans… This would plunge the economy back into recession and impose a degree of social hardship beyond anything experienced so far’. Reputation costs and investment would also allegedly suffer as ‘default would mark us out as a country that “won’t” rather than “can’t” pay our debts, killing off foreign direct investment and resulting in even higher borrowing costs for the State and Irish businesses that would strangle recovery and lower living standards for a generation’. The establishment strategy is clear: ‘We will not unilaterally repudiate the agreement with our partners, but will instead continue to improve its terms to make it more affordable’. Defaulting runs the risk of ‘paralysing wider European financial markets’ (Enda Kenny, IT, 2 November 2011).

Bondholders

There has been some discussion of bondholders in the press, but the total of 37 articles addressing this subject confirms that just as in the case of the notion of default in general, the media have not been vocal about it, which is what would be expected from news organisations sharing elite views. Some articles warn explicitly against imposing losses on bondholders, which is deemed to be a 'high-risk strategy' because it could result in 'antagonising the bond markets' (George Garvey, II, 18 September 2010). Others claim that burning creditors 'would be extremely dangerous' and 'would completely shatter all confidence' in the Irish banking system, because 'preserving international investor confidence in Ireland's banks and its financial system is of the utmost importance if Ireland and its banks wish to continue to access the international capital markets in the future'. It is alleged that 'allowing a major bank to fail and burning the bondholders would have catastrophic consequences for Ireland's financial system and for the sovereign state'. Burning Anglo Irish bondholders would be disastrous because 'No one would believe the commitments given to the other Irish banks. Neither Ireland nor its banks would then be able to satisfy its borrowing requirements from private capital markets. This would be catastrophic' (Damian Chunilal, IT, 25 October 2010). Leo Varadkar, a minister in the current ruling Fine Gael party, defends the repayment of Anglo bondholders because failure to do so would 'have shaken confidence in Ireland' internationally. He also reiterates the government line when he says that 'Most significantly, defaulting would bring us into sharp conflict with the ECB and other EU member states, at a time when we need them most' (Leo Varadkar, IT, 26 January 2012).

However, most of the articles about bondholders advocate some form of haircut for those creditors. Nevertheless, this does not mean that the media is opposed to establishment views. Indeed, bondholder losses are part of the normal workings of capitalism, and although

international institutions such as the IMF put much effort into ensuring that creditors are repaid in full, when it becomes clear that this is not possible, settling for partial repayment is a second-best alternative. As such, the ECB and the IMF have actually called for senior bondholders to take some losses, and the Irish government has already forced losses on some categories of bondholders holding bank debt (Steinhauser and Blackstone, 2012).

There are a number of commentators in the media who have simultaneously called for bondholders to take a haircut while being opposed to a general default. For example, Marc Coleman, an Irish journalist, opposes default because that could scare the markets, which he believes should be treated 'with a mixture of fear and respect' (SI, 11 July 2010). Yet, in another article written at about the same time, entitled 'Time To Put Responsibility for Anglo's Black Hole in the Hands of Its Creators', he strongly argues that Anglo Irish bondholders should take a loss. His position, and that of many establishment figures and institutions, is that 'Between paying those debt holders the whole whack and defaulting is an interim position: negotiating a haircut on their loans, as was done with our domestic banks' (SI, July 2010).

Promissory notes

Since their issuance in 2010, promissory notes have been discussed in 31 opinion articles and editorials. The media has thus again remained mostly silent on this important source of government debt, contributing to keep the default option off the table. Moreover, only 7 of the articles advocated the cancellation of the notes in their entirety while 19 called for some form of minor rescheduling, which has been exactly the government's position, as seen in the February 2013 negotiated package replacing the notes with long-term bonds. As such, the deal was praised by the media, even if it included no debt cancellation at all. The government was congratulated for having 'held its nerve when others despaired' and the deal 'reinforced

the image of the competence' of the ruling parties (Stephen Collins, IT, 8 February 2013) while providing a 'massive boost' for them (Noel Whelan, IT, 9 February 2013). Exploring the option of a larger default on the notes was brushed aside as 'naïve and a waste of time' because 'the effects of a default could have been catastrophic' for the usual reasons: the ECB could withdraw its funding from the Irish banking system, which would then allegedly collapse, the government would supposedly be excluded from the bond markets, in addition to costs to the reputation of the Irish state, according to Donal Donovan, a former IMF staff member (Donal Donovan, IT, 11 February 2013).

However, this catastrophic scenario was far from certain, indeed unlikely, as others have pointed out. For example, former central banker David McWilliams, one of the few Irish economists who accurately diagnosed the housing bubble before it collapsed in 2007, wrote that the consequences of not repaying the notes were 'likely to be minimal' (II, 7 February 2013). The ECB would most probably not have withdrawn its funding from the Irish banking system because this would have spread contagion throughout the Eurozone. In fact, Greece has defaulted four times already within the Euro, and the ECB never used the 'nuclear option' in retaliation. Therefore, McWilliams, like other economists, has advocated not to repay the notes. Because they were essentially debts Ireland owed itself (the government pays back the Central Bank of Ireland), a default would not have involved any other government or investor taking direct losses, and as such, the consequences would have been limited to a relatively small rise in inflation.

Odious debt, Ecuador and Argentina

As the previous discussion has suggested, it is often by playing down discussion of the default option that the media have supported elites' political economic agenda. Another way to illustrate this claim is by looking at press coverage of the concept of odious debt.

The latter refers to debts 'whose proceeds have not been used to benefit the population of the relevant state'. More precisely, they are debts that fulfil three criteria: they were contracted without popular consent, for a purpose of no popular benefit, and the creditor was aware of this when it lent the funds (Mansell and Openshaw, 2009, p. 164; Howse, 2007).

In 2008, Ecuador, became the first country to reduce its debt burden by invoking the concept of odious debt. President Rafael Correa announced that the country would stop making interest payments on some of its bonds, and also engineered a successful bond buyback in which the government repurchased its own bonds at a significant discount of 35 cents in the dollar, thus retiring about one-third ($3.2 billion) of its external debt (Mansell and Openshaw, 2009). The scheme was based on an audit of Ecuador's past borrowings, which determined that some of the country's debts were odious, having been contracted, for example, by the military regime in the 1970s, under corrupt arrangements, for projects which never benefitted the population, or under coercive conditionalities imposed by the IMF and the World Bank (Internal Auditing Commission for Public Credit of Ecuador, 2008). The debt default did not impact negatively on GDP growth, in fact, Ecuador 'suffered only a mild recession during the 2008-2009 global downturn' to rebound thereafter, in contrast to Europe, whose economies have been sluggish at best (Ray and Kozameh, 2012, p. 2; Weisbrot *et al*., 2013).

Yet, the Irish press made no mention at all of Ecuador's relevant experience. Indeed, there has not been a single article published about the country's odious debt audit strategy between 2008 and 2012 in the 64 Irish publications included in the LexisNexis database. Neither has the concept of odious debt itself, independently of the Ecuadorean case, received any attention as being possibly applicable to Ireland. The phrase 'odious debt' was mentioned in only 12 articles among all news articles published between 2008

and 2012 in the *Irish Times*, *Irish Independent* and *Sunday Independent*, and in none of those was the concept even explained, being simply mentioned in passing.

Argentina is another country which defaulted on its external debts, in December 2001 (Datz, 2009). GDP then shrunk by 5% in the first quarter of 2002, but recovery began immediately thereafter and has continued since then, although it experienced a slowdown in 2008-2009 due to the world recession. Weisbrot *et al*. (2011) report that the economy has grown 94% over the 2002-2011 period, a remarkable performance. What is interesting is that this recovery has been achieved without much assistance from international lending institutions such as the IMF or the bond markets, Argentina having faced difficulties in borrowing internationally since its default. Further, FDI has remained limited due to a number of legal actions taken by international investors against the government. Therefore, the Argentinian experience should give pause to those who claim that growth without foreign investment and bond markets access is simply impossible. Mainstream analysts often dismiss the economic expansion as resulting largely from a global commodity boom, but in fact, Argentina boosted growth mostly by recourse to domestic investment and consumption, which accounted for 26.4% and 45.4% respectively of the growth in GDP between 2002 and 2008 (exports only accounted for 12% of the growth) (Weisbrot *et al*., 2011, p. 6). Argentina still faces economic problems, such as high inflation, but its experience shows that it is possible for a government, through income redistribution and stimulus policies, to grow the economy following a default (Cibils and Lo Vuolo, 2007).

The Irish media have reported little on Argentina's default and subsequent growth, and when they did, painted a misleading picture of the reality, giving the impression that debt cancellation had led to catastrophic consequences up to this day. For example, an *Irish Times* article entitled 'Ourselves Alone: What Happens If Ireland Defaults?' (Sheridan, 2011)

describes the situation in Argentina in 2002 just after it defaulted thus, in a passage worth quoting at length:

> ‘Word races though the city slums that there is food on the freeway and it’s still alive. A cattle truck has overturned, spilling 22 head of prime Angus beef across the road. Within minutes 600 hungry residents mob the area, wielding machetes and carving knives. “Kill the cows! Take what you can,” they shout to each other. Live cattle are sloppily killed and diced. Fights break out for bits of flesh in bloody tugs of war’.

The article continues:

> ‘After the default came the meltdown: a 70 per cent devaluation of the peso in six months, a rapidly shrinking economy, an avalanche of poverty and unemployment. Millions of middle managers, salaried factory workers and state employees lost their jobs in the sell-off of state-run industries and the collapse of local companies’.

The article’s analysis relies on so-called ‘experts’ affiliated with financial institutions. For example, the piece asks if a default would turn the Irish ‘into international pariahs? Economists rarely agree on anything, but the consensus on the last is that, yes, we would be pariahs’. It quotes Fergal O’Brien, chief economist with the Irish Business and Employers Confederation, the main employers’ body in Ireland, as saying that a default could result in a situation where ‘you don’t have commerce, so there’s nothing on the shelves, nothing is being bought or sold’, a situation so bad that ‘With no functioning bank system there’s no guarantee that the ATMs would continue to work’.

Yet, social conditions have in fact greatly improved in Argentina since 2002 under the progressive Kirchner governments. For example, during the 2001-2010 decade, poverty has fallen by over two-thirds, from nearly half the population in 2001 to about one-seventh of the population by 2010. Income inequality has also decreased significantly, just like unemployment, which has dropped by over half from its peak, to 8.0%. Social spending has tripled in real terms, rising from 10.3% to 14.2% of GDP, with a range of welfare initiatives having been rolled out (Weisbrot *et al*., 2011).

Nevertheless, in a series entitled 'Argentina 10 Years After Default', the *Irish Times* ran negative stories. One quotes an Argentinian as saying: 'I lost my job and . . . my wife left me taking our son . . . the crash cost me my family. Eventually, I ended up on the streets, sometimes eating in soup kitchens. There was no work and no money circulating. It was terrible but at least you did not feel alone. In my neighbourhood many people were in the same situation' (Tom Hennigan, IT, 16 May 2011). Another piece gives the impression that Argentina never really recovered. Entitled 'Still Haunted By Legacy of the Crash' (Tom Hennigan, IT, 17 May 2011), it asserts that a 'widespread lack of economic confidence remains' in the country. The *Irish Independent* also published an article entitled 'The Middle Classes Were Begging for Food in the Streets' (30 July 2011) which reported approvingly on Irish Finance Minister Michael Noonan's assertion that the Irish would suffer like the Argentinians if they defaulted. Noonan said that after 2001, Argentinians 'were searching the rubbish bins to try and feed their kids. People who never had a poor day in their lives were in penury and they got totally wiped out'.

In short, successful cases of default relevant to Ireland have been largely ignored by the media, or reported negatively. This constitutes another way in which the policy of default has been downplayed by news organisations. Even if it is not possible to know with certainty whether an Irish default would have consequences as positive as in the two Latin American

cases discussed, the latter certainly provided grounds for considering their strategies in public debate.

CONCLUSION

This article has argued that the mainstream media share the views and interests of political and economic elites, being themselves part and parcel of the corporate sector. In the case of the Irish economic crisis, this has translated, in particular, into scant or negative coverage of the possibilities of default on Irish sovereign debt. It cannot be asserted conclusively before the fact that the consequences of such an action would be entirely positive for Ireland, but according to both the scholarly literature and the experiences of countries like Argentina and Ecuador, there are certainly grounds for exploring that option. The case of the Icelandic crisis—left aside in this paper because it is ongoing and still facing uncertain outcomes—also seems to support the claim that default can be beneficial. Iceland imposed not insignificant losses on its banks' bondholders and preliminary evidence indicates that its economy has so far performed better than Ireland's (Wade and Sigurgeirsdottir, 2012). If the media had adopted a critical stance toward Irish government policy, they should have emphasised that major debt restructurings have not necessarily led to catastrophic outcomes in the past, and have sometimes even acted as a springboard toward strong recoveries. However, news organisations have argued that creditors should be repaid in full or absorb only relatively minor losses on their investments. Even on the issue of the promissory notes, whose cancellation would not have led any investor to lose out, the media never made the case for their annulment.

The existing literature on default has assumed that countries usually repay their debts because there are costs attached to non-repayment. However, this neglects the power dynamics involved in the process. This paper has argued that in the case of the European

sovereign debt crisis, national and supranational (European) elites share similar interests and seek to raise more revenues from debtor countries' populations in order to repay creditors. Of course, there are some tensions and differences between Irish and European elites, manifested for example in Ireland's wish to get better terms on its debts through regular negotiations with ECB and German government representatives. Nevertheless, elites in Brussels, Berlin and Dublin agree that sovereign debts must be repaid to the fullest extent possible, and that austerity programs and fiscal consolidation must be implemented towards this end.

Finally, by examining the role of the media in the current economic crisis, the paper has taken a first step in addressing an important gap in the literature and in our understanding of the ways in which governments have reacted to the current turmoil. A number of avenues for future research could be explored, such as comparative work on media coverage of the crisis in other countries, within and outside of the Eurozone, as well as in relation to aspects of the crisis other than default. It is possible that in countries where progressive political parties and social movements have been more prominent institutionally than in Ireland, news content has given voice to a broader range of viewpoints, which in turn supports alternative policies. However, because the European mass media landscape is dominated by corporate entities, it is expected that this paper's conclusions would apply to other states, at least in broad outline.

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[1] There are also an estimated €162 billion of 'contingent liabilities' of the state which are not computed under general government debt and not considered in this paper. This includes the €30 billion NAMA bonds issued by the government to the banks in 2010 in exchange for their troubled property loans taken on by NAMA. The liability is held in a special purpose vehicle (SPV) and thus it is not recorded under the State's general government debt. There are also government guarantees to the banking system, the most important of which amount to €113 billion under the Eligible Guarantee scheme (ELG). A third component of contingent liabilities is €20 billion in Emergency Liquidity Assistance (ELA) that the Irish Central Bank largely provided to Anglo Irish Bank and Irish Nationwide Building Society (FitzGerald and Kearney 2011).

[2] The exact LexisNexis search was for articles in which the word 'default' appeared in their first three paragraphs, which ensured that the pieces addressed the subject directly.

[3] The exact LexisNexis search was for articles in which the word 'bondholder' appeared in their first three paragraphs, which ensured that the pieces addressed the subject directly.

[4] The exact LexisNexis search was for articles in which the term 'promissory notes' appeared in their first three paragraphs, which ensured that the pieces addressed the subject directly.

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