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Debtors and Creditors Should Pay

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Ireland borrowed and spent itself into a financial crisis. Irish banks borrowed abroad and re-lent the money to Irish home buyers on the expectation that home prices would continue to climb. When the real estate market collapsed, borrowers crashed, the banks came tumbling after, and so did the rest of the economy. Sound familiar?

Why aren't British
and German
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regulators, taking
some blame?

Ireland's current fiscal problems are a result, not a cause, of the crisis. In the American case, foreign borrowing was due in large part to the Bush administration's fiscal irresponsibility, while the Irish government budget was in surplus for a decade before the crisis hit. Private loans to private borrowers are at the root of the Irish crisis. The government was forced to step in to bail out the banks, and the current catastrophe is a result of the depth of the financial collapse, the cost of the bank bailout, and the deep recession into which the country has sunk.

So who should pay for this? Both debtors and creditors.

Irish banks borrowed irresponsibly, Irish regulators were negligent, and Irish borrowers overextended themselves. But the same could be said for the lenders. British and German banks lent \$400 billion to a country of four million people — that's \$100,000 for every man, woman and child in Ireland. Why aren't British and German bankers, and British and German regulators, taking some of the blame for the disaster? The loans were foolishly made and poorly used, and both the borrowers and the lenders need to participate in the resolution.

In every debt crisis, the costs of mopping up get split between debtors and creditors — as they do in the case of corporate or household bankruptcies. Ireland will undergo a long period of austerity and sacrifice, and has already begun to do so.

Ireland's creditors — which are largely its partners in the European Union — will have to take some of the hit as well. Providing emergency lending to Ireland is a start. Eventually the country's debt will have to be restructured, and creditors will have to pay a price for the mistakes they made. Recognition of joint responsibility for the crisis, and joint responsibility for its resolution, would be fair and most likely to succeed in restoring Ireland to sustainable growth.

Topics: Economy, Europe, Great Britain, Ireland

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