Written by **Bruce Walker** on January 20, 2011

Irish Central Bank Prints Euros to Pay Bonuses

Emergency loans to the Irish banking system had been keeping the economy of the nation once called the "Celtic Tiger" from plummeting. Last month however, the loan was reduced from €136.4 billion in November to €132 billion (the first monthly decline in lending during 2010). How has the government of Ireland reacted to this reduction in support? The Irish Central Bank has simply begun printing euros itself. Worse, from the standpoint of encouraging fiscal austerity, the bank has used millions of these euros to pay bonuses to its staff.

Tim Congdon of International Monetary Research expressed a common view:

> This is a horror story. It shows the cataclysmic conditions of the Irish banking system. The banks have borrowed 183 billion euros or 110% of the Irish Gross Domestic Product. They have burned through all their capital and a lot of their deposits as well. This is going to end up on the national debt.

The government of Ireland has begun an investigation after the bank acknowledged that it supplied the Irish Department of Finance with untrue and misleading data on the bonuses. At least one of the bank officials received a six-figure bonus. Irish Finance Minister Brian Lenihan provided information on the amount of bonuses paid in December, which at the time was reported as zero. That now appears completely false. Though massive, the actual amount of the bonuses — tens of millions of euros — is less significant than the loss of trust and confidence which this situation will create.

The printing of euros by the Central Bank of Ireland also will likely cause deep chasms within the European Community. Germany, along with some other nations with relatively prudent ratios of expenditure to revenue, pressured Greece several months ago to undertake major reductions in expenditures before a bailout was approved. The Mediterranean nation underwent major political upheaval, and other nations in the southern half of Europe began quietly murmuring about a looming German economic hegemony, with not-so-subtle references to Germany in the Second World War.

Now, what the Irish have done is likely to infuriate the Greeks, who have endured the rigors of austerity measures, as well as the Germans, who have played the "heavy" in this drama (German Chancellor Angela Merkel has had to raise the specter of higher taxes to her citizens, and her party has suffered major reverses in state elections because of this crisis). The Irish actions also will surely make it harder for the European community to deal with the next crisis. Unlike the relatively small nations that have needed propping up during the last year — Greece, Ireland, and Portugal — the next to face real problems seem likely to be major nations such as Italy and France. The Berlusconi government in Italy is already confronting investigations of personal misconduct by the Prime Minister. President Sarkozy in France is enduring a decline in popularity typical at this stage of the strong French presidential system of government. The Irish government itself, facing a very tough general election in March, may well be out of office soon.

Doubtless international lawyers will review the European Union treaty and draw various conclusions about the propriety of the Central Bank of Ireland printing currencies under these conditions. The impression that this has made on those who deal in international finance, however, is clear: The printing of euros looks like some form of official counterfeiting. Mike Shedlock of Global Economic Trend Analysis is blunt:

> Ireland's central bank counterfeited 51 billion euros out of thin air. The amount is not backed by government bonds. Nor was it a loan from the ECB or anyone else. The money is counterfeit in every sense of the word.

If Ireland is allowed under the European Union treaty to print euros, then it would presumably be just as lawful for Greece or Portugal to print euros as well. The only constraint would be the self-restraint of governments acting responsibly. However, the very governments most likely to print euros would most likely be those that have shown the least responsibility. If the EU were flooded by euros printed by Ireland, Greece, and Portugal — and perhaps Belgium, Spain, and Italy as well — then the whole structure of the EU would face fundamental challenges, just when political pressures on governments were the greatest.

This storyline has an old lineage. In the days when all money was species (gold or silver, primarily), governments minted coins of different values based upon weight. Each government was held to a standard of self-interested honor: If people trusted the government to maintain the weight of gold or silver, then the value of money and the flow of commerce could occur with minimal hindrance and the economy would operate more efficiently. A government characterized by inadequate revenue or extravagant spending faced a temptation: Its mints could "clip" coins. This was often done literally: The outer edges of the coins were clipped just a little in order that most buyers and sellers would not notice it, but so the amount of gold or silver was reduced by perhaps five percent.

What will happen now within the European Union? Will the EU insist on more control over the printing of currency? Will the constituent nations devolve to their own national currencies, as Germans have already indicated they would like to do? How many governments will topple as a result of the growing crisis? What will this do to rates of savings and investment, keys to long-term economic health?

The answer is unclear, but the actions of the Central Bank of Ireland have surely made any answer harder, not easier.