Brian Lucey, Charles Larkin and Constantin Gurdgiev (eds.) What if Ireland defaults? (Dublin: Orpen Press, 2012)

There is a story to be told about this turn of events; both a general story about crises in the capitalist system, including this particular crisis, and also about how the crises have unfolded in particular countries. When I talk about crisis in this review I am not referring to the Euro crisis but to the banking crisis.

It is worth pointing out at the beginning of this review that it is a significant fact that a number of countries have avoided this crisis even though they have been affected by it as, I guess, every country in Europe at least has been. The Scandinavian countries, Norway, Sweden, Denmark and Finland have been able to avoid this crisis and the same applies to Canada. Finland has adopted the Euro and is having problems because of it, but all the four Scandinavian countries had learnt their lesson from their banking crisis in the early 1990s and managed to avoid all the pitfalls in the time leading up to the banking collapse in the autumn 2008. The key issue seems to have been a close monitoring of their banking systems and a tough management of the system by the state. It seems to me that the role of the state is probably the most important issue in this crisis. In the decade leading up to 2008 it seems to have become an accepted orthodoxy that somehow the market system needed only a minimum of regulation and was self-perpetuating. If there is any fairly clear lesson to be learnt from this crisis it is that this orthodoxy is a myth. The state is the most important institution for a well-functioning market, not because the state should regulate every minute detail of the market, but because the state must put in place a good legal framework, close monitoring and the willingness of the institutions to use those powers supplied by the state to control the financial market.

The other option is to leave the financial system to its fate in the market, so that the banks and other financial institutions can collapse and become bankrupt like any other business. It is an interesting fact that no government in Europe or North-America was willing to do this. There are various reasons for this but the two most important ones seem to me to be:

(a) First, the risk of contagion, meaning that when one financial institution falls the confidence in the others falls sharply, so that a bank that is in no way insolvent can suddenly become so because people do not trust it any longer. This does not happen in other markets: If a building firm collapses other building firms are not in danger of collapsing and the same does seem to apply generally to the manufacturing industry. What is so special about banks? The reason why financial businesses are not in this position is because they rely so heavily on trust in their operations. A bank is not like a library where money is stacked on every shelf, because the money that you put into your account the bank lends to somebody else, who is willing to pay the interest the bank asks for. So at any time there is only a tiny portion in the bank of the money people have put into it. If there is a run on the bank, it cannot pay all the owners of current accounts their money, even if it is in perfect order. That is the basic reason why we need central banks, banks that lend to other banks, when for some reason or other their own money does not suffice.

(b) The second one seems to me to be the fact that banks have become so important for the everyday life of ordinary members of the public that no government can leave the bank system alone. The smooth running of the banking system has become a matter of security for the public and government is responsible for public security. If government is found wanting in public security this can easily lead to public unrest. This fact, that is, the centrality of the banking system in the life of the members of the modern public is usually overlooked when examining the financial crisis and its importance.

This book explores what would happen if Ireland defaulted, did not pay any of its debts, only paid some, or paid most of them but not all. It seems to be the case that it will in all probability be impossible for the Irish state to pay all of its debt, because the Irish state decided to underwrite all of the debts of its banking system when it was grinding to a halt. This has had the consequence that public debt in Ireland is so large that it prevents the growth of the economy. Also, since Ireland decided to take up the Euro, it does not have the option of devaluing its own currency. So all roads to renewed profitability are paved with serious difficulties. This does not mean that it is impossible, but it will take a long time. The default of a sovereign state is not the same as the bankruptcy of a large business. It is much more complicated and serious, especially for the citizens of that state. All this is examined in this book.

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The book is in four parts. The first part is general, where the authors explore research done on crises and contagion and there is a description of the problems facing Ireland and the possibilities the state has in its public finances. The second part consists of four essays on various aspects of the Irish financial crisis. It will probably have to restructure its debt and this will have to be selectively done; the public debt is analysed and it is discussed if the Irish state will be able to finance its public debt on the market when it returns there or whether the interest rate that the market requires will be unsustainable. One essay explores how Ireland´s problems are connected to the problems of the Euro. The third part collects five reflections on financial crises in other countries: Russia, Iceland, Argentina and New York. The fourth part is a collection of essays from various Irish perspectives on the debt and possible default of the Irish state.

This is an important book that deserves to be widely read. Every essay adds something to the panorama and at the end the reader is in a better position to evaluate the possibilities. The viewpoints are clearly expressed and well argued and even though acronyms are to be expected in this field of research they are kept to a minimum and should not prevent understanding of the issues. The arguments expressed here have relevance for many states in Europe at present.