
How the Ship of Fools was Ship-wrecked – The Irish Crisis and Response

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Abstract

For a decade and half the Irish economy was the poster-boy of Europe. With substantial growth rates, an open economy, flexible labour markets and low levels of taxation, Ireland was seen as evidence of the success of neoliberal policies. Yet in the matter of a few short years Ireland has turned into one of the peripheral black-holes (along with Greece and Portugal) that are threatening to bring down the whole Eurozone project. Given this context the paper will address two key questions. Firstly how did the much eulogised Celtic Tiger fall so far and so fast? And, secondly, what has been the government's response to the fall and crash of the Irish economy? These two questions will be addressed through both a general historical analysis of the developments of Irish society up to the crash in 2008 and then the responses to it. Secondly by an analysis of two specific elements of that development; namely the much discussed low corporation tax rate and the failure of social housing to deliver decent affordable homes for those at the bottom of society. The third element is a review of the banking and sovereign debt crisis that led to the IMF/EU deal in November 2010 and a brief outlining of its implications for public finances, especially the question of default. The paper concludes by placing the Irish crisis in a global context.

Key Words: Celtic Tiger, Ireland, Banks, Banking Crisis.

The scale of Ireland's economic collapse, and the decision of the government to throw the remaining public resources at failed banks, means that a decade of relative hardship is all but inevitable.

Fintan O'Toole, Ship of Fools (2009)

Introduction

It is easily forgotten amid all the frenzied reporting of bank failures, billions in taxpayers' bail-outs and corresponding cuts in public spending, burning (or not) of senior bondholders, IMF and ECB money, unilateral loans from Britain and so on, that not long ago Ireland was being held up as the model for the new European economy. The Irish "Celtic Tiger" economy was feted by politicians and policy-makers far and wide. For example, George Osborne in a speech¹ given at University College Dublin in February 2006 stated:

Ireland stands as a shining example of the art of the possible in economic policy-making ... Ireland has shown the world that wise economic policy-making can produce outstanding results that surpass all expectations, so that we can meet our potential, achieve our goals, and share rising prosperity in an increasingly competitive world.

Ireland was part of the zeitgeist where Northern Rock was breaking the mould for banking in Britain and Gordon Brown had abolished 'boom and bust'. The new masters of the universe believed and proselytised that we had entered a new era of endless economic growth to the benefit of all. Moreover, if you dared to raise the slightest concern that a bubble economy was developing and, that this may not end happily, you were potentially castigated and ostracised. In a televised speech in July 2008, Bertie Ahern, the Taoiseach², baited the naysayers by saying:

Sitting on the sidelines, cribbing and moaning is a lost opportunity. I don't know how people who engage in that don't commit suicide because frankly the only thing that motivates me is being able to actively change something³.

In this paper I want to address two broad questions that the experience in Ireland over the past two decades raises. Firstly how did the much eulogised Celtic Tiger fall so far and so fast? And, secondly, what has been the government's response to the fall and crash of the Irish economy? These two questions will be addressed through both a general historical analysis of the developments of Irish society up to the crash in 2008 and then the responses to it; and by an analysis of two specific elements of that development; namely the much discussed low corporation tax rate and the case of social housing's failure to deliver

1 Speech available at: http://conservativehome.blogs.com/torydiary/files/george_osborne_speech.pdf

2 Irish Prime Minister

3 Source: RTE news website, 4/7/11. Available at: www.rte.ie/news/2007/0704/economy.html

decent affordable homes for those at the bottom of society. The third element is a review of the banking and sovereign debt crisis that led to the IMF/EU deal in November 2010 and a brief outlining of its implications for public finances, especially the question of default. The paper concludes by placing the Irish crisis in a global context.

The Celtic Tiger – part 1

Ireland benefitted from a unique combination of circumstances, which are only now unravelling. Some of these factors had to do with developments at the level of global capitalism and others with local conditions.

Kieran Allen, Ireland's Economic Crash (2009)

Most analyses of the Celtic Tiger set it in two periods with the break approximately at the turn of the century. Thus the first period throughout the 1990s is seen by many commentators as the good one, where Irish capitalism grew a manufacturing base by attracting significant Foreign Direct Investment (FDI). For example, Motorola established a manufacturing plant in 1989 and was followed by Intel and Dell in 1990 and Hewlett Packard in 1997 among others (Allen, 2000). Neoliberal commentators put this down to a flexible labour market, light touch regulation and a low corporation tax rate. Allen (2009) and O'Toole (2009) argue that this period of the Celtic Tiger was not simply a product of neoliberal policies but was actually the outcome of a range of circumstances. For a start Irish capitalism was catching-up with its European counterparts. The historian Joseph Lee stated in 1989: "No other European country, east or west, north or south, for which remotely reliable evidence exists, had recorded so slow a rate of growth in national income in the twentieth century" (quoted in O'Toole, 2009: 16). In addition, the 1990s saw a massive explosion of US foreign investment from which Ireland benefitted, with its stable society, location within the European Union (EU) and well-educated workforce. Irish governments did implement policies aimed at attracting a significant share of this FDI but they did not cause the explosion in the first place. A third factor concerned the population growth and more particularly the changing nature of the Irish workforce, with the entrance of women into employment to a significant level.

Finally, the politicians in the ruling Fianna Fail government were able to capture the trade union leadership in a series of social partnership agreements. These kinds of industrial relations have limitations and can lead to trade union officials identifying more with their political colleagues than the interests of their members⁴. In Ireland this led to a low level of industrial disputes and also the ability to set a narrative about societal goals and objectives. These social partnerships also played a crucial ideological role. They closed down the space for any alternative opinions, no matter how meek, to be expressed. Thus when we get to the second part of the Celtic tiger with the bubble markets and over-extended banks, the trade union leadership had bought into the prevailing ideas and cannot separate themselves from the ruling elite. This in turn led to a sporadic and largely ineffective response to the attacks launched on workers' (particularly in the public services) pay and conditions when the crash comes. In large part it may help explain why there has been a much more muted response from Irish workers and their trade unions when compared to the struggles of Greek or even French workers.

Celtic Tiger – part 2

The second part of the Celtic Tiger from the turn of the century until 2007 saw the inflation of a property-bubble economy built on cheap credit, unsustainable construction and no effective oversight of the finance industry by regulators or the government. At the same time the manufacturing base and FDI in Ireland was contracting. Starting with the last of these according to data from the National Competitive Council - published in the Commission for Taxation (2009: 181) - reported FDI as a percentage of Gross Domestic Product had halved in the period from 2000 to 2007. In addition, permanent full-time employment in state-

⁴ This again is one of the unravelling strands that has currently been put in stasis until after the general election of February 2011. The likely outcome of which is a coalition between the right-wing Fine Gael and the social democratic Labour Party.

assisted foreign companies fell from its peak in 2000 of 166,434 to 154,633 in 2008 and then with the full impact of the recession to 139,457 in 2009 (Forfas, 2010: 6). Rather than manage this contraction the Irish governments took steps to inflate a property bubble in its place and this is discussed later.

There are two other elements of the Celtic Tiger - part 2, that need exploring. The Irish government had a long-term policy of pursuing the financial services industry with the promise of light-touch regulation, which in reality turned into no regulation at all. At the centre of this is the International Financial Services Centre (IFSC). The IFSC was a controversial development in Dublin's docklands started in 1986 (Bissett, 2008). However, it is some of the activities that were carried on inside the IFSC since its completion rather than in its construction that have attracted attention. As the New York Times, in April 2005, put it:

Regulators around the world have followed several trails of suspect financial transactions back to Ireland which more than a decade ago instituted accommodating tax and regulatory standards aimed at encouraging insurers to set up shop here. [quoted in Allen, 2009: 44]

This included the collapse of Parmalat in 2003, which used an IFSC registered subsidiary to cover-up its fraudulent transactions.

The Irish government also followed a combination of neoliberal and populist tax and fiscal policies especially in the second part of the Celtic Tiger economy. Ireland is a low tax economy and has one of the lowest corporation tax regimes in the EU (see below). During the years of the property bubble, however, the sources of government revenue became unbalanced. IMF data shows that the Irish government has been running an increasing structural budget deficit since 2000⁵. As the property bubble expanded tax returns from stamp duty (set at 9 per cent) and VAT from house sales and related commercial transactions boomed, but left the Irish exchequer severely exposed when the inevitable crash in the property market occurred. Having briefly set the general context for the rise and boom of the Irish economy, the following two sections analyse two further elements of the Celtic Tiger years – the low corporation tax rate and the social housing sector. These elements have been chosen for two reasons. Firstly, to uncover the actual experiences of the poorest in Irish society and secondly to illustrate the ideological drive at the heart of Irish government fiscal policy. The two elements also concern how public money is raised and what it is (or is not) spent on.

Corporation Tax

Ireland has the lowest nominal corporation tax rate in the old EU⁶ at 12.5 per cent, and out of the whole EU only two countries⁷ have a lower rate of 10 per cent (Schratzenstaller, 2007). Within Ireland this corporation tax rate is seen as a “sacred cow” that cannot be changed or even criticised⁸. Typical of the headlines and sound-bites when the possibility of increasing the corporation tax rate is raised, is the following extract from the Irish Examiner newspaper:

From an Irish standpoint, capitulation on the 12.5 per cent corporation profit tax would set the prospects of the economy back a step too far ... Tom McCarthy head of the IMI [Irish Management Institute], said any move up from the 12.5 per cent rate would set back the Irish economy and lead to an outflow of US firms from here. McCarthy could not quantify what number of companies might leave or what the job losses would be. (Irish Examiner, 20/11/2010)

The previous government commissioned a review of the overall taxation levels in the country in 2008, but in the terms of reference for the review specifically ruled out any changes to the corporation tax rate (Commission for Taxation, 2009). The corporation tax rate is seen as being the central industrial policy of the Celtic Tiger years and key for any renewal of economic growth.

5 Source: IMF / www.TradingEconomics.com

6 This is a reference to the EU before the accession states joined from the turn of the century onwards. It is also referred to as the EU-15 states rather than the EU-27 the current total.

7 Cyprus and Bulgaria.

8 All mainstream parties have pledged to keep the rate at 12.5 per cent; even left-leaning parties such as Sinn Fein are committed to maintaining it (Sinn Fein Press release, 19 November 2010).

This policy context led the governments of the early part of the Celtic Tiger to manoeuvre Ireland to become an Atlantic tax haven within the EU (Allen, 2009). Although the 12.5 per cent tax rate was introduced in 2003, it had been announced in 1996. In addition, the Irish government was able to sign a number of double tax agreements allowing corporations registered in Ireland to pay the lower tax rate on their worldwide income. A key double tax agreement was signed with the US effectively exempting from tax items such as royalties, interest, and profits from international transport; and reduced normal US withholding tax on dividends from 30 per cent to 15 per cent in some cases and 5 per cent in others. (Allen, 2009: 33). The importance of this tax rate should not be overstated but the relationship between low corporation tax rates and attracting foreign direct investment (FDI) is not a simple correlation. Academic evidence on this relationship is inconclusive (Becker and Fuest, 2007). Other factors such as the education levels of the workforce, access to markets, stable governments and local wage levels play an important role in the decision of where to invest. This can be illustrated by way of a couple of examples. Firstly, Becker et al. (2007) compared the major EU economies by looking at the effective corporation tax rates and the changes in FDI, between 1990 and 2002. The expectation would be that the countries with the higher tax rates would be losing out on FDI. They found that Germany, with the highest tax rate, also had the biggest increase in FDI. Secondly, in Ireland's case in the period between 2000 and 2007 FDI halved as a percentage of GDP [from nearly 140 per cent to 70 per cent (National Competitiveness Council, 2008 quoted in the Commission for Taxation Report, 2009).

There are, however, though further issues with FDI as the figures include not only greenfield investments but also mergers and acquisitions. This later form also includes FDI designed to asset strip, transfer intellectual property and reduce jobs. An example of this in the Irish context is Eircom, the privatised telecoms company, which has been passed around a number of foreign owners who took out profits and added debts before passing it on (O'Toole, 2009). It is alleged that the company has changed hands five times between 1999 and 2010; and was latterly bought by a Singapore based company which transferred its registration to the Cayman Islands and that now has €3 bn. of debt (Irish Independent, 7/8/09). The perceived correlation between FDI and corporation tax level is also played out in the ideological realm. Irish mainstream politicians refuse to debate the matter and when it is raised as a potential source of tax revenue instead of other tax rises or cuts in social welfare, it is claimed that jobs will be lost. This ideological aspect is recognised by Becker et al. (2007) who hypothesise:

the alleged relationship between corporate taxation and firm relocation could be the result of political propaganda by certain political lobbies, i.e. the stories of factories shutting down and moving out because of high tax burdens could be widely exaggerated. It is possible that these factories would have shut down anyway and that it had nothing to do with too high taxation. [Becker and Fuest, 2007: 121]

As already stated the academic literature on this is inconclusive, partly due to the complexity of the investment decision-making and the limitations of the methodological approaches taken to address these issues.

Social Housing

To analyse the Irish economy over the past two decades without looking at housing would be remiss. The focus here is on the social and affordable housing components of this sector with a particular emphasis on the regeneration (or lack) of St Michael's estate in inner city Dublin (Bissett, 2008). The tale of the residents of St Michael's neatly illustrates the long-term failures of the Celtic Tiger. Fintan O'Toole (2009) outlines the nature of the housing bubble where "... house prices were always going to go a little crazy ..." the problem was "... they went stark, staring mad" (O'Toole, 2009: 102). He explains:

The average price of a new house in the country as a whole in 1994 was €73,000. Michael Punch and P.J. Drudy worked out that if that price rose in line with the consumer price index, it would have reached €109,000 in 2007. If it rose in line with average earnings, it would have cost €124,000. If it followed the trend in runaway building-cost inflation, the price would be €132,000.

The actual price in 2007 €323,000. [O'Toole, 2009: 102]

The availability of cheap credit, increasing earnings multiples used by lenders, little or no regulation of lending, an expanding population, a transfer of wealth from the older generation to the younger through accessing equity and the cynical exploitation of land banks by developers to inflate land-building prices all contributed to this property bubble. Now the bust has come many of those who bought into the property market are facing negative equity of unseen proportions. House prices have fallen by 38% since the peak in 2006 and are now estimated to be back to 2002 levels (ESRI, 2011); with further house prices falls expected in 2011. Running alongside, are many thousands the property bubble left untouched or made their position worse as resources were sucked into the private ownership and rental markets. According to O'Toole (2009: 112), "The number of people officially recognised as being in unfit or overcrowded accommodation, homeless or unable to afford a house, increased by 105% between 1996 and 2008". Thus, during the biggest property bubble in the history of the Irish state, the position of the poorest actually worsened.

The main driver for this lies with the lack of social housing outside of market relations. Ireland has one of the highest home ownership rates in Europe at 77 per cent in 2002 (O'Sullivan, 2004). Housing policy has been designed on the basis that all aspire towards home ownership (which provides not just a place to live but an investment). Thus, government provides both affordable housing⁹ and social housing¹⁰. Similar to other countries (Glynn, 2009), social housing has been squeezed. In the mid-1940's 70 per cent of all new housing was built by local authorities and city corporations. In 1985 this was 27 per cent (O'Toole, 2009); by 2000 the rate had fallen to just 6 per cent (Redmond, 2001). This is the background against which the tenants of St Michael's Estate in Dublin had been promised the regeneration of their estate in 1998. The next 10 years saw three regeneration attempts collapse. The first plan, developed with extensive tenant participation, was rejected by the Department of the Environment in 2003. A second plan developed exclusively by Dublin City council was rejected unanimously by city councillors in 2004. In 2005 a Public Private Partnership (PPP) was started. However, as Bissett (2008) comments like the Titanic, the PPP plan was supposed to be unsinkable, yet on 19 May 2008 McNamara builders pulled out and the PPP collapsed¹¹. While Bernard McNamara claimed that the PPP model is "... a very sophisticated, difficult process ...", he also questioned its appropriateness for the provision of social housing (Bissett, 2008: 133). Bissett identifies two key reasons why the PPP model failed. First, the "... model left the entire regeneration of St. Michael's Estate dependent on estimations and projections as to what would happen in the housing market" and second, "... two key objectives of PPP for the state were the absolute minimising of social housing and the preclusion of state investment" (Bissett, 2008: 116).

What we see here is the rolling back of the state from providing decent, affordable homes for all and the failure of the market to fill the void. Even before the economic crash, the Celtic Tiger was failing the poorest in the country, and now post-crash the government is loading the debts and losses of those who did benefit onto the shoulders of middle and low income earners, the unemployed and disabled, the old and students. To understand this we need to look at the crisis in the banking system.

The Banking Crisis

The Irish banking sector grew exponentially during the second period of the Celtic Tiger. It took full advantage of the cheap credit available within the Euro-zone, the lack of regulation and scrutiny, and the construction bubble. Deutsche Bank published research in March 2009 that showed by 2008 Irish bank assets were nine times the size of total Irish output. This was based on one of the lowest capitalisation ratios in Western Europe at just a ratio 4.3 per cent of bank capital and reserves to total assets (Allen, 2009). Irish banks continued to be under-capitalised in February 2011 (Irish Times, 9/2/11). The construction sector was the main beneficiary of this credit, as the Central Bank of Ireland's own statements show: "... bank lending for construction and real estate grew from €5.5 billion in 1999 to €96.2 billion in 2007 – an increase of 1,730

9 Housing provided for private ownership but at a discount to market rates.

10 Housing provided and owned by the local authority and rented to those from waiting lists.

11 It should be noted that McNamara also pulled out of four other inner city Dublin PPP regeneration projects on the same day.

per cent.” (O’Toole, 2009: 119). Patrick Neary the Financial Regulator said at a conference in July 2007 “We want to have proportionate regulation, to allow time for the industry to manage and embed change and we want to enforce compliance in a reasonable way” (quoted in Allen, 2009: 41). Neary was only taking his lead from the government which included in a 2004 White Paper on improving regulation a statement that : “we will regulate as lightly as possible given the circumstances and use more alternatives” (Allen, 2009: 41).

At the centre of this process was Anglo Irish Bank. This bank was quintessentially a property developers’ bank. Business and personal banking each accounted for just 5 per cent of loan book. Two-thirds was for investment purposes (almost all in property) and a further 15 per cent in land (O’Toole, 2009). Appendix 1 gives a timeline of how the bank fell from a share price high of €17 in May 2007 to nationalisation in January 2009, and in the process led to setting-off a chain of events that ultimately led to the IMF/EU deal in November 2010. As the property bubble burst the extent of losses in Anglo Irish bank started to become clear. A notorious example is the purchase by the Dublin Docklands Development Agency (DDDA) consortium of the former Irish Glass Bottle site in 2006 for €412 million. This purchase of a piece of waste land was part-financed by Anglo Irish Bank who put up loans of €288 million. In 2009 Davy stockbrokers advised investors to take a 60 per cent write off. The impact of Anglo Irish’s activities was not limited to themselves. Operating in a competitive market the established and much larger banks [Bank of Ireland and Allied Irish Bank (AIB)] were forced to mimic Anglo Irish or face the prospect of losing market share and what appeared to be profitable returns. Although not at the same level the losses incurred by both has led to a bailout of at least €5.7 billion for Bank of Ireland (Irish Times, 29/11/10) and the eventual nationalisation of AIB in January 2011.

There was, however, a crucial intervention by the government that led to collapse of the economy under the weight of the debt from the banking crisis. In late September 2008 it became clear that Anglo Irish Bank was about to fail. The actual reason for this is still disputed by the outgoing government parties. The government argued it was a liquidity crisis, and an extension of the global credit crunch, rather than a question of solvency. This led to a weekend of frenzied discussions on what the government should do. Advice was provided by officials in the Department of Finance and in a report by Merrill Lynch. None of the advice was that the government should give a blanket guarantee, covering both depositors and bondholders, for all six national banks in Ireland. The Merrill Lynch advice was based on the assumption that the problem in Anglo Irish was one of liquidity but advised against a blanket guarantee, suggesting a range of steps instead including the introduction of €5 bn overnight liquidity facility by the Central Bank, the introduction of a State-secured lending scheme, preparation for creating good and bad banks and the consolidation of financial institutions. Merrill Lynch identified the reason for not giving the blanket guarantee as it exposed the Irish state to debts of €500 billion, which the financial markets knew the State could not cover. In the single most disastrous decision of the last government, it chose to ignore much of the advice given and put in place a government guarantee of all six national banks debts on the evening of Sunday 28th September, 2008. In one moment the private speculation debts of the bankers had migrated to sovereign debt.

Here comes the IMF (or It’s the banks, stupid!)

Throughout the summer and early autumn of 2010 the Irish government and the finance minister in particular were talking up the economy, how the country had turned a corner and that all the pain of the previous three austerity budgets was starting to pay off, for example Irish exports were rising. This was accepted by some in the media:

With Ireland’s once-roaring economy staggered by the banking crisis--unemployment is at 13 percent, emigration is rising, and the money markets rank Ireland not far behind Greece on the list of Europe’s big-time losers--Prime Minister Brian Cowen and his able finance minister, Brian Lenihan, are prescribing harsh medicine. They’ve pushed through austerity packages drastic enough to win the admiration of the international community, raised taxes, and slashed some public salaries by more than 10 percent ... there’s some hope that his government’s unpopular measures will be rewarded in the long run: surveys suggest that Irish consumer confidence is on the rise again, and the economy notched up modest growth in the first quarter of 2010. [Newsweek, 16 August 2010]

Back on the ground, however, in Ireland and also in the international bond markets it was patently obvious all was not right with the Irish economy. The bailout of Anglo Irish Bank and the bank guarantee was continuing to dump more toxic debt and losses onto the Irish exchequer. The Irish Times on 29 November 2010 showed graphically the extent of the bailouts from February 2009 to November 2010. Starting with a total of €11bn. and rising to €60 bn. (plus a contingency fund of €25 bn.) over that period; Anglo Irish had received €4 bn. in 2009 and by September 2010 the position had deteriorated to such an extent in the bank that it was no longer possible to give an exact figure on the losses with estimates ranging between €29 bn. to €34 bn. At the same time the yields on 10 year governments bonds were increasing dramatically, starting at 4.80 per cent in January 2010, they rose throughout the year to hit 8.84 per cent in November¹², by which time the National Treasury Management Agency (NTMA), the agency responsible for raising money on the bond markets for the government, had withdrawn from any future bond issues for the foreseeable future. These are the circumstances, the fusing of banking losses and debt with sovereign debt that immediately preceded and gave rise to the IMF/EU intervention.

Ireland's ruling elite in politics, banking and industry have a default setting of secrecy. The banks have been criticised for poor and non-existent record keeping; and there was a high level of secrecy. Arguably the most prominent example of this default-secrecy covers the IMF/EU Memorandum of Understanding. It should be noted the agreement is not a bailout but an arrangement whereby credit facilities at varying rates of interest (averaging 5.8 per cent and totalling €85 billion) will be provided and in return the Irish state has undertaken a number of steps to restructure the Irish banking system, close the budget deficit and repay the funds drawn down. The process started in earlier November 2010 when EU Economics Commissioner Olli Rehn visited Ireland on a fact finding mission. He stated that no application by the Irish government for help from the EU had been made. Speculation continued though and forced the Justice Minister, Dermot Ahern to state on Sunday 14th November that reports of an IMF/EU arrangement are fiction. His comments were endorsed on the same day by two other cabinet ministers. On 16th November the IMF joined the EU in a visit to Dublin and on 22nd November the cabinet agreed a formal request for assistance. It was the intervention of the new governor of the Central Bank, Patrick Honohan, on 18th November who forced the issue into the open and meant the government would eventually come clean.

The IMF/EU deal provides a credit facility for two purposes; €35 billion for restructuring the banks and €50 billion to fund public services over the next three years (EU Council, 2010: 6). In return the Irish State has agreed to reduce the budget deficit to 3 per cent of GDP by 2015 as well as reorganising and deleveraging the financial sector, and pursuing a policy of structural reform to the Irish economy including wage reduction (EU Council, 2010: 4). In this context the State will be paying a risk premium of up to 3 per cent above the cost of the funds to the IMF/EU. What this means in practice is that the State's debt to GDP ratio will increase from 98.9 per cent in 2010 to 121.8 per cent in 2013 (EU Council, 2010: 5). At the same time another round of fiscal consolidation (more accurately described as savage cuts) in government finances will be undertaken - the net impact of which is to remove €6 bn. from the Irish economy in 2011 alone (see table 1). What this means in practice is the lowering of income tax bands and the introduction of a Universal Social Charge hitting the low paid; cuts in unemployment benefit and allowances for carers and the blind; a 50 per cent increase in third level student registration fees and a reduction of the minimum wage by a euro to €7.65 per hour.

Year	Budget adjustment (in euro billions)
2011	6.0
2012	3.6
2013	3.1

Table 1 – Government Budget adjustments agreed in the Memorandum of Understanding with the IMF/EU.

¹² Source: TradingEconomics.com; Bloomberg accessed on 8th February, 2011.

Even before the Finance Act bringing the 2011 budget into law was passed, the impact of the previous three austerity budgets was being felt in the public services. Cuts in expenditure¹³ has meant health staff taking on average a 6.7 per cent pay cut in 2010, a botched voluntary redundancy scheme rushed through in November 2010¹⁴, an estimated 1,400 beds¹⁵ lost to ward closures leading to a crisis in January 2011 where over 550 patients were left (in some case for days) on trolleys¹⁶ in corridors. On top of which one of the state's leading children's hospitals announced it was to withdraw services for periods totalling four weeks over the course of the year (Sunday Business Post, 30/1/11). As the Social Justice Ireland Report (2010: 1) on the 2011 budget identifies:

The working poor, low income families with children and people on social welfare will see their poverty deepen or will be pushed into poverty. People depending on public services will be seriously disadvantaged as these services decline and the cost of accessing them will put them beyond the reach of many.

“Kicking the can down the road...”

Despite all the fanfare, gnashing of teeth and wails about the loss of Irish economic sovereignty that accompanied the IMF/EU arrangement, the deal did not address the fundamental problem faced by Ireland; that is the unsustainable debt burden. There is wide acceptance of this position among sections of domestic and international economists and commentators, and the Irish population. For example George Soros is reported to have said, at the Davos world economic forum in January 2011 “the euro “will certainly hang together” but that “you cannot wait until 2013 to restructure some of the debt – Ireland is going to force the issue because it is so blatantly unfair to have the population shoulder all of the losses and the bondholders of the banks to get off free”” (Financial Times, 27/1/11). This is not the position of the outgoing government or the IMF/EU. For them there is no alternative, the deal is not re-negotiable¹⁷ and moreover it will work. As the Irish Times (8/2/11) commented: “In Brussels yesterday, Mr Trichet¹⁸ said the Irish rescue plan and that of Greece did “not comprehend” the notion of bondholders being compelled to take a “haircut” on their investments” and then quoted Trichet as saying:

We have plans. The plans have to be executed, have to be implemented in the best fashion possible as has been the case the world over and it is very, very important in my opinion not to confuse things ... The message is very simple: apply the programme, as is being done all over the world in many, many, many numerous cases. It is the message we have for the Greek government. In Ireland, it's exactly the same.

To explain these two contradictory perspectives we need to understand the context of the deal in November 2010. A battered government on its last legs who despite unquestioningly following the neoliberal economic rulebook found that the banking crisis, and by extension sovereign debt crisis, was continuing to spiral out of control. On the other side, were an alarmed IMF, EU and ECB, who had to provide the Irish banking system with increasing amounts of liquidity as capital deposits flew from the economy¹⁹. They too were tied up in their own ideological stances, with the stated policy that no European country would default on its debt. All of this led to the deal with an onerous interest rate; increasing debt burden on the shoulders of the Irish taxpayer and (consistent with what is said above) no haircuts for the bondholders. Crucially,

13 5 per cent in the 2011 budget alone (Social Justice Ireland, 2010).

14 In November 2010 the Health Service Executive (HSE) announced a plan for 5,000 voluntary redundancies. Initially 3,700 expressed an interest in the scheme but eventually only 1,700 actually proceeded. (RTE news website, 20/12/10: www.rte.ie/news/2010/1220/hse.html)

15 Source: RTE news website, 15/11/10: www.rte.ie/news/2010/1115/health.html

16 Source: RTE news website, 5/1/11: www.rte.ie/news/2011/0105/health.html

17 Whether the deal can be re-negotiated has become a major election issue as the main opposition parties are claiming re-negotiation as a central plank of their fiscal policy. The Labour party leader has posed the issue as “it's Frankfurt's way or the Labour Party's way”.

18 Jean Claude Trichet, governor of the European Central Bank.

19 This flight of capital is estimated to be up to €160 bn.

however, the IMF/EU deal did not address the fundamental issue that the Irish banks (and by extension the Irish state) are insolvent. In this respect the deal may be seen as no more than an attempt to buy some time. This time will expire either when the EU constructs a multi-lateral banking debt write-off or the Irish state defaults, whichever comes sooner. Given the extent of the crisis with Greece this may become a question of which country goes first.

Conclusion

It has not been possible to cover all the elements and issues that have impacted on Irish public finances over the recent past. For example the paper has not discussed the attempts to cleanse the banking system of its toxic debt through the setting up of a “bad bank” in the form of the National Asset Management Agency (NAMA)²⁰. Partly this is due to space but also because the situation is dynamic and continuing to unfold. As this paper was being completed, the chairperson of Anglo Irish Bank, Alan Dukes (former Fine Gael government minister), announced (on the day that the courts gave permission for the deposits in the bank to be auctioned off as part of its winding-up) that the banking system will need another €15 bn. in capitalisation (Irish Independent, 9/2/11). If accurate, this will raise the IMF deal to €100 billion.

Over the course of the past three years in Ireland the most common critique of the Celtic Tiger years has been the rise of cronyism. The archetypal image of this crony capitalism is the alleged “Galway tent”. This is a reference to the Fianna Fail hospitality tent at the Galway race festival. This tent became the nexus for the politicians, bankers and property developers. Nods and winks were allegedly exchanged, and handshakes given and taken with nothing being written down, there are no records of the conversations that took place in the tent but if you made it into the tent the impression was created you were on the inside with Ireland’s “Masters of the Universe”. It is easy to ascribe Ireland’s ails to a notion of crony capitalism that Fianna Fail so successfully pursued (until the crash). However, this would be a mistake. While Ireland did have a unique set of circumstances that gave rise to the Celtic Tiger initially, the policies followed through those years and since the crash are the same or very similar to those pursued by other neoliberal governments elsewhere in the world. The point here is that Ireland is not somehow different to the UK or the US, it is just a smaller and more concentrated version. There are clearly similarities with Greece and Portugal.

This leads us to the final point in attempting to understand the crisis in Ireland. There is not something unique about the country; it is not the exception that proves or disproves the rule. It is a small open economy in the network of global capitalist economies. In this respect it is subject to the same tendencies and trends as the world economy. As many have argued this is a world economy that has lurched from crisis to crisis since the end of the post-war boom in the early 1970s (Callinicos, 2010; Harman, 2009; Harvey, 2010). While there are competing explanations of this process it seems to me that an analysis based on political economy provides the most robust understanding; central to which is the tendency for the rate of profit to fall²¹. This falling profitability has led to an over-accumulation of capital that cannot find productive locations to invest in and so ends up speculatively circulating around the finance system. The conclusion of which is:

Capitalism is thus stuck in a structural dilemma: if the leading states let the market do its worst and sweep away inefficient capitals, the result may be a prolonged slump; but if they prevent the wholesale devaluation of capital, the long-term crisis of over-accumulation and profitability will continue. The existence of this dilemma doesn't mean that there will be no recovery ... The economic and financial crisis of the late 2000s was not an accident nor the mere result of a banking system that had escaped control. It was a moment of revelation, one that exposed the systemic contradictions with which global capitalism has been struggling for decades. (Callinicos, 2010: 94)

20 See: www.nama.ie

21 Callinicos (2010) quotes the work of Brenner (2007) and Mohun (2006) to illustrate this with empirical data.

In a similar manner the crisis in Ireland is a moment of revelation for the population, part of the outcome will be shown in the results of the election at the end of February 2011. The Irish crisis also highlights the fault-lines specifically in the Euro and more broadly in the European project (Georgiou, 2010). We have yet to see how these fault-lines will be resolved economically and politically.

Post-script – “Meet the New Boss, Same as the Old Boss”

As expected the Irish general election at the end of February gave us a historic result. The outgoing government parties took a hammering with the Greens losing all six TDs²² and Fianna Fail losing over 50 seats and returning only 20 deputies. This is the single biggest loss by any party in the history of the state. The position in Dublin (the country’s biggest city) is even worse where FF were reduced to just 1 TD. In comparison the United Left Alliance, only formed in October 2010 returned 4 TDs in the city. Fianna Fail (FF) has dominated the Irish electoral system since its formation in 1926; first entering government in 1932 and since that time it has been in power for 61 of the 79 intervening years. Even when in opposition FF were still the single biggest party in the Dail. They are now in third place behind Fine Gael (76 seats) and the Labour party (37 seats) who both returned record numbers of deputies. These later two parties have formed a coalition government with the biggest majority ever seen in the country. These results have been described as Ireland’s “riot in the ballot box”.

While the election result was historic for the reasons outlined above it did not represent a change in direction for the country as a whole. The election saw FG and Labour present themselves as representing a change to the outgoing government including negotiating a reduction in the IMF/EU deal interest rate and a promise to “burn the bondholders” (i.e. force lenders to take a proportion of the losses on their investments). On the former there has been no movement, with the government blaming the French government as the obstacle, with their insistence that any reduction in the interest rate must be accompanied by an increase in the Irish corporate tax rate. On the latter there has been no significant movement as the new government has come up against a brick wall in the form of the ECB’s position that there will be no default on debts. In the meantime government ministers, with greater or lesser enthusiasm, have been implementing the EU/IMF deal negotiated by the previous government. Unsurprisingly the new government has claimed the situation is much worse than they had expected and are pointing the finger at the previous government. In a symbiotic manner, FF in opposition has spent most of their time congratulating the new government on implementing the policies and programme they set in the place.

At the time of updating this article Ireland has just passed through the first 100 days of a new government and the position is much the same as at the end of February. The most notable events of this period have been the two high profile visits of Queen Elizabeth II and President Obama. While the former may have historic significance that becomes clearer in the future, both events show the major triumph of the new government, namely form over substance. The new government has yet to take a single difficult decision that was not already set in place by the previous government. Meanwhile the economy is at best flat-lining and probably more accurately continuing to contract. The Central Statistics Office (CSO) has announced that the domestic economy (as measured by GNP) fell by 4.3 per cent in the first quarter of this year (Irish Times, 23/06/2011). Therefore despite the historic shift in the electoral balance in the country when it comes to overall government policy direction, the words of Pete Townsend seem most appropriate: ‘Meet the new boss, same as the old boss’.

22 Member of the Irish parliament often referred to colloquially as deputy or deputies.

Appendix 1 - Key events around the collapse and rescue of Anglo Irish Bank

2007

May: Anglo Irish Bank's shares peak at more than €17 each.

2008

March 17th: Anglo Irish Bank's shares plunge 15 percent in what gets dubbed the "St Patrick's Day massacre" on the Irish stock market as the first waves of the global crisis hit Ireland.

September 30th: Amid international banking turmoil, the Government announces a €400 billion guarantee scheme covering the country's six main banks, including Anglo.

December 18th: Sean FitzPatrick resigns as chairman and admits he hid more than €80 million in secret loans from shareholders.

December 21st: Government recapitalises Anglo with €1.5 billion.

December 29th: Anglo shares plummet to just 12 cents.

2009

January 15th: The Government is forced to nationalise Anglo.

January 30th: One-time billionaire Sean Quinn (of Quinn Group, including Quinn Direct Insurance which goes into administration) reveals his family has lost €1 billion on Anglo stock deals - the figure subsequently rises to €2.8 billion.

February 10th: Irish Life & Permanent (IL&P) confirms it deposited €7 billion in Anglo in September 2008 to boost the balance sheet, forcing IL&P's chief executive and two directors to resign.

February 20th: Anglo's annual report shows it lent €451 million to 10 big customers (who became known as the "golden circle") to buy shares in the bank.

A PricewaterhouseCoopers report finds Anglo has 15 customers who owe the bank more than €500 million each.

February 24th: Anglo headquarters in central Dublin is raided by the fraud squad and white collar crime investigators to seize documents and computers.

2010

March 18th: Fraud squad detectives arrest Mr FitzPatrick over the fraud investigation and release him without charge.

March 31st: Anglo reports the biggest corporate losses in Irish history - €12.7 billion.

July 12th: Mr FitzPatrick is declared bankrupt in the High Court.

August 31st: Anglo's record losses soar to new heights - €8.2 billion for the six months to June 2010.

September 30th: The Central Bank says the Anglo bailout could ultimately cost citizens €34 billion. (Source: adapted from the Irish Times, 30th September 2010)

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