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Ireland

The Irish crisis: a complete failure for neo-liberalism

- IV Online magazine - 2011 - IV432 - January 2011 -

Publication date: Wednesday 5 January 2011

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For a decade, Ireland was heralded by the most ardent partisans of neo-liberal capitalism as a model to be imitated. The Celtic Tiger had a higher growth rate than the European average. Tax rate on companies had been reduced to 12.5% and the rate actually paid by TNCs that had set up business there was between 3 and 4% - a CEO's dream! Ireland's budget deficit was nil in 2007, as was its unemployment rate in 2008. In this earthly paradise, everybody seemed to benefit. Workers had jobs (though often highly precarious), their families were busy consuming, benefiting as they were from the prevailing abundance, and both local and foreign capitalists were enjoying inordinate returns.

In October 2008, a couple of days before the Belgian government bailed out the big "Belgian" banks Fortis and Dexia with taxpayers' money, Bruno Colmant, head of the Brussels stock exchange and professor of economics, published an op-ed in Le Soir, the French-language daily newspaper of record, stating that Belgium imperatively had to follow the Irish example and further deregulate its financial system. According to Colmant, Belgium needed to change the legal and institutional framework so as to become a platform for international capital, just like Ireland. A few short weeks later the Celtic Tiger was crying mercy.

In Ireland, financial deregulation had triggered a boom in loans to households (household indebtedness had reached 190% of GDP on the eve of the crisis), particularly in real estate, a factor that helped boost the island's economy (the building industry, financial activities, etc.). The banking sector had experienced exponential growth with the establishment of many foreign companies and the increase in Irish banks' assets. Real estate and stock market bubbles started forming. The total amount of stockmarket capitalizations, bond issues, and bank assets was fourteen times bigger than the country's GDP.

What could not possibly happen in such a fairytale world then happened: in September-October 2008 the card castle collapsed and the real estate and financial bubbles burst. Companies closed down or left the country, unemployment rose from 0% in 2008 to 14% in early 2010. The number of families unable to repay their creditors swiftly increased too. The whole Irish banking system teetered on the edge of bankruptcy and a panic-stricken government blindly guaranteed bank deposits for EU480 billion (that is, about three times an Irish GDP of 168 billion). It nationalized the Allied Irish Bank, the main source of financing for real estate loans, with a transfusion of EU48.5 billion (about 30% of GDP).

Exports slowed down. State revenues declined. The budget deficit rose from 14% of GDP in 2009 to 32% in 2010 (more than half of this due to the massive support given to the banks: 46 billion in equity and 31 billion in purchases of toxic assets).

At the end of 2010 the European bail-out plan with IMF participation amounted to EU85 billion in loans (including 22.5 billion from the IMF) and it is already clear that it will not be enough. In exchange, a radical cure was enforced upon the Celtic Tiger in the form of a drastic austerity plan that heavily affects households' purchasing power, with a resultant decrease in consumption, in public expenditure on welfare, in civil servants' salaries, in infrastructure investments (to facilitate debt repayment), and in tax revenues. On the social level, the principal measures of the austerity plan are nothing short of disastrous:

– suppression of 24,750 positions in the civil service (8% of the workforce, which would mean 350,000 positions in France);

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– newly recruited employees will earn 10% less;

– reduction of social transfers resulting in lower family and unemployment allowances, a significant reduction in the health budget, a freeze on retirement pensions;

– a rise in taxes, to be borne mostly by the majority of the population, already a victim of the crisis: notably a VAT increase from 21% to 23% in 2014; creation of a real estate tax (affecting half of the households that were formerly tax-exempt);

– a EU1 reduction in the minimum hourly wage (from EU8.65 to 7.65, or 11% less).

The rates for loans to Ireland are very high: 5.7% for the IMF loan and 6.05% for "EU" loans. These loans will be used to repay banks and other financial bodies that buy bonds on the Irish debt, borrowing money from the European Central Bank at a rate of 1% - another windfall for private financiers. According to AFP, IMF managing director Dominique Strauss-Kahn claimed that it would work, though of course "it would be difficult because it is hard for people who will have to make sacrifices for the sake of budget austerity".

Both in the streets and in parliament, opposition has been very determined. The Dail, or lower house of parliament, voted the 85 billion rescue plan by a mere 81 to 75. Far from relinquishing its neo-liberal orientation, the IMF declared that among Ireland's priorities it is counting on the adoption of reforms to do away with structural obstacles to business, so as to support competitiveness in the coming years. "Socialist" Dominique Strauss-Kahn said he was convinced that a new government after the elections in early 2011 would not change anything: "I'm confident that even if the opposition parties, Fine Gael and Labour, are criticizing the government and the programme [...], they understand the need to implement the programme."

In short, the economic and financial liberalization aimed at attracting foreign investments and transnational financial companies has utterly failed. To add insult to the damage the population must bear as a result of such a policy, the IMF and the Irish government are persevering in the neo-liberal orientation of the past two decades and, under pressure from international finance, are subjecting the population to a structural adjustment programme similar to those imposed on Third World countries for the past three decades. Yet these decades should show what must not be done, and why it is high time to enforce a radically different logic that benefits people and not private money.

Translated by Christine Pagnoulle in collaboration with Judith Harris.