Ireland: Anglo Irish Bank taken into state ownership

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The Irish government was forced to take the Anglo Irish Bank into full state ownership on January 15. The move came as fears that a collapse of the bank, one of Ireland's largest lenders, would bring down the entire economy.

The decision reversed a previous move to pour €1.5 billion into the bank while leaving it independent. This was part of a €5.5 billion package to prop up the three major Irish banks—Anglo Irish, AIB, and Bank of Ireland—agreed in December.

Speaking on the radio, Finance Minister Brian Lenihan made clear that full state control was the only way to prevent a catastrophic run on the bank, with cash demands from investors outweighing resources. This would not only ruin the bank and its depositors but, "The reputational damage to the country in trashing deposits and refusing to honour obligations will be enormous," Lenihan said.

Only a week before, however, Lenihan had warned, "were we to go from the last step before nationalisation to nationalisation itself, the taxpayer will be taking an awful lot of risk with no return."

In the intervening week, the bank's already dire position further deteriorated. Investors concluded that the extent of the bank's bad debts, particularly those on the collapsing Irish property market, meant that it would soon be unable to meet its obligations.

Lenihan confirmed that of the banks €100 billion in outstanding loans, €80 billion were in Ireland. But he would not comment on the extent of bad debt within this, claiming the information was "commercially sensitive." Currently, the bank has admitted that some 1.3 percent of its loans are "non-performing."

A finance professor at Trinity College Dublin, Brian Lucey told the *Irish Times*, "I would suspect that as time has gone on it has become abundantly clear that there are so many unexploded land mines in Anglo that the government had to throw something on it...."

The takeover of Anglo Irish is unlikely to offer much beyond a temporary respite from the impact of the global financial crisis on Ireland. Its purpose is primarily to buy time, allowing the Irish social and political elite to attempt to offload identifiable toxic assets and debts onto the public purse.

The government is even reported to be considering using Anglo Irish as a so-called "bad bank"—a repository for bad loans held by the other major banks, allowing them to be recapitalised at state expense.

Both AIB and the Bank of Ireland are reported to have similar volumes of bad debt to Anglo Irish, but, for the moment these banks remain outside full state control because of a somewhat larger asset base. Yet both are in talks with the government for an additional €1 billion of cash to be made available.

At its peak in 2007, AIB was worth €20.9 billion. It is now worth €528 million. Over the same period, Bank of Ireland's value has fallen from €18 billion to €341 million. In 2007, total Irish financial stocks together were worth €59.44 billion. Now they are worth €1.65 billion.

The nationalisation was pushed through following an emergency debate in the *Dáil Éireann* on the Anglo Irish Bank Corporation Bill.

Lenihan noted that "unacceptable practices which took place at Anglo Irish Bank in relation to loans to its former chairman and the consequent resignation of the chairman and a number of the bank's senior management team, including the CEO, compounded the weak position of Anglo Irish Bank in the eyes of investors and debt providers."

Lenihan was referring to the recently exposed practices of Anglo Irish senior management of issuing loans to themselves, and moving the loans to another bank, to avoid the figures appearing in annual accounts.

Richard Bruton, speaking for Fine Gael, restricted criticism of the bill to the curtailed character of discussion on it—only 10 hours of debating time was allocated. Bruton's only real difference rested on the claim that Fine Gael would have taken over the bank earlier.

Speaking for the Labour Party, former minister Joan Burton called for stronger regulatory powers and noted, "We need to draw a clear, blue line under this issue and state that the disgraceful practices which took place at Anglo Irish Bank must be sorted out and explained."

Economist David McWilliams, writing in the *Sunday Business Post* howled the "Anglo Irish Bank is Ireland's Enron, and those responsible for destroying shareholders' assets should be pursued accordingly."

He continued, "...dodgy banks are now contaminating everything associated with Ireland."

Incompetence, greed and swindling of the highest order are not confined to Anglo Irish. As the Madoff scandal in the United States has shown, outright criminality is endemic throughout the global "free market" financial system that was so long held up by the powers-that-be as the highest point of human civilisation.

Even now, while the interests of the banks and super-rich are being protected by governments across the world at taxpayers´ expense, millions of working people are being told that their jobs, wages and conditions must be sacrificed in the so-called national good.

Unemployment has already topped 300,000 in the Irish republic and is anticipated to reach 400,000 within a year. New job losses are announced daily. On Monday Ulster Bank announced it would lay off 750 staff. One week before, 800 redundancies were announced on one day alone, including 290 at Dublin Bus and 100 at car component Kostal.

Writing in the *Irish Times* under the headline, "The case for cutting public sector pay and numbers," Dan O'Leary reported on a Department of Finance report "Addendum to the Irish Stability Programme Update." This document anticipates a huge rise in state indebtedness with the total debt approaching 100 percent of GDP and demands substantial cuts in current capital spending, along with tax increases to avoid creditors refusing to lend Ireland more money.

O'Leary uses this to bluntly argue for pay cuts across the public sector. These, he says, are preferable to redundancy, which costs more. Only in this way can "[we] realign our pay with our productivity."

He concludes, "Ireland is now embarked on an enterprise that has many of the hallmarks of war, a war against powerfully adverse economic conditions. The last thing we need is to exacerbate those conditions by opening another front—against each other."

The latter remark is addressed to the trade union bureaucracy. While the government and big business must be free to wage war on workers´ jobs and conditions, the union tops are being warned they must ensure their members are prevented from fighting back.