Ireland moves closer to state bankruptcy

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The Irish government's September 30 emergency bailout is intended to draw a line under the country's deepening financial crisis. The government claims to have enough liquid cash to continue functioning until sometime in 2011, but the continual injection of massive state funding into ruined banks, particularly Anglo Irish Bank, risks national bankruptcy. Such an event would likely have a catastrophic chain reaction across Europe.

Since August, when Standard & Poor's downgraded the government's credit rating, Ireland has again become the centre of doom-laden international commentary on the state of its banks. Indicating the extent of alarm is the fact that the yield, interest rate, on Irish 10-year government bonds is now higher than that faced by the Greek government prior to the €110 billion bailout by the European Union (EU) in May 2010. A number of hedge funds were reported to be taking positions based on a likely Irish default. All the Irish banks are heavily reliant on temporary "non-standard" funding from the European Central Bank (ECB).

Finance Minister Brian Lenihan's latest measures remain vague. Anglo Irish, nationalised in early 2009 to save it from collapse, will require a total of €29.3 billion from the state. Yet if property prices do not perform as expected, that could rise to €34.3 billion. €22.9 billion has already been committed, so this is an increase of at least €6.4 billion.

Allied Irish Bank (AIB), which needs to raise €7.4 billion before the end of the year, will be given an additional €3.5 billion, on top of €3 billion handed over last year. The bank is also likely to be taken under majority state control, since it will face difficulty raising cash from asset sales and external sources. AIB has been undermined by the unexpectedly high discount imposed on bad loans handed over to the state "bad bank", the National Asset Management Agency (NAMA).

Bank of Ireland, Irish Nationwide Building Society, and EBS (formerly the Education Building Society) have all required state handouts—bringing the total cost of the bailouts to €45 billion (or €50 billion under the current "worst case scenario"). These figures do not include whatever losses emerge from NAMA itself—which is incorporating ever more of the banking system's toxic property loans onto its books.

These numbers, not vast in a world where €14 trillion is estimated to have been pumped into the banking system since 2008, are very large indeed for a country whose population is only 4.5 million people. Current estimates of this year's public sector deficit, which the government had hoped to restrict this year to 11.6 percent of annual GDP, have soared, literally overnight, to 32 percent.

In comparison, according to the *Economist*, Greece, after the EU bailout expects an 8 percent deficit this year, while for Portugal, another country causing similar concerns as Ireland, the figure is 9.3 percent.

Total public debt in Ireland is around 98 percent of GDP, currently around €172 billion, and could rise to 115 percent. This percentage figure is topped only by Zimbabwe, Japan, Singapore, Jamaica, Saint Kitts and Lebanon.

Lenihan's measures were immediately endorsed by European Economic Commissioner Olli Rehn, who welcomed efforts to "calm markets". Rehn demanded that the government adhere to an austerity programme intended to reduce the public sector deficit to 3 percent by 2014, and warned there was no alternative. "If [governments] stand by and allow these banks to fail in a disorderly way, the stability of the entire financial system would be in jeopardy with devastating macroeconomic consequences,", he said.

European Central Bank head Jean-Claude Trichet endorsed Rehn's remarks. The austerity plans were "absolutely essential in terms of the credibility of the country”.

Lenihan has repeatedly signalled that he intends to cut more than the €3 billion already planned for later this year, a proposal endorsed by most of the Irish political and economic establishment. New taxes on working people are considered inevitable.

The government has already imposed repeated austerity budgets, cut public sector pay, health education and welfare budgets by up to 15 percent. These measures, developed by the Fianna Fail-led coalition since the crisis erupted in 2008, seek to transfer the costs arising from Ireland’s collapsed financial boom and property bubble onto the working class.

A day later, Rehn made clear the extent to which, in his opinion, the Irish government is now beholden to Brussels, and ultimately Berlin. In doing, so he introduced a new factor into the crisis, in which the interests of European, primarily German corporations, are directly opposed to their rivals in the United States, Ireland’s largest investor.

Speaking of the coming decade, Rehn noted, “It’s a fact of life, Ireland will not continue as a low tax country. But it will rather become a normal tax country in the European context”. Rehn’s comment was directed at Ireland’s 12.5 percent corporation tax rate. Senior figures later backed him up, such as Markus Ferber, member of the European parliament for Bavaria, whose party, the Christian Social Union, is allied with Angela Merkel’s ruling Christian Democratic Union in Berlin.

Ireland’s 12.5 percent corporation tax rate has been the basis of successive waves of profit making over the last two decades. The rate formed one of the attractions, along with European Union membership and a low paid English speaking workforce, for hundreds of US corporations that were drawn to Ireland in the 1990s and which created the so-called “Celtic Tiger” boom.

The rate provided a platform for a huge expansion in financial services over the last decade. Figures from the Irish Funds Association show that some 10,700 Irish-based funds administer around €1.8 trillion, of which slightly less than half—€861 billion—is domiciled in the Eurozone. Ireland, on the basis of low corporation taxation, has also become a world centre of “tax minimisers” and “income shifting”—corporate tax evasion on an immense international scale.

A visit to the Joint External Debt Hub, run by the Organisation for Economic Co-operation and Development, the Bank for International Settlements, the IMF and the World Bank, reveals more evidence of the growth of the same industry. The UK, for example, has a total external public and private sector debt of some $9.1 trillion, a truly vast sum. Tiny Ireland, however, owes some $2.25 trillion.

US corporations responded instantly to the threat to their interests posed by Rehn’s remarks. According to the American Chamber of Commerce in Ireland’s president, Lionel Alexander, “Nothing which would impact on the continued investment in Ireland by our existing base of multinationals, or would deter new investment in Ireland can be countenanced”.

He went on to demand, “The government must clearly and firmly remind the EU Commission that Ireland retains sovereignty in taxation matters and advise Commissioners to refrain from making unhelpful comments of this nature”.

The worsening financial calamity has reduced the Irish establishment to raging hysteria. The *Irish Times* wailed, “It is no exaggeration to say that we are in a state of emergency.… Uncertainty over the future is accompanied by a widely held belief that changing the Government would make no difference to Ireland’s economic prospects”.