Ireland seeks bailout by European Union

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Ireland has begun preliminary talks with the European Union, with a view to securing a financial bailout to avert state bankruptcy. Although a formal application has yet to be made, loans could be sought as early as next month, according to reports.

The International Monetary Fund has said it can help Ireland, but has not received any request from the Dublin government.

The extent of the funds that Dublin will seek is thought to be in the region of €60-80 billion. More important than the sums involved, it signifies that attempts to prevent not just Ireland but several other European countries from sliding towards economic meltdown are unravelling. The future of the entire European Union is increasingly imperilled.

As with the bailout made available to Greece earlier this year, EU or IMF money will come with demands for intensified austerity—even though Ireland has already slashed over €14 billion from spending since 2008 and has plans for a further €15 billion of cuts over the coming four years.

At the G20 summit in Seoul on Friday, EU Commission President José Manuel Barroso hinted that backing from Brussels was imminent when he stated that should Ireland require financial support it would be forthcoming. Finance Minister Brian Lenihan welcomed his statement, although he somewhat disingenuously denied that any discussions had begun.

A team of EU officials visited Dublin last week. EU Economic and Monetary Affairs Commissioner Olli Rehn gave his backing to the Fianna Fáil-Green Party government's proposal to cut the budget by €6 billion next year as part of a plan to bring Ireland's budget deficit to below 3 percent of GDP by 2014. At the same time, he warned that further measures may be necessary depending on economic developments.

Rehn's visit saw him meet with the government, representatives of the opposition parties and business groups and trade unions in Dublin. Even as he discussed the measures that must be taken to avoid state bankruptcy, Ireland's economic position continued to worsen. The yield on government 10-year bonds reached an all-time high of 8 percent, a full 5.5 basis points higher than that of Germany. Market concerns saw the yield surge to over 9 percent on Thursday.

Such unsustainable rates of borrowing have forced the government to seek EU aid. Although it claims to be fully funded through the start of 2011, it is widely recognised in financial circles that it will not be possible for Ireland to obtain funds on the money markets with borrowing rates so high.

This will come at a cost of piling more pain on what are already the most savage austerity measures in Europe. In a press conference with Finance Minister Brian Lenihan on Monday, Rehn outlined the EU's demand that reducing Ireland's budget deficit would require "determined and sometimes painful decisions, political courage and political and social dialogue"—a reference to the role assigned to the trade unions in policing this assault on working people.

He went on to urge the government to re-evaluate the level of budget cuts annually on the basis of economic growth. The clear implication was that the government's figure of €15 billion of budget cuts in four years would not be sufficient to meet the dictates of international finance capital. As the *Irish Independent* wrote, "Anybody who believes Rehn was suggesting—at this stage—that the ultimate figure will be less than €15 billion due to the injection of a pessimistic growth projection is obviously deluding themselves."

Rehn went on to warn that if the sufficient austerity measures were not adopted, the EU would take action. "The member state governments must commit to prudent fiscal policy making—and accept that if they deviate from such path, there will be consequences," he

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threatened. “This is necessary, if we are serious about containing the risks to financial and economic stability in the euro area—and we are very serious about this.”

As well as stressing this message to the government, Rehn met with leaders from the opposition Fine Gael and Labour parties. There is unanimous agreement in the political establishment that deep cuts must be made. Labour has sought to present itself as opposing the severity of the measures, claiming that cuts of €4.5 billion rather than €6 billion should be made in 2011. But this is a question of timing only and will be abandoned in a heartbeat. Labour fully supports the adoption of budget-cutting measures to finance the bailout of the banks. As Labour’s economics spokeswoman Joan Burton told the *Irish Times* after her meeting with Rehn, her party fully backs the target of a 3 percent budget deficit by 2014.

Fine Gael spokesman Michael Noonan sought to present his party as a more reliable alternative to the shaky Fianna Fáil-Green Party coalition, which is currently working with a majority of just two in the Dáil. Informing Rehn that a stable majority would allow Fine Gael to take the necessary action to slash spending, Noonan commented, “Naturally he wouldn’t comment on the Irish political situation, but I think it was important to set that out.”

Despite the determination within the political establishment to make savage cuts across the board, there are many who view an Irish default as inevitable. In a poll of financial analysts published by Bloomberg on Friday, 51 percent of those surveyed viewed a default by Dublin as very likely. Erik Nielsen, chief European economist at Goldman Sachs, stated that together with Portugal, Ireland would require a bailout from the EU.

Renewed concerns regarding the extent of the bailout of the financial sector are encouraging such sentiments. In September, Lenihan claimed that the bank bailout would cost the state €45 billion, after the Anglo Irish Bank received almost €30 billion of financing, while other institutions were allocated a combined €16 billion.

In the *Irish Times* last week, economist Morgan Kelly estimated the total cost could be much higher. Pointing to the reckless actions of other institutions, such as Allied Irish Bank and Bank of Ireland, Kelly calculated that both banks combined will require a similar level of state support as has been poured into Anglo, bringing the projected total to €70 billion. Kelly wrote, “This €70 billion bill for the banks dwarfs the €15 billion in spending cuts now agonised over, and reduces the necessary cuts in Government spending to an exercise in futility. What is the point of rearranging the spending deckchairs, when the iceberg of bank losses is going to sink us anyway?”

He went on to spell out what this would mean for the population: “As a taxpayer, what does a bailout bill of €70 billion mean? It means that every cent of income tax that you pay for the next two to three years will go to repay Anglo’s losses, every cent for the following two years will go on AIB, and every cent for the next year and a half on the others. In other words, the Irish State is insolvent: its liabilities far exceed any realistic means of repaying them.”

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