Bankers dictate brutal cuts as part of EU-IMF bailout of Ireland

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Following weeks of intense pressure from international money markets and European institutions, the Irish government has officially applied for a bailout package of up to €90 billion from the European Union and the International Monetary Fund.

Over the past three months the European Central Bank (ECB) intervened to buy up €40 billion of Irish bonds in order to prevent a collapse of the Irish banks, with catastrophic knock-on effects throughout Europe. In talks with European finance ministers last week, ECB President Jean Claude Trichet made clear that the central bank could not continue to pump in money to prop up Ireland's essentially insolvent banks, and that it would be necessary to activate the European Financial Stability Facility (EFSF) emergency fund set up by the European Union last May.

The Irish government, led by Brian Cowen, has now conceded to the concerted international campaign. Of the €90 billion total, €15 billion is to go immediately to restock Irish banks, with the remainder earmarked to cover Ireland's annual budget deficit of €19 billion for the next three years. Most of this will find its way into the coffers of the banks and ultimately to the international financial institutions that hold Ireland's debts.

According to a report on the BBC web site, the deal does not require Ireland's senior creditors to take any losses. The demand that major bondholders be required to contribute to any rescue of insolvent states and banks was recently raised by the German government and supported by France. Global banks responded with an attack on Ireland, singled out as the weakest link in the euro zone. Germany's Angela Merkel and France's Nicolas Sarkozy quickly dropped their proposal and caved in to the financial markets.

Writing on the BBC web site, Stephanie Flanders concludes that "the euro zone is pressing ahead with the same approach it has followed ever since the collapse of Lehman set us on this path. That is, when in doubt, sign another blank cheque to private creditors and try not to think about the money, or the moral hazard."

Ireland is now the second European nation this year to receive EU-IMF money. In May, Greece accepted €110 billion from the EU and the IMF following a similar concerted campaign by the money markets and rating agencies to downgrade Greek government bonds and push the country towards bankruptcy.

Following the Greek bailout, the EU and the IMF put together a €750 billion emergency fund to prevent a meltdown of the euro. When the bailout fund (EFSF) was established, European heads of government stressed that the fund was to function as a "protective umbrella" for the euro. They said they did not expect other countries to resort to it.

Six months later, Ireland is doing just that.

Support by leading European economies for the EU plan for Ireland has nothing to do with philanthropy. Germany is one of the biggest holders of investments in Irish banks. According to Germany's central bank, the Bundesbank, German banks are amongst Ireland's biggest creditors, with a total of €166 billion ($226 billion), much of it in the form of risky short-term loans.

A comparable sum is held by British financial institutions, which explains the readiness of the British government to make its own complementary loan to Ireland of between €7 billion and €20 billion.

The bailouts of Greece and now Ireland mean effectively that both countries have yielded control of their economies and budgetary policy to non-elected experts from the European Union and the IMF. Since

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last Thursday, a team of EU and IMF officials have been in Dublin to finalise the terms of the loan and dictate terms of a new round of austerity measures.

Over the past year Ireland has already introduced the most comprehensive package of social and welfare cuts in Western Europe. As a result, wage levels in the country have already plummeted by 20 percent. Now the EU and IMF are demanding another round of draconian measures, which will have devastating consequences for the Irish population.

One of the main concessions initially demanded from the Irish government in return for an EU loan was an increase in its very low 12.5 percent corporation tax, a key measure introduced by the government in the mid-1990s to attract international companies. The low corporate tax rate accounted for a great deal of the economic growth associated with Ireland's emergence as a "Celtic Tiger."

In the past week, companies including Google, Microsoft and Intel indicated they would reconsider their operations in Ireland should business tax rates be increased.

It now appears that a deal has been struck whereby Ireland will be allowed to maintain its low corporate tax in exchange for even more swingeing social cuts.

According to Irish Finance Minister Brian Lenihan, one of the most outspoken critics of Ireland's corporate tax was prepared to drop the issue. Speaking prior to an Irish cabinet meeting, Lenihan declared, "I very much welcome the fact that President Sarkozy indicated that there is no question of Ireland's corporation tax rates being an issue in these discussions or negotiations."

Lenihan also said that the UK and the IMF had not demanded changes to the tax rate in the course of the recent discussions. "So that issue is off the agenda now, let's be clear about it," he concluded.

Instead, the Irish government will impose a new round of austerity measures which are due to be announced this Wednesday. A series of proposals are already circulating in the media, including: the axing of an additional 28,000 public sector jobs, substantial increases in property taxes and water rates, a further ten percent cut in welfare benefits, and the imposition of taxes on low-wage workers who are presently exempt.

Along with penalising the lowest paid, the government is considering reducing the country's minimum wage of €8.65 to ensure that workers are prepared to take jobs at even lower rates of pay.

In the words of the Dutch finance minister, Jan Kees de Jager, "Ireland will have to cut fast and deep." Referring to the upcoming budget, one blog in the *Financial Times* speaks of the "awful pain that lies ahead for Irish citizens."

Dublin's acceptance of the EU-IMF package has been greeted with a chorus of calls for the resignation of the Irish government, including from Ireland's leading newspaper, the *Irish Times*. In political circles, however, there is unanimity that any political reshaping of government must be preceded by the successful passage of the new austerity program.

The opposition Fine Gael has said it will back any budget proposed by the Fianna Fail government. The Green Party, which has three ministers in the current government, has said it will withdraw its ministers and has called for new elections next year, while making clear that it would support the budget cuts to be announced on Wednesday.

Having imposed austerity measures on Greece and Ireland that unravel decades of social reforms and gut wages and working conditions, the financial plutocracy is setting its sights on Portugal and Spain.

The British *Economist* magazine has already declared in favour of offering Portugal the same deal as that struck by the EU and IMF with Ireland, arguing that Portugal's economic woes are possibly even more serious.

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