Irish government blocks bank bonuses

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On Monday, Irish Finance Minister Brian Lenihan intervened to prevent Allied Irish Bank (AIB) from paying 40 million euros of bonuses to top executives. Far from representing an attempt to make bankers pay for their role in the crisis, the measure was taken only because it was seen as being politically unavoidable.

In a letter to the AIB board, Lenihan threatened that paying the bonuses would result in a halt in any further state support for the bank. Lenihan's letter stated, "The provision of further state funding to AIB will be conditional, inter alia, on the non-payment of any bonuses, no matter when they may have been earned."

Such threats were for public consumption. The 85 billion euro bailout Lenihan's government has negotiated with the European Union is based on the continuation of virtually unlimited state support for the country's bankrupt financial institutions. The *Financial Times* acknowledged that Lenihan's "threat" was "as hollow as they come."

Lenihan sought to use the episode to quell mounting public anger against the government. Speaking to RTE Radio on Tuesday, he claimed that it would be "galling to think" that 40 million euros "would be paid out of that bank to employees in respect to bonuses during a period that the bank got itself into the difficulties it is now in."

The show of outrage at the excess of the banks must be seen in the context of the severe austerity measures which have been imposed by the Fianna Fáil-Green Party government since the beginning of the economic crisis in 2008. Particularly over the last month, with the publication of a four-year plan outlining 15 billion euros in spending cuts, and a budget containing 6 billion euros in cuts for next year, ruling circles are conscious of the developing anger within the population. The spectacle of top bankers receiving millions in bonuses, while wages for workers are slashed, social welfare payments cut, and public spending reduced, was seen as too provocative, especially with an election due early next year.

AIB responded to Lenihan's letter by claiming that it had never wished to pay the bonuses, but had merely been searching for a means to escape the "legal obligation" to do so. Alan Kelly of AIB told RTE radio, "We were looking for a way not to pay these bonuses."

In another part of his letter to AIB, Lenihan was somewhat more candid on the motivations behind the move. "Without a measure of public acceptance, no government could provide support for the banks on the scale needed," he explained.

Barely two weeks before he intervened to block bonuses, Lenihan and Taoiseach (Prime Minister) Brian Cowen had led negotiations with the EU and IMF over the bailout, which will see a further 35 billion euros handed over to the banks. A substantial portion of this will come from raiding over half of the national pension fund, a move which will impoverish future retirees.

This was only the latest in a series of bailouts, which has seen the state provide roughly 80 billion euros to the banks since 2008. The Irish government was the first to announce a blanket guarantee for all banking assets in September 2008, amounting to well over 400 billion euros.

As a result, the government was compelled to step in to prevent the collapse of all of the major banks, assuming large holdings in Anglo Irish Bank, AIB and Bank of Ireland, to mention only the most prominent cases. Anglo Irish eventually fell entirely into state control and it is set to be wound down—again at the expense of the taxpayer.

At the same time, the National Asset Management Agency (NAMA) was established, which is essentially a "bad bank" allowing financial institutions to dump their bad debt on the state and recommence their speculative activities. Following the conclusion of the

EU-IMF talks last month, it was revealed that a further 16 billion euros of debt would be taken on by NAMA, but there continues to be no certainty on its final cost.

This is the case with the bailout as a whole. On the same day Lenihan sent his letter to AIB, the *Irish Examiner* carried a report citing the bank's chairman, Alan Dukes, who had stated that the figure of 35 billion euros would be insufficient to deal with bank debt. Dukes commented, "The number that's there at the moment is based on what we can expect of the commercial property market. I don't think any assessment has been made of the possible impact of mortgage defaults."

Notwithstanding the insincerity of the government's posturing over the issue of bonuses, the *Financial Times* was troubled by the precedent it created. In a short piece on Tuesday, the newspaper described the actions of Dublin as a "dangerous necessity", before going on to express the fear that other governments could follow suit and limit the pay of the financial elite. The FT wrote, "If the Irish government can legislate to override the bank's contractual obligation to reward employees, why can't the UK government?

"The short answer: it probably can. All governments can threaten to change legislation. Whether they succeed—and, having succeeded, whether those changes prove to be counterproductive—is quite a different matter."

What was meant by this was spelled out later in the article, where the FT noted that "the government's retrospective action could erode contract certainty and repel talent just when Irish banks need it."

The claim that implementing controls on bankers' pay breaches legal contracts and will "repel talent" comes after these talented individuals have been responsible for the greatest crisis of world capitalism since the 1930s. While the legal obligations to top executives are seen as unalterable, the attitude taken towards working people is entirely different.

In the same week as the bank bonus issue emerged, a report in to the impact of the Croke Park agreement, a deal between the government and trade unions to slash spending, claimed that it was "delivering change on a daily basis."

The deal had facilitated the implementation of two pay cuts, a reduction in numbers in frontline services, as well as a ban on strike action. According to Labour Minister Dara Calleary, the lack of industrial action was crucial so that Ireland's international reputation was not harmed.