Ireland: New round of cuts in preparation

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Egged on by ratings agencies, leading banks and their attendant economists, the Irish government is preparing another assault on the working class. As part of a planned Comprehensive Spending Review, the Fine Gael/Labour Party coalition government is expected to announce at least €3.6 billion in cuts next month as the next step in its transfer of wealth from working people into the hands of the financial oligarchy.

The government posted documents online claiming that the terms of the €67.5 billion European Union/International Monetary Fund bailout last year required it to include a property tax, tax credit reductions, petrol price hikes, along with welfare and capital spending cuts, among the new measures.

This is under conditions in which a June report from Goodbody Stockbrokers makes clear the impact of cuts to pay and social conditions already imposed.

A new worker taking a job in engineering can expect to earn about 10 percent less than in 2008. Workers in hotels and the catering industries can expect to earn 15 percent less, while management in the same industries have lost around 30 percent. Newly qualified solicitors have lost around 10 percent. New starts in construction have lost 30 percent, while management have lost 50 percent.

Overall, the report claims that unit labour costs relative to the rest of the eurozone have fallen 9 percent and are expected to fall by another 4 percent by 2012.

The collapse in wages has been forced through under threat of unemployment, which has grown significantly. The jobless figures for July rose by 1,500 to a total of 470,300, or 14.5 percent of the working population. More than 40 percent of those have been unemployed for over one year. The Irish Central Bank predicts that a further 31,000 will lose their jobs by the end of 2011.

Along with collapsing property prices, which have fallen by up to 50 percent since boom time values of 2007/2008, the lower labour costs have led to a limited revival of the Irish industrial economy, one of the most export oriented in the world.

Because 75 percent of exports are transnational-related, the total value of Irish exports was greater than the country's entire GDP. Exports in total increased around 10 percent in 2010, while the number of Foreign Direct Investment projects grew by 27 percent in Dublin, compared to 8 percent in London and 14 percent in Paris. Excluding transnational transfers, however, the economy is still expected to shrink in 2011 by 0.3 percent because of cuts and the ongoing collapse in domestic activity.

However, while wage cuts have generated a limited revival in industry, the situation in the country's financial sector remains catastrophic.

Since August last year nearly one third of the €900 billion in deposits in Irish-based banks has been moved. In June alone €9.3 billion in deposits were moved out of Ireland, the lowest figure since last year. In total, 45 percent of overseas deposits have fled.

Only three Irish banks remain standing. Both Anglo Irish Bank (AIB) and Irish Nationwide have been merged into the Irish Bank Resolution Corporation, whose sole purpose is to close itself down over the next decade.

AIB and Irish Life and Permanent have been nationalised following a further €24 billion recapitalisation for the banks announced in late June and laid down under the terms of the 2010 bailout. This is fifth cash injection in 30 months and leaves the remaining Irish banks €158 billion in debt to the European Central Bank.

Only Bank of Ireland, with a UK mortgage book of €32 billion out of a total of €38 billion, remains relatively free standing, with the government owning only 15 percent of it. Even then, the bank lost €723 million in the first six months of 2011, all of which was down to losses on bad loans.

Collectively the Irish banks have lost €6.5 billion so far to June this year, an *increase* compared with the same period in 2010. While the banks have been able to dump some of their bad commercial property loans onto the National Asset Management Agency (NAMA), increasing mortgage distress is beginning to take its toll.

Bank of Ireland reported that impairment charges on its residential mortgages cost €718 million, up 39 percent since last year while AIB lost €863 on its home mortgages.

Public finances are also in a worse state. The Irish Exchequer's public deficit was €10.2 billion for the year up to the end of July. This year, despite a sharp increase in tax receipts and a reduction in expenditure, the same figure was €18.9 billion due to €10.6 billion being transferred to the banks.

The ability of the government, with the support of the trade unions, to transfer the cost of the financial debacle onto the working class via nationalisation and bailouts has led to Ireland winning praise from the world's financial behemoths. In fact, it has encouraged them to ask for even more.

According to Ulster Bank economist Pat McCardle writing in the *Irish Times*, Goldman Sachs recently reported that, based on previous "fiscal consolidations", governments that had high public sector deficits and high government borrowing costs could nevertheless cut spending even quicker, if there had been previous recent experience of similar financial crisis, and, crucially, the government had recently been elected.

On this basis, Goldman Sachs, with typical cynicism, suggested that an annual rate of "adjustment" to public finances should be around 2-3 percent of GDP. Ireland is slightly below this figure this year because of massive cuts already imposed, so more should be cut, particularly as a new government has recently been elected.

Ratings agency Standard & Poor's agreed, praising Ireland's "strong political consensus in favour of fiscal consolidation … capable of putting the public finances on a more sustainable path."

On the same day that S&P took the historic decision to downgrade US debt, the agency left Ireland's status at BBB+, and explained it viewed the Irish situation as stable. Yield on Irish 10 year bonds is currently at 9.8 percent, down from a peak of 14 percent.

The theme was taken up by a platoon of loyal commentators.

Writing in the *Irish Times*, economics journalist Dan O'Brien demanded that the 40 percent of state spending still directed to welfare benefits and pensions be further targeted. Remaining universal benefits should be ripped up, he argued.

Philip Lane, an economics professor at Trinity College Dublin, was given space in the same publication to develop the theme. Lane noted that the chaos enveloping the entire eurozone demanded that the Irish government "do more, go faster". Lane set out a perspective for future cuts stretching years ahead, while committing to a "larger adjustment target" in 2012, new "reforms" in pensions, and accelerated "reforms" in so-called "sheltered sectors and the labour market".