Ireland facing a decade of austerity

Jordan Shilton
18 January 2012

Speculation on the need for a second bailout for Ireland had been growing, but it is an option that is appearing increasingly unlikely as the crisis worsens across Europe.

Last week, Standard & Poor's downgraded France's AAA credit rating and placed 15 of the 17 eurozone members on negative outlook. On Monday, it cut the AAA credit rating of the European Union's (EU's) bailout fund—the European Financial Stability Facility (EFSF)—to AA+. The move threatens a rise in borrowing rates that will make it even harder to raise funds for countries at risk of default.

This directly affects Dublin, even though its own credit rating currently remains unchanged.

Last week, a leading Citigroup analyst claimed that Ireland's state debt was unsustainably high, advising the government to make preparations for the extension of financial support from the EU and the International Monetary Fund immediately before the current bailout programme runs out next year.

Willem Buiter stated that it made "good business sense" to avoid borrowing on the open market at 8 percent, as Ireland would have to do. Ireland was "not like Greece", but nonetheless required additional help to control its debt burden, he said.

Leaked documents from the US Treasury obtained by RTE news revealed that concerns had been expressed from the outset that the €67 billion bailout agreed to in November 2010 would be insufficient to avert state default by Dublin. US treasury secretary Timothy Geithner was informed in a briefing note that the likelihood of weak economic growth would prevent Ireland from being in a position to return to the markets in 2013. Another document noted concerns amongst US senators that investments in Ireland could be lost.

These revelations come just weeks after Ireland was hailed in financial circles and the media as a success story for its implementation of austerity measures backed by a bailout from the EU and IMF. The lack of public protest when compared with that seen in Greece or Spain, a fact for which the trade unions are chiefly responsible, was cited as proof of the ability of governments to carry through the demands of the financial elite.

But the sharp deterioration in Ireland's economic performance can no longer be concealed. The latest figures have been revised downwards, even when compared against those released with last month's budget. Growth in 2012 will not exceed a paltry 0.7 percent of GDP, according to the government, with little hope of any significant recovery thereafter. An indication of the impact on jobs was given by the announcement that Ulster Bank is to lay off almost 1,000 workers by the end of 2012.

The stagnation of the domestic economy is being driven by the deepening crisis in the eurozone. The Irish economy is heavily dependent on exports to Europe. The economic contraction in Ireland took place as conditions changed dramatically not only in the "peripheral" countries like Spain, Greece and Portugal, but in the major economies of Germany and France.

The gloomy outlook forced Taoiseach (Prime Minister) Enda Kenny to deny that his government was preparing for a second bailout. "We are in a programme for two years and are meeting the targets and commitments," he said. "I do not share the view at all in regard to a second bailout being necessary."

Rumours of divisions within the Labour-Fine Gael coalition were strengthened over the weekend, after Social Affairs Minister Joan Burton of Labour published an article that refused to rule out a second bailout for Dublin.

The discussion of a second bailout reflects the widely held belief that Ireland faces a long period of austerity. Richard Tol, an economist formerly with the Economic and Social Research Institute (ESRI), announced that he is leaving Ireland due to the bleak economic outlook. He warned that “ten more years” of austerity lay ahead and economic recovery would take even longer.

Another ESRI spokesman concurred, declaring that any suggestion that austerity would end in 2015 with the conclusion of the current four-year savings plan was mistaken. Joe Durcan predicted that the current austerity drive was likely to continue “as long as anyone can look forward”, adding that even if the budget deficit were reduced to 3 percent of GDP, this would be insufficient.

“We have to get our debt-to-GDP ratio down to 60 percent,” he insisted. “And if you’re relying solely on growth to do that, it’ll take a long time for that to happen.”

To indicate the scale of cuts this represents, the current debt-to-GDP ratio stands at 120 percent.

As with the previous four years of savage cuts that began in 2008, eliminating more than €25 million from government spending, future cuts will target the working class and the public services on which the vast majority depend. Between now and 2015, at least a further €12 billion is projected to be cut from current yearly budgets of around €56 billion.

The continuation of similar measures for a further decade or more is not a recession, but a permanent economic contraction. It means the elimination of public services and the removal of welfare support for even the poorest sections of society.

Representatives of the so-called troika—the EU, IMF and European Central Bank (ECB)—have insisted that cuts in social protection and welfare form the “bulk of savings” for the state. Its estimates suggest that in next year’s budget, there will be cuts of €3.5 billion, including €2.25 billion in spending cuts and €1.25 billion in tax hikes. The *Irish Times* described such a prospect as “unprecedented for Ireland.”

The EU and IMF reports published prior to the Christmas break were still critical of the government for failing to target workers and the poor more directly. They chastised Labour and Fine Gael for cutting too much from capital spending, rather than taking more “punitive sanctions for unemployed people.”

IMF officials added that income tax increases would have to be implemented, together with measures to “broaden the tax base”—i.e., bring wider sections of the low-paid and poor into higher tax bands.

The troika are using their latest visit to Ireland to press for the government to privatise state assets more quickly. Government proposals to offload around €2 billion of state property have been criticised for not going far enough, with the EU and IMF keen to see this figure more than doubled to €5 billion.