Disillusioned and Without Hope

Interview with Anthony Coughlan, Professor Emeritus in Social Policy at Dublin University (Trinity College Dublin), Director of the National Platform EU Research and Information Centre, writer and commentator on EU affairs.

german-foreign-policy.com: The Irish crisis hit the headlines in 2008 when Irish banks were about to collapse and had to be rescued. German banks were involved because they had granted big loans to the Irish banks. How would you describe the role German banks played in the genesis of the Irish crisis?

Anthony Coughlan: The Republic of Ireland is one of the 18 members of the Eurozone, although it does nearly two-thirds of its foreign trade outside the Eurozone(60% of exports, 75% of imports). It had a booming economy in the six years before it joined the Eurozone in 1999, with average economic growth rates of over 8% a year, the so-called "Celtic Tiger" period. Ireland needed higher interest rates at the time to control this boom, but instead it halved its interest rates on joining the Eurozone, as the single currency's one-size-fits-all interest rate was low to suit Germany and France at the time. From 2000 to 2007 because of this unsuitably low interest rate regime, investment in Ireland shifted from exports to the domestic sector – primarily to building houses and office blocks – as happened similarly in Spain. German, British and French banks lent huge sums to the Irish property market in those years and made good profits from the boom, while the European Central Bank (ECB) looked on unconcernedly.

When the boom turned to bust in 2008 Ireland's principal banks found themselves insolvent and stuffed full with bad debts owed on collapsing property values. The ECB and its then president, M. Trichet, insisted that the Irish Government should not let the Irish banks go bust, as other Eurozone States which had similar problems – Greece, Italy, Portugal and Spain – might do the same. Such a step would mean banks in creditor countries such as Germany would not be repaid, despite their bad investments, and the euro-currency itself might collapse. So in September 2008 the Irish Government agreed to repay all the bad debts of all the Irish private banks, even though the Irish State and people were in no way responsible for incurring them in the first place. This meant loading €64 billion on to the backs of Irish taxpayers – some 40% of the country's GDP at the time – which was a huge sum for a small State of 4.5 million people.

The Irish Government's blanket bank guarantee ensured that German and other EU banks which had made big profits out of Ireland's property boom would not suffer losses in the Irish property bust. This has caused a deep sense of injustice and unfairness in Ireland and makes many people question the wisdom of their Government adopting the euro-currency in the first place, when this situation would almost certainly have not arisen.

gfp.com: Who has been paying for the collapse of the Irish banks?

Coughlan: The blanket bank guarantee of €64 billion in respect of the bad debts of the Republic's private banks was on top of and in addition to the Irish Governments's "normal" public sector deficit – the difference between public spending and tax revenue – which has been building up since the collapse of taxes from the property sector following the end of the boom in 2008. These two sources of public debt have pushed the Irish debt-to-GDP ratio, which was 25% in 2007, to 120% of GDP in 2013. The resulting huge burden of debt interest and capital repayments means that the Irish people will have to carry this load for decades to come unless they decide to default on those debts and leave the Eurozone. Economic growth in Ireland has been zero or very low for several years, so the debt cannot realistically be paid off out of real output. The other classical method of reducing the burden of public debt – by inflating the currency – is ruled out by membership of the Eurozone, for the euro-using countries no longer have their own currencies to inflate.

The Irish Government renewed its blanket bank guarantee in 2010, at which time foreign lenders became reluctant to cover the State’s borrowings except at very high rates of interest. This led the ECB and IMF to pressurise the Irish Government into accepting loans at lower rates than on the open market in return for submitting to a regime of detailed surveillance of the State’s public finances through a joint ECB/EU/IMF “Troika” and a series of austerity budgets geared to cutting public spending and raising taxes for an economy where output actually fell between 2008 and 2012.

gfp.com: The Irish Government was effectively under the control of the ECB/EU/IMF Troika from 2010 until last month. How are the actions of the Troika regarded by the Irish people?

Coughlan: In the 2011 Irish general election voters angrily rejected the State’s traditional largest political party, Fianna Fáil, which it blamed for the 2008 blanket bank guarantee and the 2010 “bailout” debacle. That party, which had dominated Irish politics for decades, lost three-quarters of its parliamentary seats. The opposition Fine Gael/Labour coalition promised during the election campaign to repudiate the blanket bank guarantee and “burn” private bank bondholders and was elected with a huge majority. Once in office however the new Government maintained the same austerity policy and continued cutting the public deficit in interaction with the Troika.

The result is widespread disillusion with the political class, much social misery, a yearning for alternative policies which has not yet produced any significant political force that would provide them, and loss of hope regarding a future in Ireland among many young people, which has led large numbers to emigrate. The Troika which managed the 2010 bailout has left Dublin, but a regime of close monitoring of Ireland’s public finances through the EU Commission and the rules of the 2012 Stability Treaty for the Eurozone countries continues.

gfp.com: So, the Republic of Ireland’s austerity policy does not seem to have ended, although the country has exited the three-year ECB/IMF “bailout”. Last autumn the Irish Minister for Finance again announced further harsh cuts in the Irish budget. How hard has the crisis hit the country?

Coughlan: The Republic’s official rate of unemployment is 13%. This rate would be near 20% were it not for heavy emigration, mainly of the country’s young people, to Britain, the USA, Canada and Australia. In fact the Republic has the highest level of net emigration in Europe. While the Republic’s exports of manufactures – which are made mainly in factories owned by multinational investors – and agricultural goods continue to grow, these sectors provide little new employment and the Irish domestic economy is either declining or static, with bank credit extremely tight.

If one adds together public debt, private company debt and personal debt – the latter owed primarily on house mortgages – the Republic of Ireland is, relative to its size, among the top three or four most indebted countries in the world. All of this debt bears on Ireland’s 4.5 million citizens: the public debt in higher taxes, the company debt in higher prices and the private debt in higher mortgage repayments and credit card bills. Some one-sixth of Irish house mortgage payers are at least nine months in arrears. These debts are owed to the country’s banks. The Irish banks face new ECB “stress tests” in autumn 2014 and some economists think that they will need a further “bailout”.

gfp.com: Last autumn, the Irish Times newspaper published a commentary with the heading “German leadership is indispensable for a properly functioning Europe”. Is this the general opinion in Ireland?

Coughlan: Irish public opinion is well aware that Germany, as the Eurozone’s principal creditor country, is the main orchestrator of the austerity policies that are being currently imposed on Greece, Ireland, Italy, Portugal and Spain. It knows that German banks were among the principal beneficiaries of the Irish Government’s 2008 blanket bank guarantee, which the ECB encouraged, although it appreciates that public opinion in Germany is not generally aware of this. Irish people understand well also that the rules of the Eurozone benefit German export industries, because the euro prevents the Eurozone debtor countries restoring their competitiveness by devaluing their currencies, although the low growth rates in the Eurozone periphery consequent on austerity policies, together with more expensive German imports, disadvantage German housewives and consumers.

The Eurozone crisis has encouraged the growth of Euroscepticism and Euro-criticism in the Irish public, but the Republic’s political class and the leadership of its main political parties have been strongly europhile for decades and they are reluctant to eat their past words and criticise their decision to adopt the euro in the first place. Their views would be reflected in the Irish Times headline mentioned.

There is much public cynicism however at how the rhetoric of EU “partnership” has been replaced by a rhetoric of pleas for German leadership. At bottom this amounts to a plea for German money with which to reduce Irish debts! The debt crisis is causing many to question the whole EU project. The Irish Constitution requires referendums on any EU treaties that would transfer further powers to Brussels. It would be unrealistic to expect any new EU treaty to be adopted in Ireland given the people’s recent experiences and current bleak and angry mood.