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Irish Home Rule?

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Ever wondered what happens when the smartest guys in the room turn out to be saps? Then cast your eyes over to Ireland, where the Celtic Tiger that roared through the dawn of the 21st century is being rapidly turned into cat food even as I type. How bad is the Irish economic crisis? The truth is that nobody knows. The latest price tag for the IMF bailout is 85 billion Euros, but the situation is sufficiently fluid—and reportage sufficiently hysterical—that the Guardian web site has a live Ireland Bailout blog [1] offering minute-by-minute updates. At the moment Irish Prime Minister Brian Cowen is refusing to resign until after the next slice of austerity measures has been approved by the Dail (Ireland's parliament)—or as the headline writers at the tabloid Daily Star put it: "**USELESS GOBSHITES / Government in meltdown but STILL they cling onto power.**"

In addition to its entertainment value, the Irish debacle is worth paying attention to for the way it vividly illustrates the folly of neo-liberal economics. In case you've forgotten, Ireland, with its educated workers, weak unions, business-friendly tax regime and wide-open banking system, was supposed to be a model for the rest of us. Someday maybe someone will put together an anthology of the paeans to the Celtic Tiger—but here's two examples worth highlighting. In February 2006 George Osborne, now Chancellor of the Exchequer and Britain's budget-cutter-in chief wrote an article [2] in Rupert Murdoch's London Times urging his courtrymen to "Look and Learn from Across the Irish Sea." Osborne's claim that "Ireland stands as a shining example of the art of the possible in long-term economic policymaking" has proved irresistible to any number of pundits in recent weeks, but the article is well worth reading in its entirety as a compendium of the myths that still guide British policy making. But before American readers get too smug, take a look at this essay [3] by Chris Edwards, director of Tax Policy at the CATO institute (and hence a big player in the new Republican-led House of Representatives on budgetary matters). Writing in March 2007 for the National Review on-line, Edwards asks whether Dublin's boomtown atmosphere was due to "the luck of the Irish?" Not at all, he answers himself: "It resulted from a series of hard-headed decisions that shifted Ireland from big government stagnation to free market growth. After years of high inflation, double-digit unemployment rates, and soaring government debt that topped 100 percent of GDP, Irish policymakers began to cut spending in the late 1980s in a desperate bid to recover financial stability." Again the whole piece is worth reading—especially if you want to know what kind of shit Congressional Republicans are still smoking.

Now we know that the whole shining green edifice of Irish prosperity was built on a housing and banking bubble even less substantial than the towers of Oz—only here the men behind the curtain weren't benevolent wizards but greedy and incompetent bankers who thought they were too clever to be governed by the laws of economic gravity. The best brief explanation of what happened can be found in the Financial Times, where columnist Martin Wolf explains [4] that unlike Greece, where the government really had been spending money it didn't have for years, and counting on endless growth (and rising tax receipts) to defer the day of reckoning, the Irish government had if anything been excessively frugal. Irish public debt in 2007 was just 12 percent of GDP (compared to 50 per cent in Germany and 80 per cent in Greece). As Wolf points out, “It was not the public but the private sector that went haywire in Ireland and in Spain”—a triumph of the free market which allowed Irish banks to rack up massive loan books in a Celtic version of our own sub-prime mortgage crisis. Here, too, the myth of infinitely sustainable growth covered a multitude of corrupt practices—all cruelly exposed to view once the US crisis yanked the cloth off the table.

In recent months Ireland has again been held up as a model—this time of a country stoically taking its medicine administered by a government determined to enforce austerity. But if, as Wolf argues, the Irish crisis wasn’t caused by government spending, then austerity is the wrong medicine. Wolf suggests letting the bondholders take the pain rather than the Irish public—an eminently moderate proposal.

To understand why such moderation is unlikely to be pursued, consider the headline from a chart in this morning’s Guardian: “Financial markets are wealthier than governments.” Sadly the chart itself is not available on the web, but it shows a set of concentric circles, with the smallest being the Portuguese economy ($223 Billion) surrounded by the assets of single bond fund (PIMCO, $1 Trillion) which is only slightly smaller than the entire Spanish economy ($1.6 Trillion) which in turn is dwarfed by the assets under management by Blackrock ($3.3 Trillion). The Irish economy, which according to those nice folks at the CIA World Factbook had a GDP of $172 billion in 2009, would have been too small to see on the page.

Given the balance of forces it is no wonder that the banks (and the IMF) call the tune—as was made abundantly clear this week, when the European Commissioner Olli Rehn told the Irish they couldn’t get rid of their government until they had passed a budget.

Any departure from the austerity script would require a level of political mobilization so far completely lacking in Ireland—or for that matter in Britain, where George Osborne remains determined to follow the Irish example on the theory that only by starving the state will the private sector be freed to generate prosperity. For a comprehensive explanation of why the Irish strategy has been a colossal failure I recommend the Australian economist Bill Mitchell, who saw it coming [5] and whose reader-friendly radicalism offers at least the beginnings [6] of a way out. But in the short term the Irish are going to have to decide to make their own history—or let the bankers make it for them. As my modest contribution to the Irish struggle I offer a slogan, suitable for placards (Should the occasion for placards arise): “Give Ireland Back to the Irish.”

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[1] http://www.guardian.co.uk/business/blog/2010/nov/24/ireland-four-year-fiscal-plan-bailout-live-blog
[2] http://www.timesonline.co.uk/tol/comment/columnists/guest_contributors/article733821.ece
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