Of Fenians and Financiers: James Connolly and the Irish Meltdown

by Julie MacArthur - Thursday, December 16, 2010

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A spectre is haunting Ireland—the spectre of James Connolly.

Connolly was shot to death by a British firing squad for his role in Ireland's 1916 rising for home rule. Celebrated as a hero of Irish independence by Irish political parties of both left and right, his socialism is all too conveniently overlooked. It is vital, however, for the Irish struggle is one that speaks to the challenges of independence, sovereignty and democratic freedom, both then and now, for people of all countries. What value is formal political independence if it is not backed up by economic control; if the real decisions of public policy are made in boardrooms and backrooms rather than main streets and parliaments? For Connolly:

> If you remove the English army tomorrow and hoist the green flag over Dublin Castle, unless you set about the organisation of the socialist Republic your efforts would be in vain. England would still rule you. She would rule you through her capitalists, through her landlords, through her financiers, through the whole army of commercial and individual institutions she has planted in this country and watered with the tears of our mothers and the blood of our martyrs. (*Socialism and Nationalism*, p. 25)

A who's who of global finance descended upon Dublin in November to 'hoist their flags', from the International Monetary Fund (IMF) and the European Central Bank (ECB), to the Rothschild investment bank, Merrill, Barclays, JP Morgan and Goldman Sachs. These power brokers arrived to prevent 'contagion' from the financial crisis in the small country of 4.5 million people by lending the Irish state billions of Euros to recapitalize insolvent banks and shore up the country's finances.

Unfortunately for the Irish, these actors came armed with the same ideological and policy tools that caused the crisis: a commitment to neoliberal growth models, open markets and the primacy of financial interests over those of labour, sovereignty or independence. Moreover, alternative ideas and paths are lacking from elites in Ireland's two major parties, Fianna Fáil and Fine Gael, as both are devotees of free-market fundamentalism. Indeed, it was their desire, proclaimed loudly through the 1990s and 2000s, to be 'closer to Boston than Berlin' in regulation and finance.

Debt: To Infinity, and Beyond

The reasons for Ireland's economic collapse were well covered by the global press in recent weeks. These include: an unsustainable growth model built on extremely low corporate taxes (12.5%) and multinational investment, a property bubble fueled by cheap international credit, and politicians far too cozy with domestic banks and developers to regulate sufficiently.

What is rarely highlighted in the press is the fact that Irish public spending was the casualty—not the cause—of the crisis. When Lehman Brothers collapsed in 2008 and credit markets seized up, Ireland's property bubble burst. As a result, a significant portion of bank assets became worthless and the country's construction and property sectors came to a standstill. The Irish government recapitalized banks with government bonds (totaling more than 176% of GDP in 2009) in return for worthless property assets.

Dublin announced the deepest spending cuts in the history of the Republic to meet the conditions of the November 28 €85 billion IMF and European Central Bank (ECB) loan. The state plans to raise income and sales taxes by €5 billion and cut spending by €10 billion by: reducing welfare payments by €3 billion, eliminating 25,000 public sector jobs and raising sales taxes by 2% (to 23%) by 2014.

According to economists Simon Johnson and Peter Boone "each Irish family of four will be liable for €200,000 in public debt by 2015." In all, €20.7 billion from this public pension fund was funneled to the banks over the last year and a half. Perhaps most significantly the November 24 budget plan outlined *no change* in the corporate tax rate of 12.5% (one of the lowest corporate tax rates in Europe) "under any circumstances".

There were alternatives. The government *could* have required creditors to bear a share of the costs by allowing defaults and some bank failures. They could also have required the companies who have benefitted for years from the corporate tax policy to pay an equal share. Google, for example, reportedly saved $3.1 billion in taxes over the last three years by setting up in Ireland. More recently, calls to withdraw from the European Monetary Union (EMU) have emerged in order to follow Iceland's lead of currency devaluation (an option denied Ireland). They chose to draw from the public purse instead.

While the IMF asserts that its work pushing austerity in Ireland is 'technical not political' the Irish public disagrees, and so do I. What could be more political than the socialization of bank debts and transfers of public wealth into private hands?

Popular Backlash

As the costs of propping up corrupt officials, developers and international bankers becomes increasingly unpalatable, politics in the Republic is shifting left; according to a December 2 poll, Sinn Fein—'we ourselves' in Irish— was two points higher than ruling party Fianna Fáil. They won a historically unprecedented by-election seat in Donegal November 25 and their support in the south has doubled in the past month, from 8% to 16%. Political heavyweight Gerry Adams is giving up his seat in Westminster to run in the Republic's early 2011 election. These gains have opened up the possibility of a coalition with Labour in the New Year. This represents a colossal swing in post-independence Irish politics dominated by 60-years of Fianna Fáil and Fine Gael.

Political opposition to the status quo also transcends electoral politics. On November 27, 2010 close to one hundred thousand people (the equivalent of 785,000 in Canada) marched through the streets of Dublin. The banners and placards quoted James Connolly and other heroes of Irish independence. These protests have been growing in size and frequency over the past year.

These political developments may be short lived. Free-market party Fine Gael is also gaining politically as more conservative voters swap one establishment party for another. Furthermore, nearly one in three Irish youth are predicted to leave the country in coming years, to make ends meet in countries like Canada and Australia, thus eroding some momentum for change. Finally the Congress of Irish Trade Unions (CITU)—the organizer of the largest and most recent rally—is seen as tainted by years of "social partnership" with ruling parties. Taken together, these factors may undermine the development of a cohesive and coherent political countermovement.

The Coming Storm

What has transpired to date is just the beginning. Despite the guarantees and billions of dollars of austerity measures disproportionately targeting the poor and weak in the Irish population, the financial markets remain unconvinced of Dublin's ability balance the books. Standard & Poor's downgraded Irish sovereign debt by two grades on November 24. The government is poised to topple, and the banks are still far from solvent. Credit default swap markets are now betting that Ireland will default on its debt within five years.

The markets are right in their assessment. With an interest rate of 5.8% on the ECB-IMF bailout package, interest payments alone on state debt will be more than 20% of tax revenues in 2014.

Put simply, austerity measures are not working. The "green shoots" in Irish GDP for the first quarter of 2010 were entirely due to multinational exports. In Ireland, wages are dropping, prices are dropping (except in health and education), and demand is dropping. This is disastrous for the Irish economy since, as John Maynard Keynes pointed out in the 1930s, business cycles are not self-correcting. Currently, there is no climate for investment, for a *real* economy based on jobs, taxes and spending to take root.

At the household level, a mortgage crisis is poised to send another wave of shocks through Ireland. To date, people have been borrowing from friends and family to make payments. The state extended the mortgage relief in 2010 by 6 months (to 12 months) to stave off a rash of repossessions. Continued mortgage lending by banks has artificially held up the price floor on the housing market. These factors are all set to change as money (and time) runs out. As economist Morgan Kelly points out, the impending mortgage crisis in Ireland may further strengthen politicization:

> If one family defaults on its mortgage, they are pariahs: if 200,000 default they are a powerful political constituency…The gathering mortgage crisis puts Ireland on the cusp of a social conflict on the scale of the Land War.

The struggle today is just as much about independence and democracy in Ireland as it was a century ago. Connolly urged his people to beware the trappings of political independence while ceding the economic control of the country. His warning is haunting the Irish people today. Sovereignty means very little without power to change course, to make a choice about what costs are *reasonable,* are *just* and are *justified*.

The strength of today's Irish opposition, in terms of its longevity and depth, remains to be seen, but the stage is set for yet another contest over the competing visions of what, and who, Ireland is for.