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Abstract and Keywords
From November 2010 until December 2013, Ireland was transformed from an EU member state into a programme country. International actors and agencies played a pivotal and contested role in the Irish experience of austerity as a result of the Great Recession. This chapter distinguishes between the interconnected dynamics of the two bailouts—the Irish bank bailout in September 2008 and the bailout of the sovereign in November 2010. The bank bailout was a unilateral decision of the Irish Government taken under duress in crisis conditions. There was no attempt to Europeanize the issue and it is impossible to assess whether such an attempt would have improved the quality of the decisions taken. International agencies, particularly the ECB, were pivotal in Ireland entering a programme and repaying unsecured senior bondholders. The ECB’s ‘hard power’ stemmed from the fragility of the Irish financial system and dependence on ELA funding.

Keywords: bailout, bondholders, ECB, financial system, international actors

Introduction
An assessment of the role of international bodies is essential when seeking to explore and analyse the Irish experience of austerity. It is important to define what ‘international’ represents in this context. Clearly the International Monetary Fund (IMF) is a classical international organization but the European Union (EU) cannot be classified as purely ‘international’. Ireland is a member of the EU and the Eurozone, and thus Ireland’s political, constitutional, and public policy system is part of a multilevel governance architecture that extends beyond Ireland but includes it. Irish ministers, civil servants, and central bankers are fully part of day-to-day policymaking in the EU, representing Ireland but also wearing a collective European hat. Irish ministers and officials were part of the Economic and Financial Affairs Council (ECOFIN) and Eurogroup in their capacity as representatives of Ireland. That said, from November 2010 until December 2013, Ireland was transformed from a member state into a programme country with all that this implied for domestic autonomy.

Three European institutions played a particularly important role in the Irish experience, ECOFIN and its subset, the Eurogroup, the European Commission (EC), and the European Central Bank (ECB). The EC and ECB together with the IMF formed the Troika, an institutional innovation that was developed to manage country programmes. The objective of this chapter is to analyse both the role of international and EU bodies during the course of the Irish crisis and Ireland’s response to Troika governance. The analysis is contained in four sections. First, the chapter addresses the significance for Ireland of how the crisis was framed by the EU. Second, the role of the Union and the ECB in the ‘bank bailout’ and its aftermath is explored, together with an exploration of the role of the EU and its institutions in the lead-up to the (p.178) bailout and the negotiations of the programme in November 2010. The role of the ECB was particularly important in the process that led the Irish Government to formally request official assistance in November 2010. Third, the role of the Troika in the governance of austerity between 2010 and 2013 is analysed. In the fourth section, ‘Ireland’s State Capacity: Managing Asymmetry’, the lens switches to an exploration of how Irish actors and institutions engaged with these international agencies.
The issues addressed in this chapter are highly contested and unlikely ever to be the subject of a consensus interpretation (Donovan and Murphy 2013; Ó Riain 2014; Thorhallsson and Kirby 2012; Whelan 2013a). There are different perspectives within Ireland, varying institutional views among the Troika and Ireland’s partners, and a range of political views generated by party competition. Among the many contested issues associated with this period, the two most controversial are the roles that President Trichet and US Treasury Secretary Timothy Geithner played in preventing haircuts on senior bondholders, and the position adopted by President Trichet in the lead-up to the November 2010 bailout.

The study of politics was, for a long time, divided into two subfields, domestic and comparative politics, on the one hand, and international relations, on the other—a distinction which continues to have significance today. From the 1970s onwards, however, scholars of complex interdependence began to address the permeability of borders and the divisibility of sovereignty (Gourevitch 1992; Keohane and Nye 1977). The study of European integration also focused attention on the links between the domestic and the external by characterizing the EU as a system of multilevel governance and by developing a literature on Europeanization. Windhoff-Héritier (2001: 3) defines Europeanization as ‘the process of influence deriving from European decisions and impacting member states’ policies and political and administrative structures’. This definition highlights the capacity of European decisions to have an effect on policy choice, on the development of political and administrative structures, and on the behaviour of policymakers; in particular, the concept ‘influence’ denotes the power of European decisions to shape the domestic sphere. A key argument in this chapter is that the Europeanization associated with bailouts and rescue differed from the impact of the EU in normal times for three reasons. First, the crisis gave rise to policymaking in a state of emergency. The pressure of the financial markets and the fragility of Europe’s financial systems had a major impact on the timing and nature of policy responses. Second, the crisis gave rise to a major cleavage between creditors and debtors, and the latter were in an extremely vulnerable position with weak negotiating capital. Each troubled country negotiated with the system on their own, not as a bloc. In fact, troubled countries were at pains to say that they were not the worst or the most
vulnerable; ‘we are not Greece’ was a constant refrain during the crisis. Third, as a consequence (p.179) of vulnerability there was a high level of ‘conditionality’ associated with the bailouts.

Day-to-day policymaking in the EU is non-hierarchical, and highly fragmented with multiple entry points. In contrast, policymaking in the Eurozone crisis, particularly in relation to the bailouts, was hierarchical and asymmetrical. For Ireland, becoming and being a programme country marked a shift from interdependence within the Union to dependence. Although Ireland became ‘semi-sovereign’ as a programme country, its political and institutional actors retained a margin of manoeuvrability, an ability to influence Troika governance. The crisis was a major test of Ireland’s state capacity, of the ability of its institutions to adapt to a politics of asymmetry and to navigate the challenges of a severe economic, financial, social, and political crisis. The management of asymmetry may well have demonstrated some of the inherent strengths of the Irish system of public policymaking.
The Eu Framing the Crisis

Political actors do not just respond to a crisis but, crucially, identify and define it though framing a crisis narrative and discourse (Hay 1996; Schmidt 2008). Framing through language is a crucial part of crisis management because ‘those who are able to define what the crisis is all about also hold the key to defining the appropriate strategies for resolution’ (d’Hart 1993: 41). Masking may also play an important role in crisis management as political actors seek to downplay the extent of the problems or keep aspects of the crisis off the public agenda (d’Hart 1993). The framing of a crisis is a crucial part of the politics of policymaking and has consequences for how problems are understood and addressed.

Initially, following the Lehman collapse, the crisis was interpreted as a problem of the Anglo-Saxon model of capitalism rather than one that might call into question the design and survival of the single currency. It was not until May 2010 that the Heads of Governments (HoGs) acknowledged that there was a ‘crisis’ when they issued a statement following the first Greek bailout on the 7 May. One month later, in a European Council conclusion, they referred again to the ‘worldwide financial crisis’ rather than acknowledging that the global crisis had assumed a distinctive Eurozone character. There was an initial period of denial as the Euro states and the ECB grappled with a rapidly evolving situation (Laffan 2014a). Throughout the crisis, the President of the ECB, M. Trichet, was adamant that this was not a crisis of the euro, rather, ‘There are important problems at present which are related to bad public finances, by way of consequence, to financial stability. But these (p.180) problems are the responsibility of the governments in question. Each government must keep its own house in order’ (ECB 2011a).

The meta-crisis narrative both from the ECB and the HoGs was that of a crisis of public finances or sovereign debt. Because the focus was on Greece from autumn 2009 onwards, sovereign debt was the core crisis narrative. The first storyline identified fiscal profligacy as the underlying cause of the crisis, attributed blame to the peripheral states, particularly Greece, and assigned primary responsibility to the Euro states themselves. In response to the systemic threat, responsibility was elevated to a shared one within the Eurozone. The narrative was characterized by a strong emphasis on core/
periphery and north/south divergence of economic and fiscal performance; Club Med profligacy in contrast to northern prudence. If the cause of the crisis was fiscal profligacy, then the cure was fiscal balance and consolidation. Responsibility for redemption was assigned to individual Euro states but they were to be encased in a set of institutions and rules that would sanction the transgressors.

The meta-narrative of the crisis, however, served to mask a significant dimension of the crisis. States with excessive sovereign debt did not borrow all of the money from their own citizens or banks. And for countries such as Spain and Ireland, the underlying problems were in the banking system not the sovereign signature. For every debtor there was a lender, and in the case of Greece, Ireland, Italy, Portugal, and Spain (GIIPS), the lenders included banks in the core. From the outset, the problem was an interlinked sovereign debt and banking crisis, a crisis of interdependence and financial integration. Banks owe primary responsibility to their shareholders not to taxpayers either of creditor or debtor states. Like all commercial organizations, banks did not want to face losses, and if those losses could be offloaded, they would protect their balance sheets. Governments in Europe had just come through a phase, following Lehman Brothers, of injecting capital into troubled banks. This was deeply unpopular with their citizens and they did not want to face another period of recapitalizing banks. Moreover, the core countries could shift some of the burden of maintaining the financial system and their banks to the taxpayers on the periphery. The problems in the European banking system were disguised in two rounds of limited stress tests (in summer 2010 and 2011). It took until the collapse and rescue of the state-owned Belgian bank Dexia in September 2011, which had passed a stress test in July 2011, for the acute problems in Europe’s financial system to be acknowledged. Furthermore, it took until the 29 June 2012 for the Euro Area Summit to acknowledge ‘the imperative to break the vicious circle between banks and sovereigns’ (EU 2012: 1). This statement signalled the launch of negotiations on a banking union. Eurozone did not have any instruments to deal with a financial crisis. It was every government and state for itself. (p.181)

From the Bank Bailout to Programme Country
The Bank Bailout: A Unilateral Move
The collapse of Northern Rock in 2007 and Bear Stearns in March 2008 were harbingers of what would follow in September 2008 following the collapse of Lehman Brothers, a seismic event that triggered a global financial crisis and a freezing of the inter-bank market in the Eurozone. The exogenous shock of Lehman Brothers ultimately exposed the vulnerability of Ireland’s financial system. Faced with a deteriorating situation and in an atmosphere of acute crisis, the Irish Government opted for a blanket guarantee of the liabilities of the Irish banking system on 30 September 2008 (Houses of the Oireachtas 2016). The decision to do so was predicated on the belief that the banks faced a liquidity squeeze not an underlying problem of solvency (Honohan 2010; Nyberg 2011; Regling and Watson 2010). The bailout decision was taken by a small group of senior politicians and their advisors, in an atmosphere of extreme urgency and panic, and later agreed by the Cabinet and ratified by the Oireachtas (lower and upper houses of the Irish Parliament). Concern about the Irish banks led ECB President Trichet to contact the Irish Finance Minister Brian Lenihan over the weekend of 27/28 September. The scope of the discussion between Trichet and Lenihan is not in the public domain but it is reasonable to conclude the ECB President stressed the dangers lurking in the global financial system and the importance of preventing another Lehman Brothers event. It is unlikely that they discussed the measures that the Irish Government might take to address the evolving stress in the financial system. During the evening and night of 29 September, the Irish authorities did not contact the ECB or the Euro Group to discuss the interventions that they were considering in relation to the Irish banking system. In other words, they did not consider nor attempt to ‘Europeanize’ the problem, to call on the resources of the EU and not just Irish exchequer and taxpayer.

It is highly likely that the advice by the ECB and Euro Group would have favoured protecting the financial system but perhaps not in the form that it took. The blanket guarantee was a domestic decision taken under duress. Given the ultimate cost of the guarantee, it would have been wiser to at least engage with Ireland’s partners and not embark on a ‘dangerous gamble’ in a unilateral manner. The ECB, in its official Q&A on the role of the ECB in relation to the Irish bank bailout, maintains that ‘guarantee was introduced by the Irish government without any coordination with European
partner’ (ECB 2010). Former ECB President Trichet reiterated this at his engagement with the Banking Enquiry on 30 April 2015 in the following terms: ‘it is also important that the guarantee was introduced by the Irish Government without any co-ordination with the ECB or with any other European partners, and I was the witness of that, or any other international partner’ (Houses of the Oireachtas 2016(2): 6).

The implications of the decision unfolded over the next years as the Irish state was faced with injecting unprecedented capital into the Irish banks. The Irish authorities were caught in a pincer movement between the increasing costs of the bank bailout and deteriorating public finances, notwithstanding severe cuts, because of the crisis in the real economy. The vicious cycle ended in Ireland becoming a programme country.

Becoming a Programme Country: ECB Pressure

If the blanket guarantee was a unilateral play by Ireland, the role of EU institutions was very significant in Ireland’s transition from a country in trouble to one requesting assistance. As the toxic link between the Irish sovereign and its banks deepened, the actions of EU institutions and European leaders had a major impact on Ireland’s freedom of manoeuvre. The cost of the banking collapse began to weigh ever more heavily on the Irish sovereign in the latter half of 2010, leading to a vicious cycle of rising borrowing costs and market pressure. From August onwards, the rating agencies began to downgrade Ireland, which in turn triggered an increase in spreads. By October 2010, the ECB was increasingly concerned about its exposure to the Irish banking system and decided formally to intervene in the form of a letter, dated 15 October 2010, from ECB President Trichet to the Irish Finance Minister, Brian Lenihan. The message that President Trichet intended to convey is emphasized by the use of italics in the original letter. Of clear concern was ‘the extraordinarily large provision of liquidity by the Eurosystem to Irish banks’, and the blunt message was that the support from the Eurosystem and the Irish Central Bank to banks such as Anglo Irish Bank should ‘not be taken for granted as a long-term solution’ (ECB 2010). Ireland’s position worsened following a bilateral meeting at Deauville between President Sarkozy and Chancellor Merkel on 18 October, when the two leaders discussed a transition from bailout to bail-in. This had a very unsettling impact on the financial markets because of
the discussion on private sector involvement. The Irish Finance Minister did not reply to the October letter but did send a letter to the ECB on the 4 November because of the widening spread between Irish Government bonds and the German bund.

ECB concern about its exposure to the Irish financial system did not abate. In a letter, dated 17 February 2015, to Matt Carthy MEP, Trichet’s successor Mario Draghi outlined the scale of ECB support to Ireland in the following terms:

In the case of Ireland, the level of liquidity provided by the Eurosystem in support of the Irish banking system had reached about Euro 140 billon (including ELA) or (p.183) around 85 per cent of Irish GDP, by November 2010. This represented about one-quarter of the ECB’s total lending at the time—an unprecedented level of exposure to any country, not least in the light of the fact that Ireland’s share in the capital of the ECB was about 1 per cent. (ECB 2015)

The decisive letter from Trichet came on 19 November, and included the following four stipulations: (a) that the Irish authorities would request financial support; (b) that they would commit to decisive action in relation to fiscal consolidation, structural reforms, and financial sector restructuring; (c) that the restructuring of the Irish financial system would draw on external funding and the reserves of the Irish state; and (d) that the Irish government would fully guarantee all Emergency Liquidity Assistance (ELA) issued by the Irish Central Bank (ECB 2010a).

Without agreement to these four stipulations in writing, the Governing Council of the ECB would not authorize further provision of ELA to Irish financial institutions. The ECB effectively powered Ireland into a programme because of the reliance of the Irish financial system on emergency funding. The Irish Finance Minister’s reply on 21 November stated that the Irish Government had taken the decision to seek external support from the EU and the IMF (Ireland 2010a). In autumn 2010, the two most controversial aspects of the Irish experience of austerity came together. First, was the question of Ireland entering a bailout programme. The actions of the ECB and the French and German political leaders made it impossible for Ireland to stay out of a programme. There is no
doubt that the Trichet letter of 19 November was decisive in the timing of the request for financial assistance; the government was left with no choice other than to request assistance. Governments resist having to ask for international support, fully understanding the consequences for their room for manoeuvre and the likely domestic political consequences. It is doubtful in any case that Ireland could have avoided a bailout given the toxic link between the banks and the sovereign in a Eurozone that lacked the policy instruments to deal with the depth of the crisis. The key objective of the ECB was financial stability and the avoidance of overexposure to the Irish banking system. Its primary concern for the stability of the European-wide financial system also influenced its policy preference concerning the imposition of losses on senior bondholders both in autumn 2010 and spring 2011. The ECB and EC were at odds with the IMF and the Irish Government on this central question. This led, in the words of the Irish Banking Inquiry, ‘to the inappropriate placing of significant banking debts on the Irish citizen’ (Houses of the Oireachtas 2016(1): 17). The sense of injustice and moral outrage that flowed from these negotiations has left a lasting legacy in Ireland. The absence of burden-sharing on banking debt made it more difficult for the Irish public to accept the level of cutbacks in public expenditure, tax increases, and the reduction of services that were part of the experience of austerity. The legacy is seen in opposition to water charges, the rise of independents who are not attached to a party, and the fragmentation of political representation.

The Troika
Act One in the life of a programme country is the negotiations of the terms of the bailout—the Memorandum of Understanding (MoU) that provides the legal framework for the deal. Official assistance comes with a high level of conditionality attached and the demandeur is in a vulnerable and dependent position. One of the key programme documents was entitled Ireland Memorandum of Understanding on Specific Economic Policy Conditionality (Ireland 2010b). The creditors hold the stronger cards in these negotiations, which in the Irish case ended on 28 November when agreement at a technical level was agreed on a Programme for Financial Assistance (Ireland 2010c). The EC and IMF issued a statement on the 28 November in support of the Irish programme in the following terms: ‘We strongly support the
economic programme announced today by Ireland. It is a forceful response to vulnerabilities in the banking system imposing a heavy cost on the budget and, in turn, hurting the prospects for growth that Ireland needs for an enduring solution to the crisis’ (EU 2010). The technical agreement had to be translated into MoUs and decisions by the EC, the Council, and the IMF on financial support. Three documents formed the core of the programme: (a) the Memorandum of Economic and Financial Policies (7 December 2010); (b) Memorandum of Understanding on Specific Economic Policy Conditionality (3 December 2010); and (c) Technical Memorandum of Understanding (7 December 2010). These documents set out the financial envelope of the programme, its policy goals, specific policy actions, and the processes associated with being in a programme. The substantive content encompassed three areas, the downsizing and reorganization of the banking system, a programme of fiscal consolidation, and structural reform designed to renew growth.

Becoming a programme country comes with a world of programme monitoring, surveillance, and precise timetables: performance criteria, indicative targets, and structural benchmarks. In the initial MoU, the performance criteria, targets, and structural benchmarks were very specific for 2010–11. Monitoring and the disbursement of financial assistance were subject to quarterly programme reviews by the Troika. The MoU on Policy Conditionality stated that the ‘Release of instalments will be based on observance of quantitative performance criteria’, and that ‘If targets are (expected to be) missed, additional action will be taken’ (Ireland 2010b: 16). The Troika became a central part of Irish governance and public policymaking, with a specific mandate to ensure compliance and certify that Ireland was fulfilling the terms of the agreement. Fifteen pages of the MoU on Policy Conditionality specified the actions that had to be achieved by each review from the beginning of the programme to the end. Irish governance entered a period in which choice was heavily circumscribed by the programme and its requirements. The speed of the negotiations was attributable to the fact that the government had developed a domestic four-year economic plan to run from 2011 to 2014, the National Recovery Plan (NRP), which already contained targets for budgetary adjustments, including a large front-
Loaded adjustment of 6 billion in 2011, and structural economic reforms (Ireland 2010d). Ireland’s fiscal consolidation was not imposed from the outside but was central to the government’s strategy from 2008 onwards; by autumn 2010, fiscal adjustment of approximately 15 billion had already been implemented and a further 15 billion was foreseen in the NRP. Given the importance of framing in any public policy process, the NRP shaped the negotiations with the Troika by providing them with an already articulated strategy of fiscal consolidation and some areas of structural reform. Thus, although Ireland became semi-sovereign it had some capacity to influence the terms of engagement. This also added to the ‘ownership’ of the programme by the Irish public policy system.

Act Two unfolded as the government that negotiated the programme collapsed and an election was called for February 2011. It would have been impossible for the government, particularly a two-party coalition, to have survived accepting a bailout, particularly a government that had agreed the bank guarantee in the first place. The chaotic handling of the communication with the Irish public about the bailout severely undermined already weak public confidence in the government. The election was an earthquake election for the incumbent parties, particularly for the strongest party in Irish electoral competition since the 1930s, Fianna Fáil, whose vote fell 41.6 per cent in 2007 to 17.4 per cent, a drop of just over 24 points (Little 2011; Marsh and Mikhaylov 2012). Inevitably, because of the link between the bailout and the collapse of the government, the election was dominated by the economy. Outright opposition to the bailout and its conditions was found to the left of the political spectrum, the United Left Alliance and Sinn Fein who promised to ‘burn the bondholders’ and repudiate the EU/IMF package (Hutcheson 2011: 9–10). The two main opposition parties, Fine Gael and Labour, emerged as the available coalition, and had to take over the unpalatable role of governing with the Troika and through the crisis.

Their Programme for Government (2011–16) was billed as a Programme of National Recovery (PNR). The Labour Party depicted itself during the campaign as the party most likely to be in a position to renegotiate the bailout package, underlined by a quip from the then leader Eamon Gilmore that it would be ‘Frankfurt’s Way or Labour’s Way’, a quip that followed him throughout his time in government (Hutcheson 2011). Fine
Gael used its membership of the European People’s Party (EPP) (particularly a photo opportunity with Chancellor Merkel), to depict its candidate for Taoiseach, Enda Kenny, as a statesmen capable of influencing events in Ireland’s favour. At a press conference on 3 February 2011, ECB President Trichet was asked about the Irish election and the fact that some of the opposition parties had suggested that they might be able to renegotiate the package. President Trichet’s reply was circumspect but telling:

> Let me only say that Ireland has a medium-term plan approved by the international community, namely the IMF, and by the European Union, with the positive judgement of the Commission in liaison with the ECB. The implementation of the plan is absolutely essential, in the opinion of the ECB, for the credibility of the country. (ECB 2011b)

This did not suggest that there would be much leeway for a new government. However, the government’s overwhelming majority and electoral mandate gave it the legitimacy to seek changes and improvements in programme conditions.

In the PNR, the new government agreed to maintain the objectives of the EU/IMF programme but said that they had secured a strong mandate from the Irish electorate ‘to renegotiate a more credible package that is better for both Ireland and Europe’ (Ireland 2011). Governments and parliaments sign up to legally binding MoUs in order to access programme funding, and the question is: How bound are subsequent governments by these commitments? A new government may be squeezed between its responsibility to its creditors and its desire, given its electoral mandate, to be responsive to its electorate (Laffan 2014b). In addition, the asymmetric relationship between a programme country and its creditors imposes limits on what might be achieved. The strategy of the Fine Gael–Labour Government was to treat its relationship with the Troika as a series of iterative negotiations during which concessions would be extracted. The dominant negotiating style was to focus on repairing Ireland’s reputation and to buttress key bilateral and institutional relationships using official and political channels as appropriate. Below-the-radar diplomacy was preferred to public diplomacy and overt politicization. This was in line with
a deeply rooted political and administrative culture of pragmatism.

The Fine Gael–Labour Government came to power in the heat of a deep economic, political, and social crisis. It had to manage the interface between policymaking within Ireland and the relationship with the Troika and Ireland’s partners. The government achieved a number of changes in the rescue package during the first year following their election. These were: a reversal in the cut in the minimum wage, a negotiated reduction in the interest rates (which were punitive) associated with the financial support package, and agreement from the Troika that the proceeds from the sale of state assets (p.187) could be invested in job creation (Ireland 2012: 9–10). The strategy of the government was to hit the target numbers required by the programme and to introduce changes through a form of ‘fiscal equivalence’. The focus of negotiations with the Troika during the second year of the programme concerned changes related to the promissory notes.

Promissory notes were one of the most contentious issues associated with the Irish banking crisis. During 2012, the Irish authorities, particularly Finance Minister Noonan and Central Bank Governor Honohan, engaged in a prolonged negotiation to alter the terms of the so-called promissory notes which were issued to the Irish Bank Resolution Corporation (IBRC), the amalgam of the insolvent Anglo Irish and Irish Nationwide Building Society (INBS). The promissory notes represented an IOU for over 30 billion euros, which involved the state agreeing to pay IBRC 3.06 billion each year to 2023 and smaller amounts after that. IBRC used the promissory note as collateral for Central Bank of Ireland ELA, which must have the agreement of the ECB. The core objective of the ECB was to prevent ‘monetary financing’, the printing of money by governments. The promissory notes represented a very heavy annual charge on an already indebted sovereign. Finding a means to alter the terms of the promissory notes was challenging because of ECB sensitivity on monetary financing, illegal under the Treaty of Maastricht. Following tortuous negotiations, the Irish Government and the ECB agreed to replace the promissory notes with long-term government bonds with maturities of between twenty-six to forty years in February 2013 (Whelan 2013b). The agreement had a significant impact on Ireland’s short-term borrowing needs at
a time of acute fiscal pressure; instead of a payment of over 3 billion, the government had to borrow less than 1 billion per year. As part of the agreement, the Central Bank had to agree to sell off the bonds over a prescribed time frame. The promissory note deal represents the most significant agreement with the creditors that the Irish authorities secured during the life of the programme.

Ireland’s State Capacity: Managing Asymmetry
The Eurozone crisis created a high level of tension among the member states and European institutions because the crisis had very different impacts across Europe and there were very significant and diverse material interests at stake. The issue of ‘who pays’ was at the core of the conflict: Who was to pay for the losses arising from a bubble—public or private sectors? And if public which taxpayers? A related issue was which countries and social groups were to pay (p.188) for the cost of adjustment, given the scale of the Great Recession, and whose money was to be risked to maintain the euro. Given the fragility of the global financial system and the likely consequences of an implosion of the single currency, political actors both in government and at EU level were in ‘rescue’ and ‘muddling-through’ mode. A politics of fear—unknown unknowns—kept the euro alive notwithstanding the severity of the crisis. From an Irish perspective, the ‘who pays’ question was and remains deeply contested, particularly in relation to the cost of bailing out the Irish financial system. The Irish taxpayer injected 64 billion euros into its banks, a sum that was ten times that of Sweden when it bailed out its banks in the early 1990s (Frisell 2015). Although the final cost of the bank guarantee will not be known for some time, it will represent a major cost to Irish taxpayers. According to Frisell, ‘the bailout decision will still go down in Irish history as a very costly mistake’ (Frisell 2015). This mistake was made by an Irish Government, albeit within an environment of acute fear that the failure of any bank might trigger serious instability in the wider financial system. The decision was, however, essentially a unilateral one. Thereafter, when the full consequences of the guarantee unfolded, it proved impossible for the Irish authorities to unravel the guarantee and to reduce the cost of the bailout to the Irish tax payers. The debate in Irish public discourse was one of ‘burning’ or ‘not burning the bondholders’. At issue was the treatment of senior bondholders once the initial two-year period of the guarantee
ended. The ECB was strongly of the view, and its views carried considerable weight, that bailing-in the senior bondholders was an ‘extremely risky’ option for Ireland (Trichet 2015). Uncertainty about the rules and high volatility in the financial markets formed part of ECB’s justification for this stance. Successive Irish Governments considered bailing in senior unsecured bondholders in autumn 2010 and again in spring 2011 but did not do so given pressure from Ireland’s creditors, the USA and ECB.² The Fine Gael-Labour Government weighted the trade-off following their election and opted for caution. Minister Noonan in the Dáil in November 2011 outlined the views of the European institutions, particularly the ECB:

After my meeting with the President of the ECB, Mr. Trichet, and the Commissioner for Economic and Monetary Affairs, Mr. Rehn, last month, our European partners expressed strong reservations about burden sharing with senior bondholders in IBRC. Mr. Trichet voiced his opinion that he is against such actions for two reasons. First, private sector involvement carries very significant contagion risk and may be inconsistent with encouraging private investors to return to markets. Second, he said Ireland had done particularly well over the summer. He (p.189) mentioned the narrowing of bond spreads and indicated his view that anything to do with senior debt burden sharing might knock the confidence of the market in the absolute commitment of the Government to take, once again, its place in normally functioning markets. The result of that might be a further widening of bond yields and a loss of the ground we have gained. (Houses of the Oireachtas 2011)

Ajai Chopra, the former head of the IMF mission to Ireland, argued afterwards that unsecured bondholders in the two failed financial institutions, Anglo Irish and INBS, should not have been paid (Breaking News.ie 2013). For a country experiencing significant fiscal retrenchment and a costly bank bailout, not bailing in senior unsecured bondholders was deeply unpopular at the domestic level and ‘difficult to understand’ according to a non-Irish advisor to the Irish Governor of the Central Bank (Frisell 2015).
The acute phase of the Irish crisis lasted from 2008 to December 2013, when Ireland formally exited the rescue and ceased to be a programme country. During this period, Ireland’s political, institutional, and public policy capacity was severely tested. Successive Irish Governments had to navigate between the domestic, the European, and the international. The Fianna Fáil–Green Government was in crisis mode from autumn 2008 onwards as the full effects of the bank guarantee became apparent. The government that assumed power in spring 2011 governed in the toughest times, but had the advantage of not being responsible for the bank guarantee nor having asked for financial assistance. The new Irish Government, state agencies, and diplomatic service were transformed into a task force to prosecute the MoU and take Ireland out of acute crisis. A key part of the strategy was repairing the reputational damage that Ireland experienced as a result of the collapse of its economy (NESC 2009). This involved changes in personnel, multiple multilateral and bilateral meetings with counterparts in other member states and beyond, a well-run EU presidency in 2013, and leveraging the Irish diaspora. There was a rapid change in senior personnel at the head of the Irish Central Bank, the Financial Regulator, and the Finance Ministry. Within the Irish core executive, the Finance Ministry was divided into a Finance Department and a Department of Public Expenditure and Reform, and problems in the Finance Ministry that had contributed to poor fiscal and financial oversight were brought sharply into focus (Wright 2010). The second part of the strategy was to hit the headline goals of the programme but seek to alleviate Ireland’s debt burden by continuously working with the external actors. The Department of Finance was the lead ministry in managing relations with the Troika; an External Programme Compliance Unit (EPCU) was established to coordinate formal relations with the institutions. Within the Taoiseach’s department, an Economic Management Council (EMC), a Cabinet subcommittee was established. The nerve centre of the crisis response, particularly under the Fine Gael–Labour Coalition, was the EMC, which was the key institutional device to manage (p.190) relations with the Troika, deliver the MoU, and manage the coalition. Having failed to identify and prevent the bubble in the first place, Irish Central Government proved adept at managing the demands of the MoU and delivering on the terms of the bailout. The
periodic reviews on the Irish programme by the Troika were replete with references to strong implementation and a high level of domestic ownership.

Conclusions
International actors and agencies played a pivotal and contested role in the Irish experience of austerity as a result of the Great Recession. In analysing their role, it is important to distinguish between the interconnected dynamics of the two bailouts—the bank bailout in September 2008 and the bailout of the sovereign in November 2010. International agencies, particularly the ECB, were pivotal to Ireland entering a programme and repaying unsecured senior bondholders. The ECB’s ‘hard power’ stemmed from the fragility of the Irish financial system and dependence on Emergency Liquidity Support (ELS) funding. The bank bailout was a unilateral decision of the Irish Government taken under duress in crisis conditions. As the depth of the problems in the Irish banking sector became apparent following the bank bailout, the Irish banking system became more and more reliant on emergency liquidity from the European System of Central Banks, and thus the ECB became the most powerful player in autumn 2010 and effectively insisted that the Irish sovereign apply for a programme. The Trichet letters demanded that Ireland enter a programme. Ireland’s acute economic vulnerability and the reliance on ELA funding gave the Irish Government no choice. Pressure on Ireland did not just come from the EU but also the markets, which had shut down as a source of funding. The ECB was also very instrumental in Ireland’s dealings with unsecured bondholders; it was the strong preference of the ECB, clearly understood by Brian Lenihan and Michael Noonan, that the ECB was against non-payment of senior bondholders because of a fear of the implications for financial stability. This has left a toxic legacy, given the cost to Irish society of the bank bailout and the societal consequences of austerity. The political costs are still being felt in the body polity.

References

Bibliography references:


Frisell L. 2015. ‘Address by Advisor to the Governor, Lars Frisell, to the Financial Safety Net Conference in Stockholm,


Notes:

(1) The role of elections in programme countries is, to date, under-researched.

(2) Michael Noonan, the Finance Minister, said in a reply to a question on whether or not the ECB prevented Ireland from burning bondholders: ‘Jean [Claude] Trichet is a very subtle, refined, cultivated Frenchman and he would never make a
threat like that—but he would not allow me to burn the senior bondholders’ (Smyth 2013).