Now Ireland and Portugal, too

Renaud Lambert

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The Irish and Portuguese governments have put their citizens through varying degrees of austerity, and like Greece, have ended in deeper debt. But there seems to be no likelihood of a Syriza-like movement coming to power in either.

The new Greek prime minister, Alexis Tsipras, and his EU negotiating partners can agree on one thing: Greece is a precariously balanced domino. Until recently, Brussels had visions of financial disaster if that domino fell. Since Tsipras's electoral victory in January, a different disaster is worrying them — the idea that austerity doesn't work might spread. That is what Greece is hoping.

Which would be the next domino? Attention has focused on the "PIGS" countries, the financial markets' acronym for southern Europe's troubled economies: the Spain of Podemos, but also Ireland and Portugal, countries on Europe's periphery which, like Greece, have gone through "rescue" plans that imposed adjustment programmes. In both, legislative elections are scheduled to take place within the next year.

The right, currently in power in both, claims neither country would benefit from a softening of Brussels's stance. "We're not Greece," said Irish finance minister Michael Noonan. "Put that on a T-shirt". In 2014 Ireland recorded the highest growth rate in the EU (4.8%) and Portugal is, according to European Central Bank (ECB) president Mario Draghi, ready to "reap the benefits of the policies implemented in recent years". Ireland and Portugal like to be compared to school students: "The Greeks could learn some lessons from Ireland," Irish prime minister Enda Kenny has said. "We are the best boys and girls in the class, after all". According to Christine Lagarde, managing director of the IMF, Portugal can also claim that honour: the Spanish daily *El País* reported in February that at a meeting of EU finance minsters she had contrasted "good student" Portugal with the Greek "dunce".

Portugal's prime minister, Pedro Passos Coelho, maintains his country has shown that "the conventional response to the crisis is working". But economist Ricardo Paes Mamede disagrees: "In just a few years, our country has taken a great leap backwards. Wealth creation has shrunk to the level of a decade ago; employment to that of 20 years ago. As a result, emigration levels match those of 40 years ago, at the time of the Salazarist dictatorship [1933-74]."

A sign of austerity

This return to the past is visible in the Lisbon underground. Locals wait at one end of the platform, leaving the other to tourists. When the train arrives, the reason becomes clear: the train is only half the length of the platform. "It's meant to save electricity," Paes Mamede said. "That's austerity for you."

He said the crisis has been especially harsh in Portugal, as unlike Greece and Ireland it had been in crisis since the start of the century; the euro crisis turned a long, slow slide into a sudden plunge.

According to the European Commission, the cuts Portugal made in its social programmes between 2011 and 2013 were the most severe in the EU. The country has also drastically slashed labour costs: between 2006 and 2012, according to the political scientist André Freire, "the number of workers on the minimum wage went from 133,000 to 400,000, out of an active population of 5 million." Almost 30% are unemployed. The government intends to pursue this assault on labour to the delight of the business newspaper *Jornal de Negócios,*which recently expressed pleasure at Portugal achieving "the biggest fall in labour costs in the European Union" in the third quarter of 2014.

“And yet, as in Greece, the debt keeps growing,” Paes Mamede said. It jumped from 96.2% of GDP in 2010 to 128.9% in 2014. This burden drains 4.5% of all wealth created every year just to service the interest, which is greater than in Greece where, thanks to the aid package, interest rates are lower. A recent IMF study concluded that Portugal will not be able to meet its treaty obligations, which require a return to a deficit of 3% of GDP and level of debt below 60% of GDP. Paes Mamede concludes: “Contrary to what the government claims, the medicine isn’t working.”

This could have led Portugal to follow the Greek path and try to renegotiate its treaty obligations or request debt restructuring. But Passos Coelho wants to push onward: “The reform of the public accounts and the economy constitute a new way of life which we must adopt permanently”.

Ireland belongs to the US economy

According to Tom McDonnell, an economist at Ireland’s Nevin Economic Research Institute, the recent Irish rebound, celebrated in the international press, may be “significantly overstated”: “It’s true that things have started to improve, but that’s mainly because the fall was so severe. Even a dead cat bounces if you drop it from high enough up.” As GDP shrank by 12% between 2008 and 2010, “the country lost one job in seven. And the ones which have been created are in general badly paid, part-time and concentrated in the capital.”

Nevertheless, Ireland’s 2014 growth rate caused jealousy in France, Portugal and Greece. Didn’t it vindicate the idea that the “commitment to fiscal reform” pays off, as *Newsweek* suggested? Not really, said Paes Mamede: “The difference between Portugal, Greece and Ireland is that the first two are part of the European economy, whereas Ireland belongs to the US economy.”

When EU customs barriers came down in 1986, US companies sought to take advantage of European benefits. Ireland made that possible. It also provided an educated, English-speaking workforce and an attractive tax regime. From his Dublin office, McDonnell told me: “On the one hand, Ireland’s economy resembles Portugal’s, which isn’t showing improved results. On the other, it’s an economy parachuted in from the US, characterised by high value-added jobs.” While the EU economy is stagnating, the US achieved growth of 2.4% in 2014 and pulled Ireland along with it.

Austerity may have had little impact on Ireland’s American enclave, but it has profoundly affected the rest of society. Last October, the president of the Irish Hospital Consultants Association, Dr Gerard Crotty, condemned “crude frontline [health] budget cuts”, which he believes have caused patients to “die unnecessarily” while waiting for a hospital bed. The extension of “zero-hour contracts”, which in Ireland oblige workers to be at their employer’s disposal 24/7 for a guaranteed minimum of only 15 paid hours a week, and the increase in part-time employment have pushed one worker in six below the poverty threshold. Though the return of the Celtic tiger may be mentioned in some affluent parts of Dublin, no one can hear its roar in the rest of the country.

Irish debt, unlike its Greek and Portuguese counterparts, is decreasing, due mainly to the growth rate. Ireland registered the best debt result in the EU in 2013/14: a fall of 9.4% to 114.8% of GDP. “But Ireland’s GDP figures are misleading,” said McDonnell. “The effect of the multinationals and their repatriated profits is so great that the GDP figure exaggerates the real level of wealth creation.”

‘Save the banks at all costs’

The alleged sustainability of Irish debt is explained by legerdemain to which the ECB has not formally objected. As Ireland was unable to raise the capital on the markets to rescue its ailing banks, it decided to issue debt obligations in 2010 to enable institutions in difficulty to refinance themselves through the Irish Central Bank — at a cost of €31bn, or 19% of GDP. “In fact, it was a debt monetisation operation,” said McDonnell. “The Central Bank simply magicked up €31bn on a computer screen.” Such an operation is outlawed in the eurozone.

“The ECB definitely wasn’t delighted,” admitted Dominic Hannigan, an MP in the Irish Labour Party MP (centre-left), which governs the country in a coalition with Fine Gael (right). “But at the time we’d decided to underwrite the debts of our banks under pressure from Brussels." In January 2010 former ECB director Jean-Claude Trichet had called the Irish finance minister to ask him to "save the banks at all costs". "In a way," Hannigan said, Ireland agreed to sacrifice itself for Europe. "We took one for the team. That deserves a bit of a hand." But Greece doesn't seem to deserve a hand in 2015.

The ECB expects Ireland to regularise its situation, but Ireland wants to delay that for as long as possible, so why not join Greece in demanding greater flexibility from the EU and Germany? Fine Gael MP Seán Kyne attributes the reluctance to do this to the "fear that another country will get preferential treatment when the Irish have already swallowed a severe dose of austerity." Better to take the risk that your own situation will get worse than see Greece demonstrate the pointlessness of austerity and the Greek domino bring down Ireland too.

The anti-austerity left takes a different view. In Ireland the party closest to Syriza is Sinn Féin, the former political wing of the Irish Republican Army (IRA). "Tsipras's victory was positive for us," said Mairéad Farrell, Sinn Féin representative for Galway. "It showed that parties who oppose austerity can win power in Europe."

Like Greece, Ireland's political landscape has fragmented since the start of the euro crisis. "Between 1932 and 2002, two rightwing parties, Fine Gael and Fianna Fáil, got around 75% of the vote in elections," said sociologist Kieran Allen. "The Labour Party got about 10%. So for over 70 years, Ireland functioned with two and a half parties. Those days appear to be over." The main beneficiary, Sinn Féin, has become one of the most popular parties; it had a breakthrough in 2011's legislative elections (going from 4 seats to 14 in a parliament of 166). Then last March, for the first time in its history, its poll rating put it around 25%, unimaginable before the crisis.

Austerity, but not a double dose

Though Portugal is closer to Greece than Ireland demographically, it has its own distinct political character. There has been no comparable weakening of the two main parties: for now, the radical left does not seem to be in a position to win power. The example of Podemos in Spain has led to initiatives imitating its success — even though that sometimes means forgetting the main ingredient, the 15 May social movement, which has no equivalent in Portugal. Everyone is calling for unity, and creating their own organisations. Alongside the Portuguese Communist Party (PCP, founded in 1923) and Bloco de Esquerda (Left Bloc, founded in 1999 and Syriza's traditional ally), the Portuguese left now also includes Tempo de Avançar (set up in 2014), Agir and Juntos Podemos (both created this year). There is no shortage of Tsipras wannabes, but none of them is a real threat to Brussels.

That is because a second phenomenon in Portugal strengthens the connection between the traditional parties: the peculiar determination of the right to go "further than the objectives demanded by the troika", as Passos Coelho announced after his victory in the 2011 legislative election. And, like its French counterpart, Portugal's Socialist Party (PS) has gone further than others towards economic deregulation and privatisation; the Socialist leader, José Sócrates, now in prison for corruption, signed the agreement with the troika implemented by his successor. However, former Socialist minister José Vieira da Silva is not entirely wrong when he charges his leftwing critics with being unfair: the PS would not follow the same policy as Passos Coelho (who has nothing social democratic about him). According to Vieira da Silva the Socialists' programme is "austerity, yes, but not a double dose." This ambition has little mobilising force but seems enough to engender the hope of a break with the past among a good number of voters, while enabling the PS to suggest that it is neither the Greek Socialist Party (Pasok), which is collapsing, nor Syriza, which has too extremist a programme.

For the left wing of Portugal's Socialist Party, the Greek example allows it to keep a hope alive: "another" party coming to power with "another" policy. The EU and Germany have made things more complicated: despite Tsipras having come to power, there is no sign that Chancellor Angela Merkel will allow him to implement the policies that got him elected.

"That's the key question in the current negotiations between Greece and Germany. And I admit I'm worried," said Octávio Teixeira, of the PCP, which may win 10% in the elections. "If Tsipras imposes his point of view, clearly that will be positive for anti-austerity forces. But if he gives in or makes too many concessions, then Europe will have shown that no other policy is possible. That would be catastrophic for us."

A discreet friendship

Unless Greece's determination leads to its expulsion from the eurozone, which is something Sinn Féin fears. "If Greece left the euro," said party strategist Eoin Ó Broin, "the right would rub its hands — 'See what will happen if you vote Sinn Féin'." Until this March, Gerry Adams, the historic leader of Sinn Féin, didn't miss an opportunity to mention the fraternal relations between his party and Syriza, but Ó Broin concedes that "for some time, we have been more discreet about that closeness."

Besides its pivotal role between the US and European markets, Ireland takes advantage of what economist Tom McDonnell calls its "particularly odious" tax laws. With corporation tax at 12.5% (compared to an EU average of 25.9%) and a profusion of breaks that favour tax avoidance, Ireland now outstrips Bermuda in the world tax haven stakes. "We are driving the getaway car and siphoning off revenues that ought to go into other states' coffers," said McDonnell. But the euro benefits Ireland for the moment, or at least Ireland's best off.

"Sinn Féin opposed Ireland joining the euro," said Ó Broin. "But leaving it now would come at disproportionate cost. We are under no illusions about the political project of the eurozone, but we want to try to change it from within." In this area, the party — which claims affinities with the Scandinavian social democrat tradition — is being cautious. "The budget treaties are absolutely crazy: from an economic point of view, they don't stand up," said Ó Broin. Should they be renegotiated? "We are in favour of a complete revision of the texts, but Ireland is one of the most peripheral countries in the EU. In the eyes of the Commission, we don't count. Our plan is to act as reliable ally to countries in the centre — such as France — which could try to get more flexibility." That will take patience.

Meanwhile, Sinn Féin proposes to find room for manoeuvre within the framework of the treaties, without changing Ireland's tax system. Its plan for the next elections? "A programme that doesn't affect the economic security of those who have it, but which can create jobs," said Ó Broin; a plan that is "socially fair, economically credible and fiscally responsible," which does not rule out the possibility of forming a coalition with a party of the right, as long as Sinn Féin is the majority partner. "Some will say that we are too cautious. That may be true. But the problem for the left is that it needs to win elections."

For Goldman Sachs, it's already gone too far: "The rise of Sinn Féin represents the main threat to growth". The Irish left — which has been goading the nationalists in the battle against water charges — has trouble understanding the bankers' worries. Sinn Féin has implemented austerity measures in Northern Ireland, where it has shared power with the Unionists since the Good Friday agreement of 1998. Ó Broin counters: "In the North, the government is not sovereign: it's London which imposes most of those measures, and we work to delay or alter them." An oversight situation like the one that debt and the EU treaties have created for most eurozone members. But Ó Broin brushes that argument aside: "We have experience of lengthy negotiations, like the ones which re-established peace in Northern Ireland. We know it takes time."

No greater support for Tsipras

So Ireland's most Syriza-like party avoids fighting talk. There is no sign that Tsipras can expect any greater support from Portugal, where the PS seems well placed to win the next election. Its strong position has even convinced the leaders of some new anti-austerity movements to contemplate allying with it.

"To what end?" asked Francisco Louçã, former coordinator of Left Bloc. "Negotiating with Brussels while counting on support from France?" (In the Portuguese press, "hollandisation" — after President François Hollande — is now a synonym for capitulation.) "That would be madness. That's what the Greek experience shows. We now know that the eurozone will not tolerate a leftwing government. How can we think that the political equivalent of a moderate Pasok in Portugal will succeed where

Syriza has failed? The idea of changing the PS so that it can change Europe is a strategy of despair. The only way — and this is what Syriza and Podemos have shown — is a break with social democracy: Pasok, the PSOE [Spanish Socialist Party] and Portugal's PS." When Louçã led Left Bloc he sometimes strongly opposed this idea, but came round to it, stating that there was "no other solution".

"The euro has turned out to be a very useful tool for destroying the welfare state in Europe," said Paes Mamede. "When the economy shrinks, governments have only one policy they can adopt: internal devaluation through wage cuts. When growth picks up, nothing forces them to raise wages again." Such a plan "condemns the region to permanent deflation, which is not viable economically, politically or socially."

The situation of Left Bloc illustrates the impasse of the anti-austerity forces after Tsipras's victory. Since the EU and Germany refuse to negotiate, denunciation of European policies, bipartisanship and corruption is not enough. We now need to know how far this battle will go and whether engaging in combat would mean preparing for a possible euro exit. That prospect is sensitive in Portugal, where Europe represents a return to democracy after the long Salazarist dictatorship, and a way of joining the "first world".

Whether as strategy or out of internationalist conviction, Left Bloc has never abandoned the idea of a "good euro". Caught between a PCP that now more clearly favours a euro exit and a PS that seems to believe in an EU change of direction under the new Commission president, Jean-Claude Juncker, it is forced to defend a real showdown with Brussels, while acknowledging that Syriza has already taken the edge off its own demands. Few predict it will do well in the elections.

Brussels is working to change Portugal's relationship with the EU: "The labour market reforms of recent years condemn Portugal to be what it has always been, and what it has tried to cease to be: a supplier of cheap labour," said the Socialist MP Inês de Medeiros. "Europe is pushing Portugal to resume its place as an underdog nation. I still believe in Europe... But it's getting harder. We can't keep saying to people: 'Your future is to have no future.' "

Europe is perhaps less like a set of dominos and more like one of those games in which each player tries to remove his stick without bringing the whole structure down.

Who's who

Main parliamentary parties

Ireland

Fine Gael (right)

Fianna Fáil (right)

Labour (centre-left)

Sinn Féin (left)

Socialist Party (left)

Portugal

CDS — People's Party (right)

Social Democratic Party (right)

Socialist Party (centre-left)

Greens (centre-left)

Left Bloc (left)

Communist Party (left)