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Ireland is no model of austerity [1]

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Many supporters of budget cuts in Britain and elsewhere have looked to the Republic of Ireland as a model of how a country deep in recession has made significant cuts to its budget. Although some have held Ireland up as a model for the rest of the world, I think this is a serious misreading of the Republic?s policies and it risks mistakenly discrediting the austerity approach. In fact, Ireland has been highly ambivalent in its budget cuts and is facing economic turmoil because of its bailouts in the banking sector.

Although the Irish government has made admirable cuts to current and capital expenditures, it has played Russian roulette with the financial sector, temporarily guaranteeing [3] the values of all deposits in case of bank failures. The Irish government has nationalized Anglo Irish Bank, which was heavily involved in the property sector and, as nearly all economists agree, is not systemically integral to the Irish economy. According to Standard & Poors [4], the cost to the Irish taxpayer of this nationalization may be up to €25 billion ? over €6,650 for every person in Ireland. Worse still, the government has committed to a massive junk bond purchase scheme under the 'bad bank' called the National Asset Management Agency (NAMA), which will buy toxic assets from Irish banks in order to preserve the current banking system. This scheme is estimated [5] to cost up to €80 billion, or over €16,650 per person. The total cost of the Anglo Irish and NAMA schemes will be at least €105 billion ? just under €22,000 per person. Both schemes are utterly misguided, driven by the belief that banks cannot be allowed to fail. In fact, it is this very failure that allows free market capitalism to work.

Ireland is a member of the eurozone, and as a result it has neither the advantages of a fiat currency that it can adjust to its own situation nor the stability that comes from a commodity-backed currency. (This is not to mention the role of the euro in creating Ireland's current situation, but that's a story for another day.) As a result of this monetary paralysis, Ireland is forced to rely on borrowing to fund its massive deficit, which is estimated [6] to exceed 20 percent of Irish GDP this year, and which is in large part caused by the government?s commitment to preventing any instability in the entire financial sector. Yesterday, the yield from Ireland?s government debt overtook [7] that of Iceland?s ? meaning that international bond markets see Ireland?s position as being more perilous than that of Iceland. Some commentators are even predicting a sovereign default by the Irish government, though even this may be preferable to the current situation.

Ireland is notable to the world as a warning of the dangers of financial bailouts and the sacrifice of

monetary sovereignty. But it is not implementing austerity, and it is no model for Britain.

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