

The New Economy

Election no quick cure for Ireland's ills: more debt, fewer jobs

Ireland's new leaders have few options in reversing the downward spiral of debt and joblessness.



By Tom Winnifrith, Contributor / February 28, 2011

When I was young, my father and I talked longingly about one day returning to Ireland. But that was the 1970s, when it was poor and the young folk always had to emigrate to find work.

In the 1980s, Ireland became known as the Celtic Tiger. Everyone felt rich. House prices rocketed. Irishmen began borrowing to boost their exposure to property and other assets. Suddenly they were buying up tracts of London and Spain as well as hundreds of thousands of (ugly) new houses across Ireland. No one wanted to live in them. But if you could borrow money and then sell at a 100 percent profit, who cared?

Compounding Ireland's woes was the decision to swap its own currency, the punt, for the euro, whose interest rates were falling just when Ireland needed rates to rise.

Then the bubble burst, Ireland's free-wheeling banks were suddenly insolvent. That's the problem with bubbles: It's the fast money that disappears. The ugly parts endure.

By 2010, over a game of golf with a (now disgraced) banker, the prime minister was forced to agree to bail out the banks, even though he – and the regulators – had no idea of the depth of their problems. So great were those liabilities that the Irish government cannot now meet its own debts.

Just to repay its own short-term borrowings, the Irish state has borrowed money from the European Union at usurious rates and agreed to massive cuts in state spending and salaries – which only intensifies the financial problems facing many Irishmen.

Across the country whole villages of new houses lie deserted. Unemployment is zooming. The banks are effectively bust and cannot lend. And once again bright young Irish men and women have to go abroad to get jobs – 1,000 people a week are now leaving for good.

Everything in Ireland (except interest rates and unemployment) is a one-way bet down. It is becoming poorer than when I was a boy. It must either accept decades of decline in living standards or simply default on its state debts. That passes the problem on to British and German banks that have huge exposure and will be in serious trouble.

The Fianna Fáil government, which backed the first option, has fallen. Although it has been Ireland's main ruling party since the 1920s, Fianna Fáil lost a stunning 60 seats in the Feb. 25 election and now holds only 18 seats in the lower house of parliament. Fine Gael, the other main ruling party, now has the most seats (70) but will need the 36 seats controlled by the newly energized Labour Party (socialists) to govern. Sinn Féin, the political wing of the Irish Republican Army, came from nowhere to win 13 seats, not far behind Fianna Fáil.

That Sinn Féin, from British-ruled Northern Ireland and tied to so much past violence, would make a showing in Ireland is a shock. But such is the people's desperation and disgust with the political parties that Sinn Féin's antiestablishment, anti-Europe, antibanker message resonates.

If the die is cast for Ireland, it is not quite yet for Britain or the United States. Perhaps the people of Britain and America might care to think about how desperately overborrowed we are as citizens and also what enormous deficits our governments are running. We still have time to change. We still have the tools, including having our own currencies (although inflating them only masks the downward adjustment). But we do not have that much time to start making changes before change is forced upon us.

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