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- NOVEMBER 22, 2010

Dublin Fights Losing Battle Against Absentee Landlord

- By IRWIN STELZER



Plucky little Ireland, attempting to head off the Belgian hordes. The Irish thought they could appease Brussels and deflect the massed might of the EU Brussels-led euro-armies by adopting the euro and ceding control over their monetary policy. No such luck. Herman Van Rompuy's shock troops, armed with computers and spread sheets, are poised to occupy Ireland's Finance Ministry and gain control over fiscal policy. A major policy error by Ireland's government—agreeing to bail out the nation's banks—is about to put control of the Republic's economy in foreign hands—absentee landlords say the history-minded.



Reuters

Herman Van Rompuy is focussed on 'the euro area as a whole,' say analysts.

Ireland's desperate search for allies has come to naught: no country on the continent is prepared to take on Germany, which has long wanted Ireland to raise its 12.5% corporate tax rate that Germany, France and the entire Eurocracy have labeled "predatory." By which they mean a competitive threat to the high-tax regimes in their own countries. Even Britain, which should know a thing or two about

standing alone, has joined the armies aiming to force Ireland to trade economic independence for Eurogold. Chancellor of the Exchequer George Osborne will join in by lending £7 billion (\$11.18 billion) he does not have to the Irish because, he says, "we are good neighbors of Ireland and not because we have particular concerns about any particular U.K. bank." Nothing to do, then, with the fact that the governor of the Bank of England, Mervyn King, estimates the exposure of British banks to be a non-trivial £83 billion, £50 billion by RBS. Or that Northern Ireland cannot compete with the lower-tax Irish Republic, which is why Owen Paterson, Secretary of State for Northern Ireland, is seeking permission to lower tax rates. Or that Essenta Foods, the recent merger of Northern Foods and Greencore, just announced it will be based in Dublin to take advantage of the 12.5% corporate tax rate, less than half the rate Mr. Osborne has set for the U.K. from April of next year. Just being neighborly.

With Finance Minister Brian Lenihan now prepared to recommend to the cabinet that it apply for "a program" of assistance, all that is left for Ireland is to negotiate the terms of its surrender to the European Central Bank, the International Monetary Fund, the EU, and, not least, the bond market. Ireland's banks, locked out of wholesale markets and hemorrhaging deposits, desperately need the continued support of an ECB increasingly reluctant to continue lending at its 1% interest rate. So Irish premier Brian Cowen has little room for maneuver, even though the government says it has enough cash—some €22 billion (\$30 billion)—to last until it has to repay a bond in November. Perhaps, but not certainly. The €31 billion it injected into the banks was in the form of government IOUs, 10% of which come due in 2011 and every year thereafter. And it will have to roll over some €6 billion of notes that come due in the first quarter of the new year. More important, it will have to chalk up economic growth at a 3% annual rate between 2012 and 2014 in the face of headwinds created by the €15 billion, four-year fiscal tightening agreed by the Irish cabinet Sunday and signed off on by EU Economic and Monetary Affairs Commissioner Olli Rehn.

All this is now of less relevance to the EU team than achieving its initial goal of saving the euro and with it the European Project. Mr Van Rompuy & Co. are focused "first and foremost on the euro area as a whole," conclude analysts at Citigroup Global Markets. If Ireland

goes under, the Eurocracy is convinced that Greece, Portugal, Italy and Spain will be the next to find bond markets effectively closed. Never mind that there is no proof that such contagion is inevitable, or that the problems of other countries would be solved by an Irish bailout.

There is little doubt that exposure to Ireland is substantial. Goldman Sachs estimates sovereign debt, €85 billion; Irish bank bond debt, €80 billion; ECB loans to Irish banks, €130 billion.

The only question now is whether the price Ireland will pay for help will include an agreement to raise the low corporate tax rate, as French and German officials are demanding. France's President Nicolas Sarkozy "cannot imagine that our Irish friends" will not raise taxes. If Ireland caves in to EU pressure, which Goldman Sachs analysts deem "not implausible... [but] unlikely," it will be forfeiting its best chance to recover from its current ills. Ireland's troubles have done nothing to reduce the flow of foreign direct investment: the Irish agency in charge of wooing foreign investors reports that FDI this year will be the at the highest level in seven years. Little wonder: the wages of well-educated, English-speaking Irish workers are down, as are rents and factory-construction costs. If Ireland retains its attractive corporate tax rate, it just might ease its plight with some significant economic growth. Whatever problems Greece, Portugal and Spain have, they are not Ireland's.

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