



Ireland, Europe and the Global Crisis

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Abstract

For Ireland—along with Spain, Portugal and Greece—membership of ‘Europe’ was seen as an opportunity to escape their historical legacy of ‘underdevelopment’ and become fully integrated into core positions in the global system. Each of these states, and especially Ireland experienced significant growth in the European Union, but once the global financial crisis struck, they suffered a deep economic and social crisis, and came to be categorized once again as ‘peripheral’ to Europe. This acute recurrence of a core-periphery divide in the European Union has been accompanied by a rapid diminution of democracy in the EU and its transformation into an increasingly coercive formation. The deprivation programmes imposed by the EU on the peripheral societies has not only damaged growth in the European economy, they have hugely diminished the legitimacy of the European integration project. The essay explores the roots of Europe’s changing power structures and assesses the implications of the Eurozone crisis for the future of the European integration project.

Keywords: Ireland, European Union, Financial crisis



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From the mid-1990s Ireland was acclaimed as one of Europe's great success stories, and it was presented to the new entrants from Eastern Europe as a model for their own development. The Celtic Tiger provided clear evidence that by adopting pro-business and low tax policies any one of them could achieve standards of living on par with the Union's core states.

A few years later, in the wake of the global financial crisis, Ireland came to be re-classified in the financial media as a peripheral state, along with Greece, Spain, Portugal and, sometimes, Italy. In the wider media, the preferred term was PIGS (Portugal, Ireland, Greece, Spain), with Italy sometimes included in the grouping and sometimes not. This re-classification involved more than a fall from grace: it was a return to starting point.

Ireland's depiction as being on Europe's periphery has a much longer history. In 1985, Giovanni Arrighi edited a collection of essays entitled *Semi-Peripheral: the Politics of Southern Europe in the Twentieth Century* where he argued that the states of southern Europe shared many common characteristics, including a roughly similar average national income level. Ireland, geographically distinct from Southern Europe, was not discussed in that volume, but it did share with them a roughly similar national wealth. In a later essay, *The Semi-periphery in the Modern World System*, Arrighi describes Ireland as an "organic member of the semi-periphery" (Arrighi 1985; 1986; Broadberry & Klein 2012).

For Marx, writing over a century earlier, the point of comparison was not southern Europe, but southern Asia. "India is from a social point of view [...] the Ireland of the East." It was not just the impoverishment of the population, especially the peasantry, which linked Ireland and India in his mind, but the fact that the roots of this destitution were similar. Both Ireland and India had been turned into agricultural provinces of Britain (Marx 1969).

While Ireland was close to Mediterranean Europe in terms of average wealth, its historical trajectory was very different. Spain, Portugal and Italy were all colonial states; Ireland had been colonised. Arrighi noted: "Parliamentary democracy has never been at home in the semi-periphery." It certainly sank roots in Ireland. While all the Mediterranean states of Europe developed fascist or authoritarian regimes in the 1920s or 30s, Ireland retained a parliamentary democracy. The persistence of parliamentary democracy is usually explained, in so far as it is noticed, as a feature of British influence, but given that a separate state came into existence as a consequence of a revolt against British rule this is hardly convincing.

Immanuel Wallerstein wrote: "One can interpret the whole development of Italy, Spain, Portugal, Greece and Turkey in the interwar period as one grand response to the sense and reality of "having been left behind" (Wallerstein 1985: 37). This depiction also holds true for Ireland, with a modification: for at least a century Irish thinking was dominated by a sense and reality of "having been *held* behind." The linkage between national domination and economic backwardness

was deeply rooted in the Irish popular consciousness. The Irish national independence movement was closely associated with a peasant revolt against the landowning class and this resulted in a social structure quite distinct from that of Mediterranean Europe. While industry in Ireland (excepting the north-east which remained part of the United Kingdom) was probably less developed than in Mediterranean Europe, its agrarian structures were more emancipated. The power of the old agrarian ruling class had been decisively broken in Ireland, and this changed the socio-political composition of the new state and contrasted it to that of the Mediterranean states (Coakley 2012).

In Ireland, as in most of Mediterranean Europe, the Catholic Church was particularly strong, but here too there were significant differences. In Ireland, it was Anglicanism not Catholicism which had been the feudal land-holding church—and the church of the land-owning aristocracy—and this gave Irish Catholicism a distinctive social complexion. Catholicism was perceived as the faith of the oppressed, despite the Church's ambivalence toward the national independence movement. For the ascendant bourgeoisie, it was a valued ally not a rival (Paseta 1999; Coakley 2012).

The civil war that followed the Anglo-Irish treaty was won by the most conservative elements in the independence movement—with the support of Britain—and they pursued liberal economic policies little different from those previously imposed by London. Irish export trade mostly comprised agricultural primary products overwhelming destined for British markets. The Irish currency was linked to sterling and its banking system was dominated by the City of London. In shorthand, the social interests advanced by the Irish government were those of Ireland's 'comprador' bourgeoisie (Lee 1989; Regan 1999; Coakley 2012).

With the global crisis of the 1930s, and the adoption of further austerity policies, the conservative government had become deeply unpopular and could no longer secure a parliamentary majority. In the elections of 1932, the left-of-centre Fianna Fail party (composed of elements from the losing Republican side in the civil war) came to power and adopted policies that sought to encourage development and reduce the extremes of poverty. This damaged the interests of the 'comprador' bourgeoisie and the more prosperous farmers, and there was an attempt to build a counter movement along the lines of continental fascism—the Blueshirts—but they were swept aside by an alliance of republican and labor activists. In effect, the capitalist class lacked the social weight to impose its interests in an unmediated way, either through a parliamentary system or through a direct dictatorship (Regan 1999; Coakley 2012).

The Fianna Fail government policy of import substitution did lead to a significant increase in industrial employment over the following decades and their promotion of semi-state bodies contributed to wider social development, most notably the spread of electrification, while house-

building and welfare programmes reduced poverty levels. Yet these achievements did not come close to alleviating the long term effects of Ireland's distorted development. Industrial growth was never sufficient to offset the flight from the land. For most of the twentieth century, Ireland retained one of Europe's higher rates of emigration. What Ireland and the Mediterranean countries had most in common—apart from their roughly similar rates of income—was that they combined features of both core and periphery, albeit in different variations (Lee 1989; O'Grada 1997).

The semi-peripheral states and post-war Europe

It is conventional among radical scholars to divide the post-war history of Western Europe and North America into two eras: the "Golden Age," the three decades that followed the Second World War, and the neoliberal era that dates from the Reagan/Thatcher regimes. The former was characterised by high rates of growth, strong labor movements and the extension of social rights, the latter by declining growth, a weakening of labor and a diminution of social rights. For many, this history is seen as a shift from Fordism to Post-Fordism. Between the two eras was the crisis decade of the 1970s, an era of confrontation between labor and capital which ended with capital decisively gaining the upper hand.

This historical chronology has much to recommend it, but a reflection on the history of the European semi-periphery suggests a number of qualifications. Ireland and the European semi-peripheral states under discussion here do not quite fit the pattern. They largely missed out on the post-war Golden Age, though not on the decade of crisis. Their crisis decade was also more severe than that experienced in the core regions of the North Atlantic.

Many scholars have pointed to the jailing of air-control workers in the United States by the Regan administration in 1981 and the defeat of the miners' strike in Britain by the Thatcher government in 1984 as crucial turning points in the rise of the neoliberal order, and it is certainly true that these were important moments. Nonetheless, it is worth noting that these conflicts did not involve a full-scale confrontation between capital and labor. Neither the United States nor the British labor movements mobilised *en masse* to defend their co-workers. Labor was defeated *in absentia*. There is a case for arguing that a critical turning point in that era of crisis occurred earlier, in the European semi-periphery. At the very moment that the United States was suffering a humiliating defeat in Asia, it achieved a historic victory in Europe by curbing the revolutionary aspirations unleashed by the decomposition of the Mediterranean dictatorships. This was accomplished not through force of arms, but through means of political and social concessions. The European Economic Community played a key role in the process.

The semi-peripheral states of Europe in the post-war decades are often depicted as stagnant. In fact they underwent important changes. Writing in the mid-1970s, at the height of the systemic

crisis, Nicos Poulantzas argued that the crisis of the Mediterranean dictatorships needed to be seen in the wider context of the emergence of a new phase of imperialism characterised by the spread of what he termed *dependent industrialization*. The countries on the Europeans margins could attract industry by offering lower taxes but this new industry was marked by a low level technology; limited labor productivity and the repatriation of profits. These countries also shared high levels of outward labor migration. This dependent industrialization was a distinguishing feature of U.S. (global) hegemony and gave global capitalism a very different shape from the era of British hegemony (Poulantzas 1976).

One of the effects of this dependent industrialization was to transform the relationship between the ‘internal’ and the ‘external’ within nation-states, enabling the United States to play a greater role in determining the policies of other states and providing security for local ruling classes. For Poulantzas, this did not in any way eliminate patterns of domination in international relations, but it did make them a good deal more complex. The new American order encouraged the closer integration of west European states, not only in the core regions but also on Europe’s periphery (Poulantzas 1975).

In the late 1950s, after a decade of economic stagnation, the Irish Republic—in close consultation with the World Bank—shifted away from import-substitution strategies toward more liberal economic policies. Attracting foreign capital became the central objective of the state and has remained so ever since. This shift in economic strategy had the important side-effect of enabling the Irish state to borrow from the global banks: the imprimatur of the World Bank permitted the adoption of Keynesian policies. Similar openings occurred in Spain and Portugal. Once Spain accepted NATO bases on its soil, the Franco dictatorship operated with U.S. protection and adopted economic policies of an increasingly liberal vein. Throughout the post-war decades the United States was actively involved in encouraging the liberalization of Europe’s southern economies (Lopez & Rodriguez 2011; Coakley 2012).

The 1970s crisis and promise of Europe

In Washington and in the capitals of Northern Europe there was concern that they would be unable to contain the revolutionary impulses unleashed by the disintegration of the Mediterranean dictatorships. Not only was there a risk that NATO might lose control of these states, there was a serious danger that these upheavals might impact on other countries, most especially France and Italy where militant workers’ movements were accompanied by a widespread radicalization of youth. ‘Europe’ played a crucial role in the political stabilization of these countries.

While most commentators at the time assumed that Spain would be pivotal for the resolution of the Mediterranean crisis, it was Portugal where the crucial dramas unfolded. In

Portugal the unthinkable happened when much of the colonial army, including many of its officers, came to identify with their anti-colonial enemies in Africa. The military overthrow of the right-wing dictatorship in Lisbon unleashed a wave of popular struggles that threatened the whole social order. The turning point in Portugal was the *Republica* newspaper affair, where the principle of workers' control seemed to come into conflict with the principle of freedom of speech. The confrontation around *Republica* enabled Portuguese Social Democracy—with significant support from the German Social Democracy Party—to achieve political ascendancy in Portugal at a critical point in time. The Portuguese events showed that while there was a widespread mood for radical social change across Europe's Mediterranean, the Soviet-style authoritarian model was not regarded as a desirable alternative (Foley et al 1975; Frank et al 1975; Poulantzas 1976).

The European integration project was able to portray itself as representing an alternative political and social model to that of the United States, the USSR, and the fascist dictatorships. 'Europe' was seen as combining the best elements of both socialist and capitalist systems in a political context of democratic representation and constructive co-operation between nation-states. The promise of entry into 'Europe' also served as an important counterweight against those sectors of the state apparatus which might have sought to re-establish dictatorial regimes.

The Irish situation might seem far removed from the sharp social conflicts of the Mediterranean, but in Ireland too an acute political crisis arose in the early 1970s. A mass movement emerged in Northern Ireland at the end of the 1960s—influenced by the U.S. civil rights campaign—challenging the systematic discrimination against Catholics. When this movement was confronted by state violence, it morphed into a protracted guerrilla campaign seeking an end to British rule. In the early 1970s, this created a potentially explosive mixture where the unfinished goals of the national independence movement in the North risked converging with social unrest across the island.

The enormous mobilizations across Ireland following the 1972 Bloody Sunday killings shook the political order, yet a few months later, the population voted by a substantial majority to join 'Europe.' Opponents of Irish entry argued that membership would curtail national sovereignty and democracy. Supporters of the EEC claimed that on the contrary, membership would weaken Irish economic dependence on Britain and give the country greater, not less, autonomy. In a context where the great bulk of Irish exports went to the British market, this was a strong argument.

If a desire to avoid future war played a significant role in the original moves towards European integration, by the time Ireland, Greece, Spain, and Portugal joined, the war was long over and the notion of a unified Europe has come to acquire a different connotation. The European Economic Community had been highly successful economically and the cooperative spirit it seemed to embody made it a beacon for other European states. Not only had the EEC countries

achieved a level of prosperity unimaginable before the war, this prosperity had been much more widely distributed than in any previous historical era. For the three Mediterranean states, 'Europe' had another significance: it seemed to promise a consolidation of democracy in their home countries. This feature did not apply to Ireland, but the prospect of joining a co-operative association which promised a wider prosperity was hugely attractive.

Ireland joined in 1973 (alongside Britain and Denmark), shortly before the deepest global recession since the war. Greece joined in 1981, and Spain and Portugal followed in 1986. The thirty glorious years were over, and the wave of growth which had marked out the post-war era would not be repeated. There was another problem too: the notion of a European social model with which new entrants might integrate was always illusory. There was no single European social model. Different types of welfare systems existed in most of the core European states, but these were organized and funded at a national level, not at a pan-European one. What 'Europe' *had* done in its early decades was to facilitate these nation-states to maintain their existing internal social arrangements (Coakley 2012).

A detailed comparison of the experience of these semi-peripheral states in the EU is beyond the scope of this paper. In general their fortunes were mixed. What Lopez and Rodriguez said about Spain could also apply to Ireland, and to a lesser extent to Portugal and Greece:

In this context, it is not surprising that the general perception in Spain was of having left peripheral status behind, once and for all. For the young generations, it was enough to travel around Europe to realize that the differences had become marginal and that prosperity and modernity, if they existed at all, were to be found as much on the Spanish side of the Pyrenees as beyond. (2011: 13)

At the same time each of these states experienced a weakening of their already fragile indigenous industrial bases. Their efforts to catch up with the core had the effect of increasing their dependence on external capital, the implications of which only became fully apparent with the global financial crisis (Lopez & Rodriguez 2011; Rodrigues & Reis 2012).

Celtic Tiger

The 1980s was Ireland's second 'lost decade' since the Second World War, characterised by low growth and reductions in state spending alongside high levels of unemployment and high rates of emigration. The strategy of relying on foreign direct investment to achieve economic growth appeared to have failed. In 1990, Ireland's per capita income was 62% of the EU average. A decade later, a surge of growth had enabled it to surpass that average, at least on paper. Ireland, it seemed,

had finally taken its place among the core nations of the world. For the Irish elite, especially the elite intellectuals, it was a source of great pride. They could rejoice not only in the country's new found wealth, but in the success of the neoliberal policy prescriptions which they had enthusiastically advocated. For the rest of the population, more prosaically, the great achievement of the Celtic Tiger was that it seemed to have finally eliminated unemployment and emigration (Kirby 2010; Paus 2012).

In the Celtic Tiger years, Ireland experienced an average growth rate of 6% and unemployment fell from around 20% to 4%. The key to Ireland's surging GDP figures was a wave of investment by U.S. information technology and pharmaceutical companies. In 1989, foreign direct investment in Ireland increased sevenfold over the previous year and it continued to increase until peaking at €30 billion in 2002. Ireland became a conduit for U.S. corporations entering the European market. A significant factor in attracting U.S. direct investment to Ireland was its low tax rate, and numerous tax exemption schemes. The official corporate tax rate was 12.5% but it has been calculated that the actual effective rate was somewhere between 4% and 7%. One consequence of these tax avoidance schemes (and the repatriation of profits) is that Ireland's great leap forward in GDP statistics hugely exaggerated its actual growth (McDonough & Dundon 2010; Allen 2012).

Direct investment by U.S. corporations fell sharply following the dot-com crash, but the Irish state helped engineer a new wave of growth based upon a property boom, itself facilitated by the European Union's liberalization of the financial sphere. Irish involvement in the single currency led to lower interest rates, while the Irish banks and credit institutions were able to borrow huge sums from the major banks in Germany, France, and Britain to fund their lending. The property boom was partly driven by a shortage of housing brought about by the state's effective ending of its public housing programmes. House prices rose threefold between 1994 and 2006. Much of the lending was to a small coterie of politically connected property developers who invested not only in Ireland, but in Britain and across Europe. In 2007—when it ought to have been obvious to the most myopic that this was a bubble—Irish banks lent out €342 billion to the Irish private sector, three times the size of the Irish economy. The government and the leading state officials, as well as the media were all complicit in maximizing the credit bubble before it crashed. All of the subsequent debt was charged to the citizenry (Kirby 2010; Coakley 2012; Mercille 2013; Rafter 2014).

In September 2008, Lehman's Brothers, one of the major Wall Street banks collapsed, bringing in its wake the so-called credit crunch. Banks stopped lending to each other causing the largest financial crisis since the Second World War. Two weeks later, the Irish government announced it was guaranteeing all deposits and debts of all the Irish banks and their subsidiaries

abroad. A year later, the ECB threatened to cut off emergency funding to the Irish banking system unless the government agreed to immediately apply for a bailout; the bailout involved an acceptance of a harsh austerity programme and an agreement to repay in full all the bondholders, even the unsecured ones (Irish Times 2014).

The Unfolding Crisis

One of the knock-on effects of global credit contraction was to be raise bond rates. Since the formation of the single currency, bond rates within the Eurozone had converged, with the weaker states able to borrow at rates very close to those of the stronger EU states. In the post-Lehman's mood of panic, financial investors began to distinguish between weaker and stronger states and speculate against the weaker ones.

Greece was the first in the firing line. Greece's public spending as a percent of GDP in 2006 was one of the largest in the Eurozone, but it was slightly less than Italy, and not hugely greater than Germany. Once the financial crisis broke on Wall Street, Greek borrowing costs rose rapidly. What made it unsustainable was that neither Greece nor of any other the endangered states were able to re-finance their debts because their central bank did not have the power to buy state bonds. This followed from the design of the single currency. While the ECB is nominally an independent bank, it has been clear since the beginning of the euro-crisis that it is closely tied to the private world of finance and is ultimately answerable to the major states: France and more especially Germany. Had these states agreed to change the structure of the European monetary system, there would have been no currency crisis. The framing of the crisis as a consequence of excessive public debt and spending had the effect of both transforming and exacerbating the crisis. It neglected the crucial role of financial liberalization in bringing about the crisis in the first place, and diverted attention from the culpability and indebtedness of the private banks. Not least it ignored the central role that European monetary integration has played in the affair (Guilen 2012; Streeck 2014a).

In the case of Ireland, there was a very real credit explosion in the new millennium, but this was concentrated in the private, not the public sector. In 2007, Ireland's public debt ratio was 25%, one of the lowest in the European Union. The explosion in Irish *private* debt was closely linked into, and largely dependent upon, the wider process of financialization that swept across Europe since the 1990s. The Irish banking surge was largely driven by a construction boom/bubble. The development of this bubble coincided closely with Irish membership of the euro. Irish interest rates were exceptionally low because of euro membership; these rates were largely determined by the needs of the German economy. Previously, Irish banks could only lend sums in relation to their deposit base. After monetary union, they could lend much larger sums

based on what they could borrow from EU core banks. These banks in turns were facilitated in lending large sums because of the new financial instruments developed by Wall Street banks. A distinctive feature of these lending practices was that they were based on *short term* credit. The problem with short term credit is that it dries up very quickly in times of trouble, leaving the debtor stranded and unable to access new sources of funding to keep their business—or country—running (O’Riain 2014).

There was a very clear failure of the regulatory bodies in Ireland and other peripheral states to warn about the emergence of a financial bubble, to put it at its mildest. However, this failure was systemic. The European Central Bank and the International Monetary Fund not only encouraged these practices but assured all concerned, just months before the crash, that if there was a ‘market correction,’ it would involve a ‘soft landing.’ The credit bubble in Ireland—and elsewhere on the European periphery—was encouraged by the major U.S.-based credit ratings agencies; the same agencies that would later play a key role in fomenting the Euro debt crisis. Far from pursuing a reckless fiscal policy, the Irish state had been continually restraining public expenditure, and had been enthusiastic in its zeal for neoliberal policies. Since 1990, they had carried out privatization across a range of public bodies that had been built up during their earlier ‘developmental’ phase: food; insurance; shipping; steel; banking; energy; telecoms and air transport (Kirby 2010; McDonough & Dundon 2010).

Spain and Portugal had also re-orientated their economies to the neoliberal zeitgeist. Both had lower rates of public spending than Germany. Spain had experienced a similar property-driven credit bubble as Ireland. Its high public debt by 2010 was a direct consequence of public authorities’ taking over the private debt of the banks and other financial institutions. Portugal had also pursued a neoliberal course during the 1990s. Unable to devalue its currency to boost its exports (and thus solve its balance its payment problem), the government encouraged financial liberalization and began an intensive course of privatization. Selling off public assets (much of it nationalised in the years immediately following the Revolution) enabled them to meet the immediate ‘convergence’ criteria for membership of the euro, but it left the country with only a very limited productive base with which to compete in the globalised economy. Even in the case of Greece, the representation of their fiscal problems as rising from extravagant social expenditure is erroneous. Much of the Greek public debt resulted from its excessive military budget and had little to do with social spending (Kouvelakis 2010; Lopez & Rodriguez 2011; Rodrigues & Reis 2012).

The image of the European core states bailing out the peripheral ones is quite at odds with what actually happened: the population of the peripheral states bailed out the banks of the core ones. The private banks in the core states, especially in Germany, France and Britain had lent large

sums of money to the private banks in Ireland, Spain, Greece, and Portugal. They had also, to a lesser extent, bought public bonds from Greece and other states. What made these investments especially hazardous was that European banks, especially German ones, had bought huge amounts of dodgy financial assets from the big Wall Street institutions (Cafruny 2010; Lapavitsas 2012).

The European leaders initially minimised the significance of the crisis, even blaming it on liberal economic policies. In the immediate aftermath of the Lehmans' crash in September 2008, Peer Steinbrück the German finance Minister sharply criticised the United States for failing to regulate financial markets and told the German parliament: "The U.S. will lose its status as the superpower of the world financial system." This world will become multipolar with the emergence of stronger, better-capitalized centres in Asia and Europe. The world will never be the same (*Financial Times* 2008) The French President Sarkozy was even more blunt:

Basically, a certain idea of globalization is biting the dust with the end of a financial capitalism which had imposed its rationale on the whole economy and contributed to corrupting it. The idea of the all-powerful market, which was not to be impeded by any rules or political intervention, was a mad one. The idea that the markets are always right was mad.Laissez-faire is finished. The all-powerful market which is always right is finished. (translated and published by French embassy, in London 2008).

In Europe, as in North America, the political elites' questioning of neoliberal verities did not last long. Two years later, Jean-Claude Trichet, the president of the European Central Bank proclaimed to a press conference: "The market is always right, and has to be completely respected at all times." All the ECB has to do is to accompany "the market as it progressively gets back to normal" (quoted in Leaman 2014).

The change in tune was partially due to a realization of how deeply the European banking system was implicated in the American financial debacle: "At the start of the crisis, German banks had the largest leverage rates among OECD countries [...] at the end of 2009 European banks were estimated to hold more than \$1 trillion in toxic assets, more than two thirds of which were held by German banks" (Cafruny 2010: 126).

Their losses to Wall Street made these banks' exposure to the European periphery all the more critical. Unable or unwilling to confront U.S. financial capital, Germany and the other core states focused their wrath on Europe's weaker states. Peter Böffinger, an economic advisor to the German government, told *Der Spiegel* in 2011: "(The bailouts) are first and foremost not about the problem countries, but about our banks which hold high amounts of credit there" (quoted in Chaterjee 2012).

The fact that Greece became the fulcrum of the European financial crisis was advantageous because it enabled the European authorities and the EU core states, especially Germany, to transform what had primarily been a banking crisis into a crisis of sovereign debt. In the process, the Eurozone debt crisis could be represented as a crisis of the European periphery caused by an excess of public spending.

This representation of the European banking crisis was of huge significance. Greece was the first of the EU states to experience a sovereign debt crisis. By targeting Greece, the media in core states, especially in Germany, were able to draw on older forms of racial-cultural discourse to win their case. It enabled the ECB and the core states to re-finance the major banks while directing political antagonism towards the peripheral countries. By implying that excessive public spending was at the heart of the Euro crisis, it upheld neoliberal or ‘ordo-liberal’ discourses, and legitimated the imposition of austerity policies across Europe. It also facilitated the re-emergence of a xenophobic nationalism in Germany, which would express itself a few years later with mass protests against the “rise of Islam.”

The EU authorities and the major EU states made a political decision that the banking crisis would become a sovereign debt crisis: that the weaker nation-states would pay for Europe’s financial expansion. This represented a convergence of interests between the European banks—effectively represented by the ECB—and the core states. Many of these tendencies were already nascent in the European integration project. The crisis brought them to the fore, and hardened them out, transforming Europe in the process. Not least they have transformed how the people of Europe perceive the European integration project (Lapavitsas 2012).

The politics of austerity

Merkel told an audience of Christian Democratic Union-supporting business leaders on June 12, 2012: “The question of whether Greece carries out its programme is not just a question of whether the programme succeeds or not, but rather of whether obligations will be observed in Europe in future” (CITE SOURCE). Two main arguments were given in support of austerity policies: a moral one and an economic one. The moral one was that these states had overspent and should pay back what they owed. The economic argument was that austerity would make the peripheral states more competitive and would be to their benefit in the long run.

The very word ‘austerity’ is a loaded one, implying moral restraint and a refusal of all forms of self-indulgence. The problem with the moral argument for austerity is that those who are being made pay the price for running up debts are not those who benefitted from the credit boom or those who took the decisions.

The economic argument was that austerity would help states in crisis to become more competitive through a process of ‘internal devaluation,’ which would be achieved by lowering labor costs. The European authorities place great emphasis on structural reforms, especially of the labor market. Reduced social provision and more flexible employment conditions would result in lower wages, enabling the peripheral states to grow their way out of their fallen state and compete in the European and global markets. The problem with this argument is that a reduction of public spending—and lower wages—diminishes domestic demand. People have less money to buy goods, and so the whole economy goes into deeper decline. Many mainstream economic commentators like Paul Krugman, Joseph Stiglitz, Ambrose Evans-Pritchard and Martin Wolf have criticised the folly of these policies to no avail. Even the International Monetary Fund felt obliged to criticise the futility of reducing public spending in a recession (Bloomberg News 2013). Most important of all, it hasn’t worked. The peripheral states entered an extended period of stagnation.

The austerity regime in Ireland

The austerity programme imposed by the Troika did not so much represent a break with Irish government policies of the Celtic Tiger period as a radical accentuation of these policies. During the boom, the state pursued policies of low taxation, privatization, accommodation towards markets and a reduction of public services. The feature that most distinguished Ireland from the Thatcherite-Blairite regime in Britain was its social pacts with the trade union movement. This was feasible because of rising employment and rising wages (McDonough & Dundon 2010).

Once the crash came, Ireland suffered a massive economic decline. Unemployment and emigration soared and huge numbers of people found themselves in arrears with mortgage payments. Wages in both the public and private sectors were reduced. A string of regressive taxes were introduced, and there were deep cuts across a range of social services. Poverty and inequality have hugely increased. By 2014, Irish public debt compared to GDP was over 125%, five times its pre-crash rate.

In Ireland, a small number of well-paid jobs were created by the arrival of U.S.-owned information technology and computer companies, but this did little to change the larger picture. Increasingly the Irish labor market is being polarised with middle income jobs being reduced and replaced by a small minority of secure highly paid jobs and a much larger number of precarious low-paid jobs (Andreosso-O’Callaghan *et al* 2014; O’Broin 2015).

Figures for exports and GDP in Ireland that showed growth in 2014 led to a huge amount of media hype about an Irish economic recovery. Both statistics are so notoriously unreliable that even the IMF has publically questioned them, suggesting that they are distorted by the practice of

‘transfer pricing’ employed by the transnational corporations (*Irish Times*, 30 January 2015). Meanwhile wages and personal consumption have been stagnant. One area that has seen a significant increase has been house prices and rents in the Dublin region, but this has only added to the levels of popular deprivation. The costs of utility bills, transport, and healthcare have all increased. While the official jobless rate has fallen from 11.9% in 2014 to 10.2% in 2015, more than one in every five workers is part-time. EU statistics show that a quarter of the Irish population is suffering material deprivation and a tenth is suffering “severe material deprivation,” one of the worst cases in the Eurozone (Burke 2014; Taft 2014a; 2014b).

Brian Lenihan, the Minister of Finance during the banking crash, famously expressed amazement that there had been no riots in Ireland in response to the austerity budgets. In fact, the austerity programmes have produced a transformation in Irish politics. Fianna Fail, which had been Ireland’s dominant party for eight decades, with a cross-class appeal, suffered a crushing political defeat in the elections of 2011. Fine Gael, the historical party of the Irish Right strengthened its position and became the leading party in the pro-austerity coalition government that followed, but it is not remotely close to being a majority party. The Irish Labor Party, which was the junior party in the coalition, experienced a meltdown in the local elections of 2014. In urban working class constituencies in particular, the pro-austerity parties have been marginalised.

While the Irish and international media have waxed enthusiastically about Ireland’s recovery, this very image of recovery contrasts strikingly with the reality of deepening hardship which much, if not most, of the population has experienced. This contrast came to a head with the huge mobilizations against the imposition of water charges in 2014. The “Right 2 Water” campaign emerged as a coalition of forces, including oppositional currents within the trade union movement, grass-root activists and radical leftists. The initial response by the trade union leadership to the government’s austerity programme was extraordinary timorous; decades of social pacts with employers and government had left them thoroughly domesticated. The presence of a current of radical union activists was crucial to broadening and deepening this anti-austerity coalition.

Believing their own propaganda, the government parties contested the 2016 elections on the slogan of keeping the recovery going, and were surprised to discover that most of the population had not noticed any recovery. The vote for Fine Gael, the main governing party, fell from over a third of the total in the 2011 elections to a quarter in 2016. Fianna Fail, which sought to distance itself from austerity policies, recovered some of its vote, but achieved nothing like its earlier support. The junior party in the government, Labor, suffered most, losing two thirds of its votes and the great bulk of its seats in the process,

The left-wing anti-austerity forces made significant gains across the country winning around a quarter of the vote, with Sinn Fein and the far-left coalition significantly increasing their

support. For the first time in eighty years the combined vote of Fianna Fail and Gael has fallen below 50%. While these conservative parties combined certainly have the capacity to push through further austerity policies, they will no longer have a loyal opposition available to swap office with in the event of suffering political defeat in future elections. An important milestone has been passed.

A more detailed look at the political economy of the northern Irish state is outside the scope of this article, but a couple of points need making. The peace settlement in Northern Ireland was premised upon a power-sharing system in a semi-autonomous regional government. Westminster maintained overall control. Since the election of the Tory-dominated government in Britain in 2010, there has been a concerted attempt to impose an austerity programme on all parts of the ‘United Kingdom,’ with a special emphasis on cutting welfare. In Scotland the left-of-centre Scottish National Party sought to block welfare cuts, while in Northern Ireland Sinn Fein and the centrist Social Democratic and Labor Party—both representing the ‘nationalist’ community—were able to use the power-sharing veto rules to block similar measures.

Anti-austerity politics across the ‘United Kingdom’ is shaped by the distinctive legacy of the Thatcher era where a xenophobic English nationalism has come to play a major role in the dominant culture. The European Union is perceived by the English Right as being excessively generous in its welfare provisions (an attitude not dissimilar to that of the U.S. Right). In this context, many of those opposing austerity regard the EU as a positive force or at least as a lesser evil compared to the deeply reactionary politics of British Conservatism.

The new Germany

Prior to the twenty first century global crisis, Berlin sought to pursue its national interests while accommodating other states within the EU. Once the crisis broke, this approach was abandoned and Germany reverted to an increasingly coercive model.

A number of factors encouraged this. The costs of German unification led to an extended period of fiscal retrenchment. The German trade unions, fearful that German corporations would move factories to Eastern Europe, acceded to this with the result that wages in Germany have stagnated or fallen. This led to a growing competitiveness gap between Germany and other parts of Europe, especially the south. The gap in competitiveness was masked during the boom years by the massive extension of credit from banks in the core regions to businesses and consumers in the peripheral regions. Once the crash came this gap became startlingly visible, but the peripheral states were not in a position to devalue their currencies in order to regain competitiveness (Bellofiore & Halevi 2011; Lapavitsas et al. 2012).

Since 2009, German exports have revived and Germany has built trade surpluses both globally and within the European Union. By definition, if Germany is running a trade surplus with the rest of the Eurozone, others must be in deficit, but the EU has no mechanism for dealing with this issue. Instead, Berlin and the EU authorities have insisted on rules of fiscal retrenchment which have imposed severe limits on public expenditure in countries which find themselves with trade deficits. A recessionary climate has spread across much of the Eurozone. Italy, France, the Netherlands and Belgium are all stagnant and their debts are rising.

The relentless austerity drives suggest that both the neoliberal intellectual programme and the finance-led regime of accumulation are more deeply rooted in long-term changes in the capitalist order than many critical scholars acknowledge.

The European Integration Project and the Global Order

Up until quite recently the EU was widely viewed as representing an alternative model of capitalism to the United States: more humane, more law-abiding, and more pacific. European integration was also viewed as a defensive measure against the power of the United States, enabling Europe to develop its home market and to establish a socio-economic order characterised by a high level of social cohesion. One difficulty with this perspective is that the United States has consistently supported the process of European integration. If European integration seemed likely to create a rival bloc, the United States would hardly acquiesce in the process.

The relationship between the United States and European integration was the location of one of the key debates in post-war European radical scholarship between Ernest Mandel and Nicos Poulantzas, with Mandel arguing that the EU represented an alternative imperialist project by European capital seeking to defend itself against U.S. corporations, and Poulantzas stressing the key role that U.S. capital played in the formation of the EU (Mandel 1970; Poulantzas 1975).

There are elements of truth in both positions. European economic integration assisted the larger corporations—both European and American—in their efforts to dominate the markets of Europe. Interestingly though, the bulk of investment by U.S. TNCs in Europe came *after* the formation of the ‘Common Market’ (Panitch & Gindin 2014). In the early phase, European economic integration was designed to stabilise the European economics and reduce friction between them. The United States encouraged this process in order to create a prosperous buffer zone against a potential Soviet threat to Europe. Washington was careful to ensure that European integration would not involve the exclusion of U.S. corporations or U.S. military detachments. Under the provisions of the Treaty of Rome—the founding treaty of the European Economic Community—there could be no discrimination against U.S. corporations. Moreover, European economic integration followed the incorporation of all the major west European states into the

U.S.-led North Atlantic Treaty Organization. The U.S. approach towards Europe was never driven solely by economic considerations: geo-political factors were always present (Gowan 1999; Anderson 2011).

The EEC—and its later manifestations—represented something of a compromise between the United States and the European states. The European states were permitted a considerable degree of autonomy and co-ordination, provided they operated within the rules laid down by Washington. Two points were crucial: the U.S. maintained military over-lordship of (western) Europe through the means of NATO, and U.S. capital could freely operate within Europe (or was at least not subject to any discriminatory practices).

The compromise proved beneficial for Western European capitalism and the population of the core states experienced unprecedented levels of prosperity. Economic hegemony facilitated cultural hegemony and West Europeans came to absorb ‘American values’ through a myriad of means. Since then two key changes have occurred that have significantly altered the relationship between the United States and Europe: The drive to financialize the American and global economy, and the collapse of the USSR and its dominance over Eastern Europe.

The collapse of the Soviet system created not only new opportunities for U.S. global power, but also new difficulties, because the U.S. military was no longer necessary to deter the threat, real or imaginary, of the Red Army. In the period immediately following the fall of the Berlin Wall and the collapse of the USSR, the future of NATO—and its usefulness—were widely debated. Peter Gowan has shown how the United States was able to use the military weakness (and political incoherence) of west European states during the Yugoslav crisis to re-assert its own dominance through NATO. Future entrants to the EU would first of all have to join NATO. This had been not been a requirement for earlier entrants like Ireland or Sweden (Gowan 1999).

The end of the Soviet Union also played a central role in the re-structuring of the EU (it was only after the Maastricht Treaty in 1992, that the name itself was adopted). Not only was ‘Europe’ to be enlarged by incorporating its eastern neighbours, but its organizational structures were radically overhauled. The driving element in this restructuring was the creation of a single currency. Pressure to create a single currency came from a number of sources. Currency instability following the end of the dollar-gold link was one factor, but not the major one. The argument that it would improve trade between the European countries—and consequently growth—was influential, but hardly overwhelming. An effective currency union presupposed both economic and political convergence. Western Europe, let alone the East, was a long way from either. Purely geo-political factors seem to have played an important role. The French political elite seems to have believed that German unification threatened the European project (or rather threatened their own

central role within it) and that a single currency was necessary to tie Germany in (Connolly 1999; Anderson 2011).

The key social forces lobbying for monetary union were the large corporations, American and European, industrial and financial, in bodies like the Europe Roundtable and the Association for the Monetary Union of Europe. They seem to have played a significant role in giving European monetary union its peculiar design. German disinclination to participate in a single currency was also one of the shaping factors: the Bundesbank has always opposed monetary union and Berlin only agreed to participate in a single currency on conditions of such extreme rigidity that have effectively made the currency almost unworkable. The most important point was this: there was to be no democratic oversight in the workings of the currency and no fiscal transfers between European states. Nor could states engage in deficit financing, which is crucially important to overcome recessions (Cafruny & Ryner 2003).

Because the European Central Bank and the European Commission are not democratically elected or accountable, they have no popular legitimacy and little state apparatus of their own to ensure that their instructions are carried through. Their real authority then comes from the larger states in the Union who exercise the right to decide the exception. The full significance of all this only became apparent with the crisis of the Eurozone.

The formation of a single currency coincided with a significant structural shift in the make-up of German and French capitalism. Both states had operated closely regulated economic systems with the financial sector servicing production. In Germany, the banks long had close links with industrial corporations, marked by interlocking directorships. In France, the state tended to play a more direct role ensuring that industry received strong support from public and private finance. These regulated systems now began to unravel. Both the banks and the industrial corporations came to the view that they could do better apart. Credit for industrial corporations was often more cheaply available in the open financial markets, while the large banks saw new opportunities for profit in the global financial markets, speculating on currencies, derivatives and other financial instruments. The rise and consolidation of the single currency coincided with a shift from bank-based system to a market-based system of finance, especially in Germany, while the French government pursued a programme of privatization across the economy, including the banks (Grahl 2011).

Underpinning all this were declining growth rates in the European core states, just as occurred in the United States a little earlier. It was this long-term shift that encouraged the acceptance of the neoliberal paradigm by both public and private elites. European capital sought to emulate the American experience, and the U.S.-owned transnational corporations based in Europe encouraged the process. There can be little doubt that the absence of any 'real existing'

systemic alternative gave the west European elites a whole new sense of confidence in their dealings with labor. The social compromises of the post-war decades now looked like a luxury that Europe could no longer afford; the apparent successes of the U.S. economy in the 1990s encouraged this view (Grahl 2011).

European integration and the erosion of democracy

The 2008 financial crash consolidated trends within the EU which were already latent since the beginning of the second phase of integration. Most obviously the erosion of democracy has gathered momentum. The imposition of the Lisbon Treaty after the earlier rejection of the European Constitutional Treaty by French and Dutch electorates in 2005 was an early warning sign. Bertie Ahern, the Irish premier at the time gloated “90% of it is still there.” The new Treaty was not put to a popular vote across most of Europe. Ireland was the only country whose constitution demanded that a referendum be held to ratify the treaty. When most of the voters rejected the treaty in the first referendum in 2008, a second referendum was imposed by the government and the electorate was left in do doubt that if they did not accede to the wishes of Brussels, they would pay a heavy price. The tale of the two referenda set the scene for Ireland’s subsequent relations with the European Union (Anderson 2011).

These events foreshadowed the radical diminution of democratic governance in Europe. Macro-economic policy is determined by an autonomous European Central Bank. Neoliberal decrees—over-ruling national governments and national courts—are imposed by the European Court of Justice, while the unelected European Commission has the exclusive powers of initiating legislation. The European Parliament only possesses very limited powers. Huge areas of decision-making have been withdrawn from any democratic accountability. Wolfgang Streeck has summed it up: the European Union has become the key mechanism to free capitalism from the “democratic distortion of markets.” (Streeck 2014a).

It is hardly surprising that the population of Europe has become estranged from, and increasingly hostile towards the institutions of the European Union, and indeed the very idea of European integration. While the functionaries in Brussels and Frankfurt can remain indifferent to this popular mood, the elected politicians cannot afford to be so sanguine (Mair 2013; Streeck 2014a).

The euro crisis has impelled a paradoxical shift in the patterns of power. The augmented power of unelected EU officials and institutions has been accompanied by the renewed ascendancy of Europe’s major state(s). Precisely because the EU lacks any democratic legitimacy of its own, it has been forced to rely heavily on the most powerful state(s). Initially it appeared that the leaders of France and Germany were assuming a joint presidential role in European decision-making. The

recurring images of Merkel and Sarkozy holding joint summits to determine Europe's future indicated as much, but it soon became clear that Sarkozy was little more than a cipher: Germany appears to be the only nation-state to which the European Union is accountable (Anderson 2011).

In the wake of the financial crash there has been a radical accentuation of the core-periphery divide within Europe, and a reinforcement of the hierarchy of nation-states. The promise of economic convergence between European nations has effectively been abandoned, as has any principle of equality between them. The EU has shifted from being a broadly co-operative alliance of states into being an increasingly coercive one. This has led not only to a loss of legitimacy for the European Union and its institutions, but also for those political forces most closely associated with them. Significantly, in Ireland, Greece, Spain, Portugal, and Italy this has involved the emergence of left-orientated anti-austerity forces threatening the old power structures. The treatment meted out to Greece following the election of Syriza in January 2015 is a clear indication of the great obstacles that any government challenging austerity policies will face. What the Syriza debacle did show was that the single currency has become the central mechanism for implementing the goals of financial capital in Europe. The European Central Bank quite deliberately engineered a bank run in Greece to bring Athens to its knees. The Syriza government's unwillingness to break with the single currency sealed their fate and guaranteed their capitulation to the destructive demands of Berlin and Brussels (Lapavitsas 2015).

In Europe's core states, popular disaffection is mainly taking the form of an upsurge of racist and anti-immigrant political movements. The mass arrival in Europe of refugees, mostly fleeing the wars in Syria and Afghanistan, has strengthened and galvanised this trend. Its roots are deeper and are direct consequences of Europe's neoliberal evolution: the remorseless erosion of the welfare state; the cordoning off of most political decision-making from popular oversight and the elevation of possessive individualism in everyday life have all undermined older cultures of solidarity. These tendencies were hugely accentuated by the European elite's response to the financial crisis which effectively extinguished any lingering notions of solidarity between countries. A similar political pattern is well established in Eastern Europe where socialist ideas have been heavily discredited by their association with dictatorship and where disaffection with economic liberalism tends to take a conservative-nationalist direction.

Europe's peripheral states find themselves in a trap. If they stay in the single currency they can expect to see their societies suffer more or less continual attrition. The EU rules prevent them from taking measures—whether currency devaluation or economic stimulation—which might permit economic recovery. Their economies are now integrated to a considerable degree with the wider European economy. If they leave the single currency, they will still owe debts denominated in euros, and can expect little mercy from the European Union authorities. For their part, the elites

within the peripheral states are overwhelmingly committed to the project of European integration. They are, however, locked into a contradictory position. While they are comfortable with policies that weaken labor and lower wages, sharp declines in domestic consumption undermines growth prospects and drives many companies out of business. The austerity agenda creates particular problems for their political representatives. Junker, the current President of the European Commission captured the dilemma: “We all know what to do, we just don't know how to get re-elected after we've done it.”

Ireland's exceptional level of dependence on both U.S. capital investment and on access to European markets makes it particularly vulnerable to a systemic crisis and vulnerable also to retaliation by Europe's rulers in the event of a government emerging that challenged the austerity agenda. For the Irish elite, the strategy of achieving national prosperity by creating a bridge economy between the United States and the European Union is unquestionable, but the limits of this strategy are becoming ever more apparent. As inter-state competition in Europe (and between Europe and the United States) intensifies, Dublin's schemes for corporate tax avoidance come under pressure from both Washington and Brussels, pressure which the Irish state is in a weak position to resist. The state's fiscal position dictates that it either increases taxation on Ireland's propertied elite or it further reduces popular living standards and erodes public services. Either approach will cause major political problems.

This is not to suggest that progressive social reform is impossible in Ireland. There is ample scope for introducing re-distributive policies. A progressive system of taxation would enable an anti-austerity government to finance a programme of public investment in housing, infrastructure and public services. But the level of debt which has been imposed on the Irish public is so great that the arrival of a new European or global recession—or a new global financial crisis—would once again leave the Irish state exposed and at the mercy of the ‘troika.’ Any government seeking to break with austerity and to develop a sustainable social and economic strategy would need to be willing to challenge this odious debt burden and be prepared to break with the single currency if necessary.

Conclusion

The contention that the process of financialization carries with it the sign of autumn has been largely borne out by developments in Europe. More than that, the rise of financial capital in Europe has been accompanied by the erosion of democracy which has in turn enabled Europe's elites to ‘feather their own nests’ at the expense of the wider population, especially those at the margins of society. This diminution of democracy has been carried out under the rubric of closer European integration, which far from creating a deeper sense of solidarity among ordinary Europeans has

had quite the opposite effect. At the level of popular sentiment, Europe has never been more divided since the end of the Second World War.

For the population of the semi-peripheral countries, 'Europe' represented hope and a confidence that the era of poverty, unemployment, emigration and precariousness would be consigned to history and a new age of prosperity and modernity had arrived. There is not a lot of hope left now and even less confidence: the European Union increasingly seems like a cage for trapping Europe's nations. This disillusionment with the idea of European integration is in turn undermining the structures of hegemony across the European periphery with political opposition increasingly driven in an anti-systemic direction. Any renewed financial crisis or return to global recession will greatly exacerbate these tensions and put the future of the European Union at risk.

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