The Irish Bailout: When resolve breaks down

Başak Taraktaş*

Abstract: *Much has been said about EU-wide implications of sovereign debt crises, but less attention has been paid to external pressure on the countries experiencing financial shortage. This paper examines the impacts of EU level pressure and investors' perceptions on the 2010 Irish bailout. Using cross-sectional economic comparison, process tracing and content analysis, I examine the conditions under which government resolve might collapse in the face of external pressure and adverse effects of interdependency. Process tracing illuminates the effects of EU level pressure and of investor perceptions on the timing of the bailout. Economic indicators and content analysis help capture perceptions. Unlike studies that have explained debt crises by domestic dynamics and economics, this multi-method research identifies the causal role of external political dynamics. Absent a lender of last resort, Greece's indebtedness decreased confidence in the Eurozone, and instigated the fear of contagion. EU members pressed for an Irish bailout to signal investors that the Eurozone remained under control, and to secure their assets on Irish markets. The Irish case tells us about the limits of public policy, as well as significance of trust and perceptions in financial crises.*

Keywords: *Ireland, Sovereign debt crisis, Interdependency, Investor perception, European Monetary Integration*

* I would like to thank Edward Mansfield, Julia Lynch, Meltem Muftuler Bac, Isa Camyar, Laura Hastings, Isabella Alcaniz, David Steinberg, Ali Sina Onder, and Andy Levin for their comments and suggestions.

Introduction

"Our economy is now emerging from recession and Ireland is strongly fighting back″," said Ireland's Prime Minister Brian Cowen on 14 May 2010. On 16 November 2010, Cowen insisted, "Ireland has made no application for external support."[1] Twelve days later, European officials announced an €85 billion bailout of Ireland. How did that happen? This paper investigates the reason the Irish government agreed to receive financial assistance in November 2010 when its domestic support dipped, after adopting an anti-bailout stance for two years. I argue that the Irish government's resolve collapsed, because of EU pressure for bailout and mounting distrust in indebted Eurozone economies: After the Greek debt crisis decreased confidence in the Eurozone, EU members decided to capitalize Irish markets to signal investors that the Eurozone remained under control, and to secure their assets on Irish markets.

Previous research explained debt crises by economic fundamentals, electoral constraints, or reputation (Arellano and Kocherlakota, 2008; Fender and Gyntelberg, 2008; Keefer, 2007; Tomz, 2011). This paper stresses external political factors that overwhelmed government resolve. The Irish bailout presents an atypical case where the government accepted an aid package at a time when electoral costs peaked. Also, unlike other cases where debt sustainability depended on domestic performance, evaluations of Ireland's economy were affected by debt crises in other Eurozone economies. The EU pressed for an Irish bailout as of May 2010, whereas such pressure did not exist before. Pressure built on Ireland, although Portuguese and Spanish finances looked equally uncertain. Was Ireland's economy the weakest of the indebted Eurozone countries? Did its government lack resolve to implement measures to alleviate public debts? What explains the timing of the bailout? I use cross-sectional economic comparison, process tracing and content analysis to solve this puzzle. The paper has three parts: First, I compare the Irish economy to the Portuguese, Italian, Greek and Spanish economies, to see whether Ireland had the weakest potential for recovery. Second, I look at the economic policy, and support for incumbents to measure the Irish government's resolve to rectify the economy without financial assistance. Lastly, using economic data and content analysis, I analyze interactions between investors, the Eurozone and Ireland, to understand the causal role of external dynamics on the collapse of the government's resolve.

1 The theoretical background & the research design

The literature on crises is divided between purely economic explanations, and those who have emphasized non-economic factors. Economists have attributed sovereign debt crises to credit spreads, decline in equity prices and government bond

yields (Fender and Gyntelberg, 2008), prior banking crises (Mendoza and Terrones, 2008), budgetary deficits, private sector debts (Wade and Veneroso, 2004), investors' distrust (e.g. (Arellano, 2008; Freeman and Bartels, 2000; Pereiro, 2002). This approach has been criticized for overshooting implications of economic fundamentals, and downplaying the role of non-rational factors. In response to purely economic explanations, some economists have stressed panic factor or coordination failures among foreign lenders (Arellano and Kocherlakota, 2008; Chari and Kehoe, 2007; Cole and Kehoe, 2000; Krueger, 2002; Krugman, 1998). For these arguments, foreign lenders' beliefs about institutions and other lenders' behavior change independently of changes in fundamentals; misperceptions or the lack of information result in suboptimal outcomes i.e. liquidity shortage, coordination failure between lenders… Other economists have underlined irrational beliefs (Reinhart and Rogoff, 2009). The 'this time is different' belief derives from the assumption that the crisis was unexpected (for the economy had strong fundamentals), and that old approaches no longer apply in such unordinary situations.

Political scientists have emphasized institutional dynamics: Electoral cycle literature has explored the relationship between accountability and debt crises (Aguiar and Gopinath, 2006; Keefer, 2007; Laibson, 1997). For Keefer, free fair and regular elections check government propensity to default or cater special interests, given the fear of electoral punishment. Tsebelis (2002) suggests that high veto number regimes encountered decision making problems. Such vulnerabilities decrease their crisis management performance, by eroding trust in political resolve and economic stability. Lastly, Tomz (2007) holds that good past reputation as creditor generates confidence in the present; lenders charge lower risk premiums on sovereign bonds.

Notwithstanding their strengths, these explanations do not completely elucidate the Irish case. The economic fundamentals approach spells out the reasons and patterns of the European debt crisis. Yet, it does not fully explain why Ireland received financial assistance before Portugal or Spain, and the timing of the bailout. Furthermore, debt sustainability depends on fiscal policy and interest rates. It is not easy to blame the Irish government for profligacy, since Eurozone governments lack monetary policy for steering the economy. They can only use fiscal measures to build trust in bond markets. Thus, overreliance on fiscal measures may not be a policy style, but a structural constraint. Also, interests fluctuate according to confidence levels on markets, while perceptions determine confidence level. If perceptions depended purely on economic factors, Irish bonds should not have spread after May 2010; austerity measures had stimulated trade and investments in Ireland, by mid-2010. Panic and coordination failure arguments do not fully capture the Irish case, because the government resisted bailout for two years. Further, the 'this time is different' belief did not characterize Ireland's political climate either. The government addressed the crisis via supply side measures, like its predecessors in the 1990s

and early 2000s. Contrary to predictions of the electoral cycle argument, the Irish government implemented austerity measures in the run-up to elections, regardless of domestic opposition. The government's determination to pursue the economic program also went against Tsebelis' expectation of policy instability in high veto player regimes. Finally, contrary to Tomz's prediction, Irish bonds continued to spread, despite Ireland's good past credit record. Overall, domestic explanations leave unexplained the timing of the bailout, and persistent distrust despite political resolve and economic improvement. This paper investigates international dynamics, particularly interactions between Ireland, Eurozone members and investors, to account for the unexplained variance.

This paper builds on Leblang's theory of financial crises (2003). For Leblang, the outcome of currency crises depends on strategic interactions between governments and investors. Investors decide to make a speculative attack, if the country displays weak fundamentals, or if the government's willingness to defend the currency looks uncertain. The government decision to (not) defend the currency varies as to fundamentals, the constituency, the electoral cycle, institutional setup and partisanship. Thus, while government stance and economics both act to determine the outcome, decisions heavily depend on perceptions.

I extend the scope of Leblang's theory to debt crises, based on the assumption that sovereign debt, too, is a relational issue involving strategic interactions between governments and investors. Hence, the first two hypotheses address economic fundamentals, and government resolve.

H1: The Irish economy had weaker recovery potential than the Portuguese, Greek and Spanish economies.

H2: The Irish government demonstrated its resolve to defend assets in Ireland without receiving financial aid.

Under the European monetary integration, member state economies are interdependent. Absent a fiscal union and a lender of last resort, budgetary imbalance of an economy risks generating a contagion across the Eurozone, and weakening the Euro. The environment producing a non-negligible causal effect on domestic systems, I add the structure of the monetary union to Leblang's theory to capture the role of interdependency. If fiscal imbalance on an economy escapes government control, member states take action, to signal investors that the Eurozone remains under control, because they have interest in building investor trust in Euro. Signals range from declarations, to EU-level measures and capitalization. I assume that member states are rational; they seek actions with minimum cost and maximum benefit. Also, concerns about relative gains may delay or impede collective action.

Drawing on this logic, I expect member states to take collective action, if problems in a Eurozone economy risks contaminating others, not otherwise. In the event of a contagion risk, Eurozone members are expected to use a cost effective signal to restore confidence in markets. States send a costlier signal if the previous one fails its objective. Signals may become costlier if investor distrust persists. On the other hand, I expect the situation in the entire Eurozone to affect investor evaluations of member state economies, given the absence of a fiscal union. Consequently, growing suspicions about the Eurozone's health are likely to downgrade credit ratings of healthier economies. Pessimism about individual economies is likely to persist, as long as confidence in the Eurozone is not restored.

In the case of Ireland, EU-level action came after May 2010, and not after the government declared recession in 2008. Greece's debt crisis was aggravating in that period. Given interdependency, I expect Greek debts to affect the situation in Ireland, which prompts the third hypothesis.

H3: The Greek crisis deteriorated evaluations of Ireland.

According to the model, if H3 were true, we should observe change in investor behavior in that period.

H4: Irish bonds spread faster, after May 2010, and not before.

Finally, the theory I present in this paper predicts EU action in response to trust erosion in the Eurozone.

H5: EU pressure for an Irish bailout augmented after May 2010.

I test these five hypotheses using cross-sectional comparison, process tracing and content analysis. Data comes from official documents by the Irish state, the EU and the media. I measure economic capacity, by fiscal position, trade, investments, and output. Interest rates and findings from the content analysis serve as indicators of investor trust. I combine the two indicators to read investor behavior, because trust is not purely rational. I use media as a proxy for beliefs and perceptions, following the behavioral economics assumption that investors take cues from the media. The way the information source frames an issue shapes investors' expectations and, their decisions (Kahneman, 2003; Rabin and Thaler, 2001). Recent research has demonstrated that investor behavior responds not only to the information on economic fundamentals, but to any *political* development (e.g. speeches by central bankers, politicians) that investors take relevant to the economic situation (Cheung and Chinn, 2001; Cheung et al., 2000; Ederington and Lee, 1993). Moreover, Oberlech-

ner & Hocking (2004) and Callender & Kouzmin (2002) show that investors closely follow the financial media, to learn about political and economic developments. Building on this scholarship, I conduct a content analysis of the *Financial Times* (FT) in the period from March to December 2010. The content analysis begins in March 2010 in order to capture the effect of EU pressure after the Greek crisis. I code articles. Data is collected from *Newsbank* by selecting the FT for the source, March 1 and December 31, 2010 for the timeframe. I restrict the sample to articles featuring "Ireland" in headlines and excluding Northern Ireland, assuming that investors have specific interests and limited time; therefore, they are more likely to notice articles whose titles contain a keyword on the topic of interest (Cheung and Chinn, 2001; Oberlechner and Hocking, 2004). I further assume that the articles are randomly distributed across months. After eliminating false positives (e.g. "Ireland bans deer hunt with hounds"), the sample size reduces to 213. I keep 'duplicate articles' (i.e. articles with the same content publish twice on consecutive days), assuming that they aim to stress the message. I code policies (taxation, social spending…) and measures towards the banking sector, actors (domestic (opposition parties, the constituency, the business sector and organized societal actors) or foreign (the EU, other international organizations, private rating agencies), the tone of judgments actors pass on Ireland or the Irish government, and mentions of Portugal, Spain and Greece in relation to Ireland's crisis (See Appendix I for the coding rules). I code reports of macroeconomic data (fiscal deficit, inflation…) under a separate category named 'general macroeconomics.'

2 Ireland & the Eurozone after the crisis

The 2008 crisis dragged all EU economies into recession. According to the data on Table 1, in 2009, the EU's GDP contracted by 4 %, private consumption by 1.7 % and industrial consumption by 14.4 %, and investments by 12 %. Unemployment, inflation, trade deficit and current account deficits augmented, respectively, by 9 %, 0.3 %, 19 % and 113 %.

Table 1

Economic Outlook - EU27

		2003 % chg 03/02	2004 % chg 04/03	2005 % chg 05/04	2006 % chg 06/05	2007 % chg 07/06	2008 % chg 08/07	2009 % chg 09/08	2010 % chg 10/09 *forecast*	2011 % chg 11/10 *forecast*	2012 % chg 12/11 *forecast*
Real GDP (European Commission)* Constant prices	Euro area	+0.8	+2.2	+1.7	+3.0	+2.9	+0.4	-4.1	+1.7	+1.6	+1.8
	EU27	+1.3	+2.5	+2.0	+3.2	+3.0	+0.5	-4.2	+1.8	+1.8	+2.0
Real GDP (Consensus Forecasts)** Constant prices	Euro area	+0.8	+1.9	+1.8	+3.2	+2.8	+0.3	-4.0	+1.7	+1.5	+1.7
	EU27	n.a.	n.a.	+1.7	+3.1	+2.9	+0.8	-4.1	+1.8	+1.7	+1.8
Last Economic Report	Euro area	+0.8	+2.2	+1.7	+3.0	+2.9	+0.4	-4.1	+1.7	+1.5	+1.8
GDP Forecast	EU27	+1.3	+2.5	+2.0	+3.2	+3.0	+0.5	-4.2	+1.8	+1.7	+2.0
Private Consumption*	Euro area	+1.2	+1.6	+1.8	+2.0	+1.7	+0.4	-1.1	+0.6	+0.9	+1.4
	EU27	+1.7	+2.1	+2.0	+2.2	+2.1	+0.7	-1.7	+0.7	+1.2	+1.6
Industrial Production**	Euro area	+0.3	+2.1	+1.3	+4.3	+3.7	-1.8	-14.9	+7.2	+4.8	+3.6
Gross Fixed Capital Formation*** Constant Prices	Euro area	+2.5	+4.8	+5.6	+8.4	+7.9	+1.8	-11.2	+0.2	+3.9	+5.2
	EU27	+0.9	+5.7	+6.3	+9.3	+8.9	-0.2	-14.5	+1.2	+4.4	+5.9
Consumer Prices* HICP	Euro area	+1.9	+2.2	+2.2	+2.2	+2.1	+3.3	+0.3	+1.5	+2.2	+1.7
	EU27	+2.1	+2.3	+2.3	+2.3	+2.4	+3.7	+1.0	+2.0	+2.5	+1.8
Crude Petroleum*	USD/barrel	28.5 (+13.9)	38.0 (+33.4)	55.1 (+44.7)	66.2 (+20.2)	72.5 (+9.5)	98.5 (+35.9)	62.0 (-37.1)	79.9 (+28.9)	88.9 (+11.3)	90.8 (+2.1)
Trade Balance* € bn	Euro area	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
	EU27	n.a.	-41.8	-97.0	-163.3	-154.9	-217.5	-84.4	-99.6	-66.0	-53.6
Current Account Balance* € bn	Euro area	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
	EU27	n.a.	-35.7	-83.5	-139.6	-125.9	-252.2	-117.2	-116.3	-64.5	-35.0
Unemployment*	Euro area	+8.6	+9.0	+9.0	+8.4	+7.5	+7.5	+9.5	+10.1	+10.0	+9.6
	EU27	+8.9	+9.0	+8.9	+8.2	+7.2	+7.0	+8.9	+9.6	+9.5	+9.1

Data is seasonally adjusted

* European Commission, Eurostat/DG ECFIN - *Autumn 2010 Economic Forecast* ; Annual % change unless otherwise indicated

** Consensus Forecasts April 2011

*** Eurostat

NB: Unemployment is expressed in % of total workforce, ILO definition.

ECONOMIC REPORT - EUROPEAN UNION 201105

Source: European Commission (2011). *Economic Report*. Brussels: ACEA. July, p. 5.

The crisis unsettled public finances across Eurozone economies. According to the data on Table 2, all Eurozone members breached the 3 % rule of the Stability and Growth Pact in 2009. Debt/GDP ratio surpassed 110 % in Ireland, Spain and Greece. In 2010, the Commission launched excess deficit procedure for 13 Eurozone

members. The debt crisis deepened in Ireland, Spain, Greece, Portugal and Italy (PIIGS).[2]

Table 2

Table 5 Fiscal positions in the euro area and euro area countries

(as a percentage of GDP)

General government surplus (+) / deficit (-)

	European Commission forecast			Stability programme
	2007	2008	2009	2009
Belgium	-0.2	-1.2	-5.9	-5.9
Germany	0.2	0.0	-3.4	-3.2
Ireland	0.3	-7.2	-12.5	-11.7
Greece	-3.7	-7.7	-12.7	-12.7
Spain	1.9	-4.1	-11.2	-11.4
France	-2.7	-3.4	-8.3	-7.9
Italy	-1.5	-2.7	-5.3	-5.3
Cyprus	3.4	0.9	-3.5	n.a.
Luxembourg	3.7	2.5	-2.2	-1.1
Malta	-2.2	-4.7	-4.5	-3.8
Netherlands	0.2	0.7	-4.7	-4.9
Austria	-0.6	-0.4	-4.3	-3.5
Portugal	-2.6	-2.7	-8.0	n.a.
Slovenia	0.0	-1.8	-6.3	-5.7
Slovakia	-1.9	-2.3	-6.3	-6.3
Finland	5.2	4.5	-2.8	-2.2
Euro area	-0.6	-2.0	-6.4	-6.2

General government gross debt

	European Commission forecast			Stability programme
	2007	2008	2009	2009
Belgium	84.2	89.8	97.2	97.9
Germany	65.0	65.9	73.1	72.5
Ireland	25.1	44.1	65.8	64.5
Greece	95.6	99.2	112.6	113.4
Spain	36.1	39.7	54.3	55.2
France	63.8	67.4	76.1	77.4
Italy	103.5	105.8	114.6	115.1
Cyprus	58.3	48.4	53.2	n.a.
Luxembourg	6.6	13.5	15.0	14.9
Malta	62.0	63.8	68.5	66.8
Netherlands	45.5	58.2	59.8	62.3
Austria	59.5	62.6	69.1	66.5
Portugal	63.6	66.3	77.4	n.a.
Slovenia	23.3	22.5	35.1	34.4
Slovakia	29.3	27.7	34.6	37.1
Finland	35.2	34.1	41.3	41.8
Euro area	66.0	69.3	78.2	78.7

Sources: European Commission's European Economic Forecast – autumn 2009, updated stability programmes 2009-10 and ECB calculations.
Notes: Data are based on ESA 95 definitions. The euro area average includes the 16 countries that were members of the euro area as at 1 January 2009.

Source: European Central Bank (2010). *Annual Report 2009.* Frankfurt. p. 72.

Different factors triggered the crisis in PIIGS: In Italy, Spain and Greece, the main reason was prior indebtedness. Debts were concentrated in the private sector in Spain and the public sector in Italy. While rescue operations and bloating unemployment payments unsettled Spanish finances, Italy's financial sector required a modest in-

tervention. Greece was indebted in both its public and private sectors. Demand contraction and liquidity shortage fueled unemployment and triggered recession in the slow growth economy. Uncompetitive industries gave little hope for a Greek recovery; the scandal about fiscal inaccuracies worsened expectations. The Portuguese recession followed from underdevelopment. Exports were yielding sluggish growth in the 1990s; the crisis trimmed down growth potential.[3] Ireland resembled Spain in that large rescue operations towards the banking sector bloated public debts. Yet, Ireland had a smaller public sector than Spain, which explains the former's steeping GDP/public debt ratio and investor suspicions on debt sustainability.

Italy and Spain distinguished by their higher development level and larger market size. They had higher potential for recovery; but, they would also pose greater risk to Eurozone stability, had their fiscal position worsened. Because its industries were in better shape and debts seemed more manageable, expectations were more optimistic for Italy than Spain.[4] Small market size rendered Ireland, Greece and Portugal more vulnerable to external shocks, while making them less threatening to the Eurozone. Greece gave the least hope for recovery, given its poor tax basis, feeble industries and the reputation cost of the scandal. Ireland stood out by its specialized competitive industries, fiscal discipline, higher productivity and skilled workforce (Norris & Winston, 2009). Moreover, Ireland's financial sector dwarfed Portuguese, Greek and even Spanish sectors.[5] According to the data on Graph 1 the Irish economy (IE) was fiscally more robust than the Greek (EL), Portuguese (PT) and Spanish (ES) ones, between 1999 and 2010. Even when it peaked in 2008, Ireland remained less vulnerable remained than Greece, Spain and Portugal. After 2009, Irish vulnerability declined, contrasting with the rise in Greece, Spain and Portugal.

Graph 1

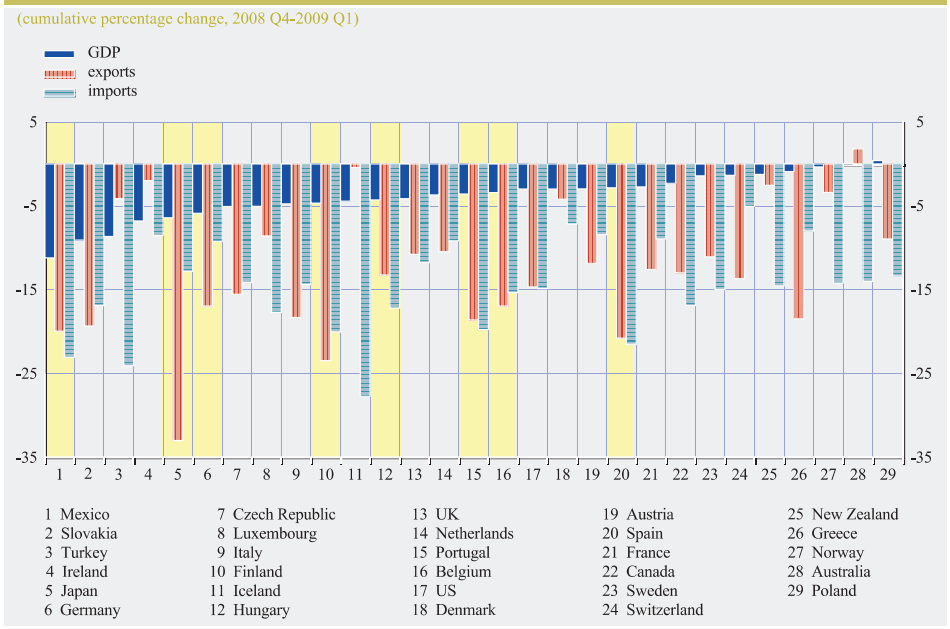
Evolution of the fiscal crisis vulnerarability index for ES, EL, PT, IE 1999–2010

Source: European Commission (2011a). *Quarterly Report on the Euro Area December,* Vol. 10 No: 3. p. 18.

According to the data in Graph 2, trade contracted less in Ireland than in Germany, France, Portugal, Italy, Spain and Greece. Ireland's exports and imports, as a percentage of GDP, came the second in 2009, in the EU27.[6] Irish trade continued to grow, thanks to robust purchasing power, and the necessity to import intermediary goods for specialized sectors. Irish industries successfully competed against China, while less specialized Italian and Spanish sectors lost market share.[7] Vivid trade demonstrated Ireland's potential for recovery.

Graph 2

Chart 10 Magnitude of the decline in trade and GDP



Source: Authors' calculations based on OECD data.
Notes: Countries are displayed in descending order of magnitude of the decline in GDP. Highlighted sections correspond to countries that are associated with a relatively high, or rapidly growing, degree of vertical specialisation (defined according to Miroudot and Ragoussis, 2009).

Source: European Commission (2011a). p. 14.

Investments in Ireland improved in 2009: Direct investments reached 11 % of Ireland's GDP; they dropped to (1.9 %) in Portugal, (1.2 %) in Italy, (1 %) in Spain and (1 %) in Greece. Ireland (9.1 %) outperformed Italy (2.1 %), Spain (1.1 %), Portugal (0.6 %) and Greece (0.6 %) on outward investments.[8]

Table 3

Job creation by FDI into Europe					
Rank 2009	Country	Jobs created in 2008	Jobs created in 2009	Market share 2009	Change 08-09
1	United Kingdom	20,210	20,017	16%	-1%
2	France	13,003	13,298	11%	2%
3	Russia	12,900	11,734	9%	-9%
4	Turkey	1,863	10,819	9%	481%
5	Poland	15,512	7,491	6%	-52%
6	Hungary	11,829	7,112	6%	-40%
7	Romania	11,403	6,384	5%	-44%
8	Slovakia	3,660	5,262	4%	44%
9	Spain	5,038	5,212	4%	3%
10	Germany	11,422	4,928	4%	-57%
11	Czech Republic	5,626	3,993	3%	-29%
12	Ireland	6,335	3,461	3%	-45%
13	Belgium	3,406	3,357	3%	-1%
14	Serbia	3,103	3,248	3%	5%
15	Moldova	na	2,508	2%	N/A
16	Ukraine	890	2,274	2%	156%
17	Italy	1,084	1,955	2%	80%
18	Portugal	4,140	1,780	1%	-57%
19	Bulgaria	6,709	1,321	1%	-80%
20	Switzerland	1,996	1,099	1%	-45%
Source: Ernst & Young European Investment Monitor 2010					

Number of FDI projects into Europe					
Rank 2009	Country	FDI projects in 2008	FDI projects in 2009	Market share 2009	Change 08-09
1	United Kingdom	686	678	21%	-1%
2	France	523	529	16%	1%
3	Germany	390	418	13%	7%
4	Spain	211	173	5%	-18%
5	Russia	143	170	5%	19%
6	Belgium	142	146	4%	3%
7	Netherlands	116	108	3%	-7%
8	Poland	176	102	3%	-42%
9	Italy	96	100	3%	4%
10	Ireland	108	84	3%	-22%
11	Romania	145	75	2%	-48%
12	Switzerland	125	69	2%	-45%
13	Hungary	100	64	2%	-36%
14	Czech Republic	87	61	2%	-30%
15	Sweden	85	58	2%	-32%
16	Turkey	41	58	2%	41%
17	Ukraine	31	46	1%	48%
18	Portugal	39	42	1%	8%
19	Austria	64	41	1%	-36%
20	Denmark	53	34	1%	-36%
Source: Ernst & Young European Investment Monitor 2010					

Source: Ernst & Young. (2010). *Waking Up to the New Economy: Ernst & Young's European Attractiveness Survey*. p. 20.

In terms of FDI, Ireland lagged behind Italy and Spain, but surpassed Portugal; Greece did not even appear among attractive destinations for investment (see Table 3). According to the data on Table 4, FDI inflows increased by €130.4bn from 2008. Interestingly, the financial sector attracted most FDI despite the downturn, followed by chemicals, trade and repairs and food products.[9] FDI flows from Ireland also increased to €17.7bn from -€11.2bn in 2008. The data on Table 3 shows that Ireland had the same market share as Italy in 2009. Trade and investments indicating economic improvement, sovereign bond spread began to decelerate by mid 2009.[10] This indicator communicates declining investor distrust in Ireland's capacity. Thus, Ireland was not the weakest link among PIIGS.

Table 4

Foreign Direct Investment 2009

€million

	2007	2008	2009
Foreign Direct Investment			
Flows – Abroad	-15,450	-12,939	-17,221
Flows – In Irleand	18,052	-11,232	17,697
Position – Abroad – end year	101,936	121,381	189,710
Position – In Irleand – end year	138,362	138,859	169,328
Net Income Flows	-26,482	-20,513	-26,007

Source: Central Statistics Office (2010). *Foreign Direct Investment*. Dublin: The Stationery Office. p. 1.

Ireland has built a reputation for successfully recovering from the debt crises in the 1990s and early 2000s. Governments resumed growth, by lowering corporate taxes, cutting public spending, and investing in education and IT sectors; Ireland did not default. The Irish government applied similar supply side measures towards the 2008 crisis, which goes against the 'this time is different' thesis. Moreover, Irish bonds continued to spread in 2010, despite the defaultless past. This contradicts predictions based on the reputation argument, including that countries with a good reputation from the past had lower risk premiums in the present.

The economic comparison concludes that Ireland championed in public debt and GDP contraction. But, unlike Portugal, Greece, Italy and Spain, it maintained robust trade and investment volumes; its fiscal vulnerability decreased after 2009. Ireland demonstrated greater recovery potential than Portugal and Greece. Therefore, Ireland was not the weakest link, among the peripheral economies. Compared to Italy and Spain, Ireland's small markets and public sector raised suspicion about debt sustainability. However, deceleration of bond spreads indicates that Ireland's

economy began gaining credibility in 2009. Doubts did not make financial assistance inescapable until November 2010, which raises the question of what happened in that year to undercut the government's anti-bailout stance. Hence, even if economic fundamentals explained the patterns and roots of the crisis, they do not explain the timing of the Irish package. In order to do so, I turn to an examination of political factors.

3 Crisis management: policies & resolve

As of October 2008, the Eurozone members embarked upon rescue operations towards their financial sectors. The Irish government was the first to bail out banks. In 2009, it established National Asset Management Agency to take over banks' loans. Budgetary cuts and tax increases accompanied bank bailouts in Ireland, as in elsewhere in Europe. Table 5 reflects the type of budgetary cuts and tax rise per indebted governments.

Table 5

		Portugal	Irleand	Italy	Greece	Spain
Type of splending	**Public sector wages**	Cut	First freeze; then cut	First freeze; then cut	First freeze; then cut	First freeze; then cut
	Social policies	Freeze pensions, raise retirement age, unemployment benefits	First freeze, then cut on child care, health, education, unemployment benefits	Freeze pensions, raise retirement age	Freeze pensions, raise retirement age	Freeze pensions, raise retirement age, unemployment benefits
	Public administration		Decrease funding to cities, regions and provincial governments; Slow down decentralization Scale down the bureaucracy Privatisation	Decrease funding to cities, regions and provincial governments; Scale down the bureaucracy		
	Public investment	Cut public investment; Halt ongoing construction projects	Cut public investment;	Cut public investment	Cut public investment	Cut public investment
	Other		Combat corruption; Scrap funding to think tanks	Combat corruption	Combat corruption; Cut development aid	

		Portugal	Irleand	Italy	Greece	Spain
Taxes	VAT	Raise	Raise	Raise	Raise	Raise
	Fuel, alcohol etc.	Raise; then slightly decrease	Raise	Raise		
	Income taxes	Raise	Raise	Raise	Raise	
	Corporate taxes	Raise	Slight raise, then relax	Raise	Raise	Raise
	Other		Introduce carbon tax,property tax; levy for parking in urban areas			

Source: Table 5 was constructed using the data from the following articles: Italy Joins Europe's Wave of Belt-Tightening (2010). *Der Spiegel,* 26 May; Q&A: Greece's Economic Woes, (2010) *BBC News,* 02 May; Volkery, C. (2010), Queen Announces New Government Austerity Measures. *Der Spiegel,* 25 May; Broad, M. (2010) Lessons in cuts from Ireland's Mr. Snip, *BBC News,* 24 May; Batzoglou, F. et. al. (2010) Which EU Problem Child Will Be Next?. *Der Spiegel,* 26 November.

Table 5 shows that all governments reduced public spending, and raised taxes. This finding implies that Ireland did not pursue unusual policies compared to its peers. The Irish government took more measures than others, i.e. privatizations, halting decentralization reforms, and introducing new taxes. Also, Ireland differed from other indebted countries by its low corporate tax policy (except for a brief period of slight increase). Low corporate taxes raised concerns about competitiveness in Spain, Italy, Portugal and Greece. Ireland disregarded its neighbors' objections.

Ireland made the largest cuts on administrative spending, followed by public investments. The government initially hesitated on social spending, since the Irish society has been used to high living standards and generous welfare benefits. However, the cost of bank bailouts in 2009 obliged the government to curtail social spending, in electorally costly areas (e.g. education, unemployment benefits). Like its predecessors that faced debt crisis in the 1990s and early 2000s, the Irish government adopted supply side measures. Being a small market, Ireland could not spur growth by domestic consumption. It needed to incentivize investments, trade and production, which required low corporate taxes and a healthy financial sector. Bank bailouts were necessary to preclude slowdown in transactions, and support investments. Also, by capitalizing banks, the Irish government tried to buttress the credibility of its financial institutions, which were the motor of growth before the downturn. The government diminished public pay to compensate for rising debt. Findings from our content analysis point that the constituency and trade unions complained about tax increase, low public sector wages and welfare spending cuts; the government drew support from financial and trading sectors.

In 2010, the economic program increased GNP by 0.3 % from 2009 (contra expectations of a 2.1 % decline). Recession continued, but GDP contraction slowed down to 0.4 % (in constant prices). Industrial development reached 11.2 %; agriculture, forestry and fishing grew by 0.7 %. Public sector shrank by -2.7 %, construction by 30.1 %. While exports expanded by 23.8 %, personal consumption and government expenditure slumped, respectively, by 0.8% and 3.8 %.[11] Supply side measures met their objective of stimulating business. Therefore, investor distrust in Ireland cannot be attributed to policy failure.

Another rival hypothesis explains persistent distrust by low incumbent support. In that, by weakening the government's stance, low support raised doubts about policy continuity and the credibility of commitments; pessimism gained markets. Evidence suggests that austerity measures made the government unpopular. Civil servants, workers and students protested spending cuts through demonstrations in 2009 and 2010. According to polls, support for Fianna Fáil, the major coalition partner, declined drastically, while it remained about the same for the Greens and Progressive Democrats. Centre right Fine Gael, Labour and nationalistic Sinn Féin stole Fianna Fáil's votes, by attacking austerity measures.[12] The ruling coalition condemned the opposition for populism.[13] Thus, the government faced a dilemma between saving leading financial institutions and electoral punishment. Eroding support obliged the incumbents to schedule early elections; but, it did not stop bank bailouts in 2010, and the budget was passed before the elections to ensure policy continuity. This policy goes against the institutional thesis that elections checked government propensity to cater to special interests. On the other hand, the incumbents shared an anti-bailout sentiment with the opposition and citizens. Therefore, they frequently reiterated their commitment to not receive an aid package until November 2010. Policy continuity and the firmness of the government's anti-bailout stance rule out policy failure hypothesis and the argument that predicted instability in high veto number regimes.

To recap, supply side measures reached their objective of stimulating business also in 2010. The government implemented austerity measures and bank bailouts, despite declining support; it scheduled the vote for the budget before the elections, to ensure policy continuity. These findings reject alternative explanations that attributed investor distrust to policy failure, lack of resolve or electoral punishment. If distrust did not derive from the lack of resolve, why did Irish bonds continue to spread? Why did the government's anti-bailout stance collapse in November 2010? This paper will explore international dynamics for the answer.

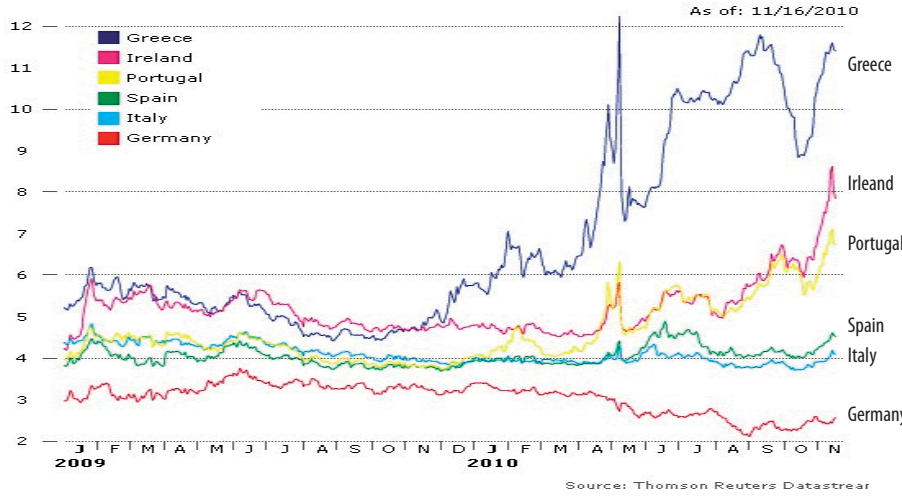
4 Ireland & Eurozone governments

In 2010, Euro's position weakened; the indebted Eurozone economies came under scrutiny. After the Greek package, the EU began pressing for an Irish bailout. Seeing escalating interest rates, Ireland received an aid package in November 2010. The sequencing hints that the Greek crisis might have set off some external dynamic that played a causal role in the Irish bailout.

Greek debts came to light in October 2009. Immediately after, Greece's credit ratings declined; Euro weakened. The economic cost of debts was not unbearable for the Eurozone. Rather, the Greek crisis strengthened skeptics' argument about the unsustainability of the common currency, based on the Stability and Growth Pact, while casting doubts on the capacity of Eurozone economies. Absent a lender of last resort, fear of contagion spread; financial observers began speculating about the next Eurozone economy to fall. EU institutions failed to rebuild trust, after the scandal that the Commission had been operating on inaccurate data from Greece. Thus, debts of a peripheral economy called the Eurozone's health into question.

The Greek government refused taking financial aid in March 2010; bonds began spreading as of March 2010. Interests hiked in May 2010, forcing Greece to sign an agreement with the EU and IMF. The data on Graph 4 shows an uptrend for interest rates between March and May 2010 for Greek bonds as well as all other indebted government bonds. The simultaneous escalation of bonds was telling: Quoting German chancellor "systemic effects against the euro (were) felt."[14] Graph 3 shows parallelism between the fluctuations of Irish, Greek and Portuguese bonds. Parallelism suggests that the changes in Irish and Portuguese bonds responded to the changes in Greek bonds. This finding strengthens this paper's hypothesis that pessimism from the Greek crisis worsened expectations for all others. Also, bonds of peripheral economies spread more than Spanish and Italian bonds, demonstrating the credibility of larger markets.

Graph 3



Source: Laboratoire Europeenne d'Anticipation Politique (2010). Global systemic crisis: Second half of 2011, *Public announcement* GEAB N°50. LEAP/E2020, December 16.

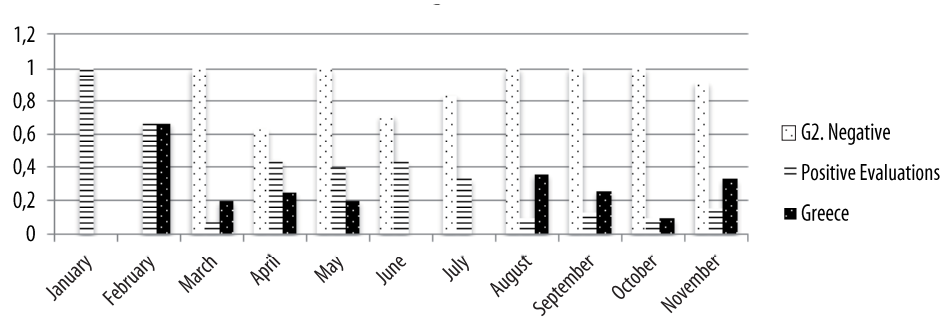
As speculations on Euro intensified, member states organized an emergency summit and an ECOFIN meeting in May 2010. They established the European Stability Mechanism to provide financial assistance to all economies under fiscal strain, and tightened monitoring and prevention mechanisms.[15] In line with our expectations, threats to the Euro obliged member states to take collective action. Loans to Greece and the support mechanism aimed to signal investors that the Eurozone was under control. However, these measures relieved markets only temporarily. Bonds resumed their spread as of June 2010; financial circles grew suspicious about Ireland and Portugal.

Graph 4 shows the monthly distributions of mentions of the Greek debt crisis, positive and negative evaluations of Ireland (in ratios: number of mentions/number of articles published in that month).[16] The content analysis identifies a parallel uptrend for mentions of the Greek debt crisis and negative evaluations of Ireland. In January and February, all articles demonstrated appreciation for austerity measures for stimulating trade and investments in Ireland. In February, the expectation was that Greece would receive a bailout, which explains this topic's salience in this month. Simultaneously to the Greek government's refusal of aid package, negative evaluations of Ireland peaked, positive evaluations dipped in March.[17] Given that economic indicators did not shift from February to March, pessimism about Ireland can be associated to the Greek crisis. This would also mean that financial circles did not define the Greek crisis as a threat to the Eurozone until March. In April, expectations on Ireland's financial sector improved, as the government introduced new

regulations and capitalizations to enhance trust. Businessmen and foreign experts welcomed these measures. Even if concerns about debt sustainability did not wither away, articles stressed that Ireland was not Greece.[18] Around this time, the EU began pressing for an Irish bailout. Why did the EU target Ireland, not Spain (which posed greater risk) or Portugal (which offered smaller prospects for growth)?

Graph 4

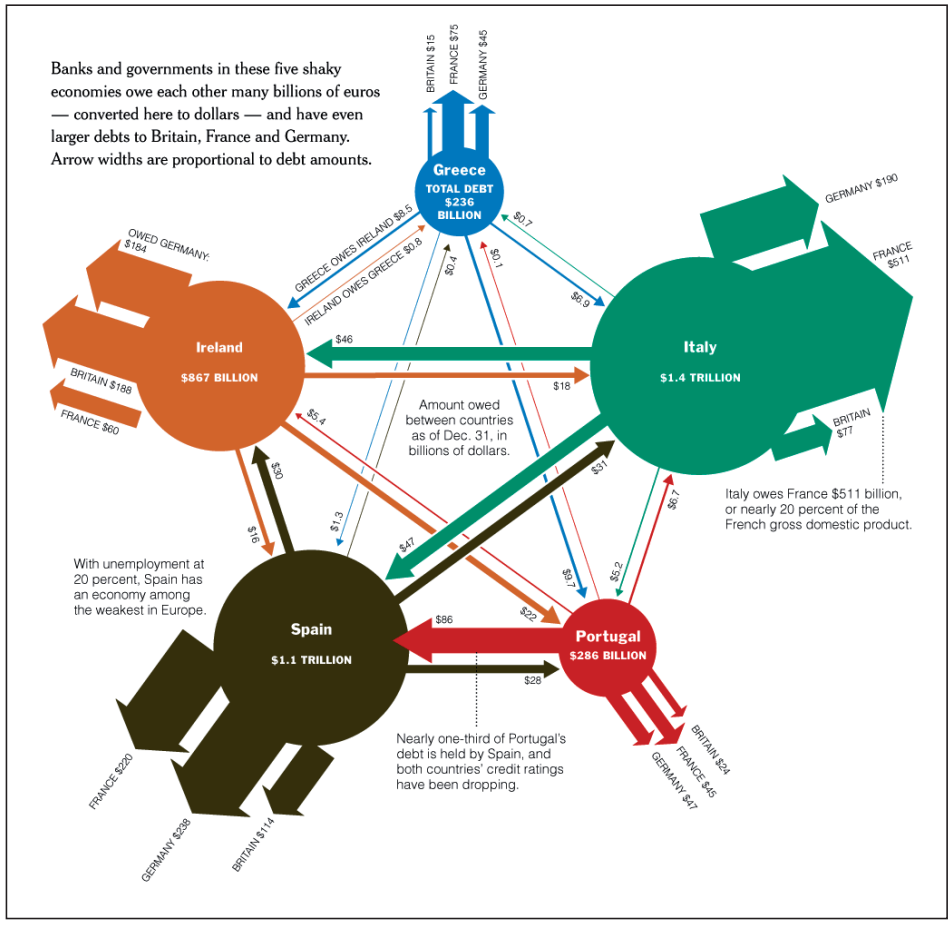
Monthly Distribution of Mentions of the Greek debt crisis, Positive and Negative Evaluations of Ireland



Source: Author.

This paper argues that the decision to capitalize Ireland was cost-effective. Ireland carried more debts than Portugal, but also had greater recovery potential. We cannot know for sure which indicator investors cared most. Yet, we know that an Irish bailout cost less, and that it would damage the Eurozone reputation less than a Spanish one. The alternative explanation suggests that Ireland's economy was more integrated, and therefore, was more important for the EU than the Greek or Portuguese ones. Graph 5 shows that Portugal, Ireland and Greece owed less to each other than they owed to Germany, Britain and France. Ireland borrowed more from Germany, Britain and France than Greece and Portugal did. Britain held most assets in Ireland (12 times more than in Greece, 7 times more than in Portugal, and 1.5 times more than in Spain). Germany lent Ireland as much as it lent Italy ($184bn vs. $190bn), and 4 times more than it lent Greece and Portugal. Only Greece owed more to France than Ireland did ($60bn vs. $75bn). Interestingly, Spain and Italy borrowed more from Ireland than the latter borrowed from them. The patterns of debt relations corroborate Ireland's deeper integration with leading EU economies than Greece or Portugal. Irish insolvency would cause greater disturbance in the Eurozone. Because Britain, Germany and France had more to lose on Irish markets than on Portuguese and Greek ones, they had interest in pressuring Ireland. On the other hand, capitalizing Spain was costlier than capitalizing Ireland.

Graph 5
Web of Debts



Source: Marsh, B. (2010) Europe's Web of Debt. *New York Times.* 01 March.

Germany, Britain and France began pronouncing an *Irish* bailout, as of May 2010.[19] The content analysis identified weak trust in the banking sector by private rating agencies and experts in May and June. The Irish government injected capital to defend this sector, which received support from business circles, and criticism from opposition parties and trade unions. These measures raised questions about debt sustainability; private rating agencies cut Ireland's credit rating in July and August. Accordingly, Graph 4 reflects an uptrend for negative evaluations and a downtrend in positive evaluations in these months. Mounting pessimism encouraged comparisons to Greece, hence the augmentation in mentions of the Greek crisis.

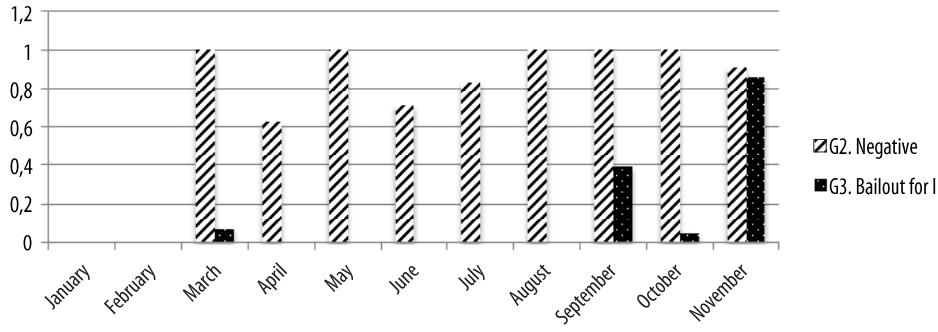
In September, the government launched another rescue operation. The monthly distribution of mentions of the Irish bailout on Graph 6[20] identified a shift in Sep-

tember, reaffirming heightened concerns about debt sustainability. Bailout speeches became more frequent in early November, in line with the rising salience of the Greek bailout, the uptrend in negative evaluations of Ireland (Graph 4), and escalating interest rates (Graph 3). The content analysis further identified an augmentation in the references to Portugal and Spain. Out of the articles published, Ireland-Portugal comparison scored 36 % in August, 22 % in September, 5 % in October and 22 % in November. The ratio of Ireland-Spain comparison to the number of articles published per month was 36 % in August, 9 % in September, 5 % in October and 20 % in November. This finding reaffirms the Eurozone-wide effect of pessimism from Greece's debt crisis. Portugal and Spain began lobbying for an Irish bailout, thinking that capitalizing Irish markets would decrease premiums on their own bond without charging them sovereignty cost of an aid package. The Irish government was concerned about the collapse of the banking sector."[21] Bond spread and heightened bailout pressure broke the government's resolve in November. Ireland began negotiations with the EU and the IMF.

Official statements reflected that EU actors had different expectations than Ireland: Germany and the EU presidency defended not only a member state but also the Euro; Britain helped its 'neighbor and friend' to whom British banks were linked.[22] We lack data on the way bargaining played out. In the end, Ireland received €85bn with a 5.8 % annual interest on a three-year period (higher than the interest on Greek loans). The memorandum conditioned the first payment on the adoption of adjustment measures, including tax raises, wage cuts, and periodic screenings of the Central Bank's assets and the government's cash position.[23] Irish unions protested austerity measures. Opposition parties condemned the government for negotiating such a poor deal; the interest was so high that Ireland might have to borrow again.[24] The tough conditions of the agreement suggest that lenders had the upper hand. Hiking risk premiums and concerns about the financial sector might have lowered Ireland's bargaining power. The condition on the first payment, austerity measures, and financial surveillance indicate that lenders wanted to signal to investors that the Irish government's hands were tied.

Graph 6

Monthly Distribution of Mentions of an Irish Bailout vs. Negative Evaluations of Ireland



Source: Author.

Evidence lends support to the theory presented in this paper: Absent a threat to the Eurozone, the EU did not take action towards Ireland until 2010. After the Greek crisis jeopardized Euro's position, they capitalized Greece to signal investors that the Eurozone remained under control. The temporary decline on interest rates for Portuguese, Spanish and Italian bonds communicated the brief success of this measure. To increase the Euro's credibility, the EU set a support mechanism to assist *all* economies under fiscal strain. As the Irish and Portuguese economies came under scrutiny, member states specified the signal by pronouncing an *Irish* bailout. Bond spread indicating persistent distrust, EU members increased the frequency of the signal. Graph 6 reflects that mentions of bailout by EU members peaked in September and November, which demonstrates the rising salience of the Irish aid package. Besides, Graph 4 shows that negative evaluations of Ireland increased in line with the rising salience of the Greek crisis, while positive evaluations slumped. When interests hiked in November, the EU capitalized Ireland. This action distressed markets and secured Britain's, Germany's and France's assets in Irish markets.

Recent developments provided further support to this paper's theory: Following the Irish bailout, speculations built on Portugal, forcing the EU to officially declare that this economy was under control.[25] To render this signal more credible, the EU made the support mechanism permanent, and increased its ceiling to €500bn. After this measure failed to convince markets, the EU bailed out Portugal in February 2011.[26] Next, investors targeted Greece and Spain. The EU pressured Greece for new austerity measures. Negotiations lingered due bailout fatigue in Germany and domestic resistance in Greece. Yet, persistent distrust obliged both parties to settle on another loan agreement in July 2011.[27] Next, Spain came under scrutiny. Uncertainty about debt sustainability grew in the next 12 months forcing the Spanish government to receive a bailout in June 2012.

Conclusion

This paper sought to explain why Ireland received financial aid, two years after declaring recession, despite its government's resistance to a bailout. Economic theories have illustrated causes and patterns of the debt crisis, but they have not accounted for the timing of the bailout. Predictions based on electoral cycles arguments are misaligned with the government's bailout decision. Reputation arguments do not capture the Irish case, given the country's defaultless past and successful recoveries from past crises. Building on Leblang (2003), I suggested a dynamic theory of debt crisis, including investors, the Irish government and Eurozone members. I tested the hypothesis that external factors determined the timing of the collapse of the government's anti-bailout stance. The Greek debt crisis had an independent effect on casting pessimism over the entire Eurozone. Perceptions of the Eurozone turning negative, EU members forced Ireland to receive a loan, to save the Euro and their assets on Irish markets.

The comparison of Ireland's economic situation to the other indebted Eurozone countries identified that Ireland was not the weakest link among the peripheral economies. With its flexible labor markets and low corporate taxes, Ireland had greater recovery potential than Greece and Portugal, even after rescue operations raised concerns about debt sustainability. Based on economic fundamentals arguments, Portugal should have received financial assistance before Ireland did. Yet, the reverse happened. This evidence conveyed that investor perceptions did not only depend on economic factors.

Content analysis and process tracing conveyed that debt sustainability became problematic, particularly after March 2010 when Greece refused a bailout. Before 2010, the EU did not take action towards Irish debts, since austerity measures from 2009 had improved expectations in January and February 2010. As of March 2010, interest on Irish bonds began escalating. The Irish government tried to avoid a bailout by adopting supply-side measures. The incumbents were aware that austerity measures would instigate discontent in the 2011 elections. As expected, incumbent support declined throughout 2010, and dipped in November when bailout talks started. The government negotiated the loan agreement, knowing that accepting lenders' demands would guarantee a defeat in 2011 elections. This evidence goes against the predictions of electoral cycle arguments.

I have further identified a parallel between evaluations of Irish bonds and perceptions of the Eurozone. After the outbreak of the Greek crisis, investors raised premiums on sovereign bonds of all EU countries under fiscal strain. Similarly, any improvement in Greek markets had positive repercussions on the entire Eurozone. This evidence supports this paper's argument about Eurozone-wide implications of domestic debt crises. In line with the predictions, Eurozone members sent signals

to restore investor confidence. The EU moved from low cost signals such as official declarations to high cost financial assistance, as risk premiums augmented. The EU began pressuring Ireland for a bailout, only after Greek debts raised doubts about the Eurozone's survival. In the absence of a lender of last resort, the EU decided to capitalize Irish markets, to send a strong signal. Member states chose Ireland, because Irish debts required a smaller aid package than Spanish debts. Also, they had more assets at stake in Irish markets than in Portuguese, Spanish and Greek markets. Facing investor distrust and EU insistence, the Irish government's anti- bailout stance collapsed. Under the pressure of high premiums, Ireland had little bargaining power. Its government had to sign on to a loan agreement imposing tough conditions.

This paper focused on Ireland. The findings of a single case study have limited generalizability. However, the Irish case teaches us noteworthy lessons on the study of crises, and the dynamics of EU integration. In terms of scientific research, the case of Ireland conveys the added value of dynamic approaches vis-à-vis strictly economic or institutional approaches. By accounting for interactions and interdependencies, the former better account for the issue of timing and policy decisions. With respect to the future of EU integration, the Irish bailout raises two important issues. First, the Eurozone debt crisis has revealed that the presence of a few sound economies is insufficient to sustain monetary integration in the long run. Economies have different structures and capacities; taxation belongs with the member states; and there is not a lender of last resort. The crisis has shown that intergovernmental agreements, such as the Stability and Growth Pact and member state commitments, cannot build trust during bad times because they do not eliminate default and defection risks. Furthermore, these institutions cannot contain the contagion of economic instability. States could not claim credit for keeping their houses clean or cleaner, as long as investors are judging the Eurozone as a whole. In policy terms, this implies that member states should develop fiscal solidarity in order to prevent future disasters. Lastly, the EU should reach some agreement on the future of integration. Furthering economic integration without a concrete political agenda fuels euroskepticism each time politicians ask for concessions from citizens to remedy problems related to integration.

Appendix I: Rules for Coding

A. Code the article's link and publication date.

B. Government policies: Code any government measure fitting the categories below.

- o B1. Taxation
  - o Code 1 if mentioned
  - o 0 otherwise
- o B2. Social spending
  - o Code 1 if mentioned
  - o 0 otherwise
- o B3. Public sector wages
  - o Code 1 if mentioned
  - o 0 otherwise
- o B4. Banking sector
  - o Code 1 if mentioned
  - o 0 otherwise

C. Government's stance vis-à-vis domestic or foreign actors: e.g. "the government obeys Germany", "the government is having hard times with strikes"…

- o Code 1 if mentioned
- o 0 otherwise

D. General Macroeconomics.

- o D1. Fiscal deficit
  - o Code 1 if mentioned
  - o 0 otherwise
- o D2. Unemployment
  - o Code 1 if mentioned
  - o 0 otherwise
- o D3. Household Earnings
  - o Code 1 if mentioned
  - o 0 otherwise
- o D4. Profits
  - o Code 1 if mentioned
  - o 0 otherwise
- o D5. Output
  - o Code 1 if mentioned
  - o 0 otherwise
- o D6. Inflation
  - o Code 1 if mentioned
  - o 0 otherwise
- o D7. Exports
  - o Code 1 if mentioned
  - o 0 otherwise
- o D8. Consumption
  - o Code 1 if mentioned
  - o 0 otherwise
- o D9. Sovereign bonds
  - o Code 1 if mentioned
  - o 0 otherwise

E. Domestic Climate.

- **o E1. Non-incumbent parties**
  - o Code 1 if mentioned
  - o 0 otherwise
- **o E2. Constituency**
  - o Code 1 if mentioned
  - o 0 otherwise

- **E3. The business sector**
  - Code 1 if mentioned
  - 0 otherwise

- **E4. Organized Societal actors: Trade unions, public employees.**
  - Code 1 if mentioned
  - 0 otherwise

- **E5. Other**
  - Code 1 if mentioned
  - 0 otherwise

F. Foreign actors' evaluations.

- **F1. EU member states**
  - Code 1 if mentioned
  - 0 otherwise

- **F2. International Organizations**
  - Code 1 if mentioned
  - 0 otherwise

- **F3. Non-EU states**
  - Code 1 if mentioned
  - 0 otherwise

- **F4. Non-EU private actors**
  - Code 1 if mentioned
  - 0 otherwise

- **F5. EU institutions**
  - Code 1 if mentioned
  - 0 otherwise

G. Policy Evaluation: This category is coded together with previous categories concerning policy area and actors to identify whether evaluations are critical or appreciative.

- **G1. Positive:** appreciative judgments, optimistic expectations: e.g. improvement, recovery…

- **G2. Negative:** inappreciative judgments, pessimistic expectations: e.g. "the government will have to give in to Germany's demands"…
  - 0 if not mentioned
  - 1 if weak/ineffective/unsuccessful etc.
  - 2 if strong/effective/doing well etc.

- G3: Bailout for Ireland: loans from European Stability Fund…

H. The Greek Debt Crisis/bailout.

- Code 1 if mentioned
- 0 otherwise

I. Spain.

- Code 1 if mentioned
- 0 otherwise

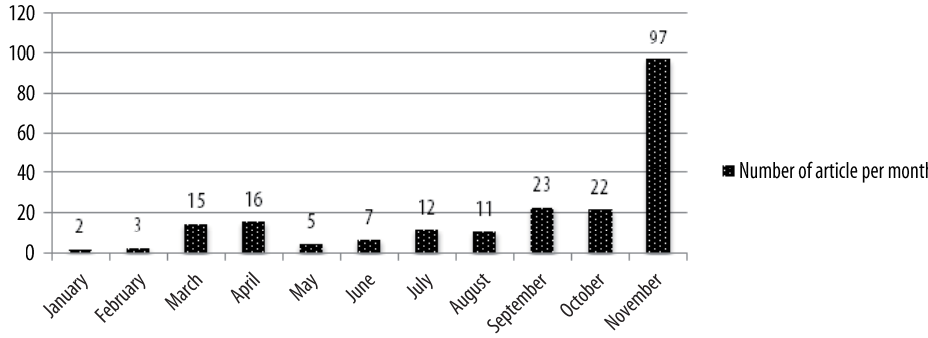
J. Portugal.

- Code 1 if mentioned
- 0 otherwise

Appendix II

The monthly distribution of articles was uneven. It followed an uptrend, with a peak in November 2010.

Number of article per month



Source: Author.

Notes

1 Spillane, A. (2010) *Mythwatch – Spin in the Media. Politico.ie.* November 29.

2 Prior budgetary position does not explain patterns of the debt crisis, or why Ireland and Greece (and not France, Spain and Italy) received a bailout in 2010: This indicator predicts fiscal deficits in Portugal, Greece, France, Italy, but not in the Netherlands, Luxembourg, Austria, Belgium, Germany and Finland. Yet, Ireland had a surplus budget, France a deficit. Moreover, Ireland and Greece received a bailout in 2010, but not Portugal, Spain. Looking at growth models, France, Spain, Ireland relied on housing markets and the financial sector; they received the worst implications with the end of housing booms, and capital flight. Rescue operations towards the financial sector deteriorated fiscal positions of Ireland and Britain. Luxembourg, Austria and Belgium were toxic assets holders, but received less damage thanks to prior budgetary surplus. Germany and the Netherlands, both export economies, entered recession, but averted indebtedness. In consumption-based economies of Greece, Italy, France, Portugal, prior fiscal deficits triggered a debt crisis, following shrinking output and tax revenues. Although it predicts the patterns of the crisis, growth model does not explain the timing of bailouts.

3 Batzoglou, F. et. al. (2010) Which EU Problem Child Will Be Next?. *Der Spiegel.* 26 November.

4 Coletto, D. (2010) Effects of economic crisis on Italian economy. *European Industrial Relations Observatory Online.* Available at: http://www.eurofound.europa.eu/eiro/2010/03/articles/it1003019i.htm

5 Ireland. (2010b). *Financial Times,* 20 July.

[6] Central Statistics Office (2010). Measuring Ireland's Progress 2009. September. Dublin: The Stationery Office. p. 25.

[7] di Mauro, F. et. al., (2010) "The Global Downturn and Its Impact on Euro Area Exports and Competitiveness" *ECB Occasional Paper Series.* (119), pp. 7–14, pp. 22–24.

[8] Measuring Ireland's Progress 2009, p. 24.

[9] *op.cit.* pp. 1–10.

[10] Eurozone leaders' meeting on Greece. *Reuters*, May 7. Available at: http://www.reuters.com/article/2010/05/07/eurozone-idUSLDE6461QJ20100507

[11] Central statistics office (2011). *National Income and Expenditure, Annual Results for 2010.* June. Dublin: The Stationery Office.

[12] Red C poll shows support for FF at 18%. (2010), *RTE News,* 23 October. Available at: http://www.rte.ie/news/2010/1023/poll.html

[13] Heatley, C. and Doyle, D. (2010) Collapse of Cowen Government Gives Ireland Chance to Rebuke Prime Minister. *Bloomberg*, 23 November.

[14] Eurozone leaders' meeting on Greece. (2010) *Reuters*, May 7. Available at: http://www.reuters.com/article/2010/05/07/eurozone-idUSLDE6461QJ20100507

[15] Preparation of Eurogroup and Economic and Finance Ministers Council, Luxembourg 7 and 8 June 2010. (2010). *EUROPA – PRESS RELEASES.* Jun. 7. Available at: http://europa.eu/news/economy/2010/06/20100607_en.htm

[16] I took ratios, because the number of published articles varied across months (see Appendix II). Taking the crude number of mentions would bias findings, e.g. having 4 mentions of Greece in a month where only 5 articles appeared represents the attention paid to the topic, whereas if I took crude numbers, I would have thought the opposite, i.e. if, in another month, I identified 6 mentions out of 20 published articles.

[17] Greece gained salience in March; the FT covered the issue separately, which explains the decline in the mentions of Greece in articles on Ireland.

[18] Threat of Ireland reneging on debt dismissed. (2010), *Financial Times,* 13 April; Ireland. (2010). *Financial Times,* 28 April; Ireland may skip debt auctions on Greek woes. (2010), *Financial Times,* 30 April.

[19] Dublin's Merkel Problem: Irish Debt Causing New Jitters Across Europe. (2010). *Der Spiegel,* 11 November.

[20] Y axis in Graph 6 represents the ratio of mentions of bailout to the total number of article published in that month.

[21] Waterfield, B. (2010). Ireland forced to take EU and IMF bail-out package, *The Telegraph,* 22 November. Available at: http://www.telegraph.co.uk/finance/financialcrisis/8150137/Ireland-forced-to-take-EU-and-IMF-bail-out-package.html

[22] *ibid.*

[23] Gavan, R. (2010) "Official Terms Of The Irish Bailout Have Been Released", *Business Insider,* 1 December. Available at: http://www.businessinsider.com/official-terms-of-the-irish-bailout-have-been-released-2010-12

[24] Labour's Burton says Ireland is 'banjaxed' (2010), *RTE.ie* (Ireland's National Public Service Broadcaster), 29 November. Available at: http://www.rte.ie/news/2010/1128/294902-economy2/

[25] Portugal in line for aid package, (2010). *BBC News Business,* 26 November. Available at: http://www.bbc.co.uk/news/business-11845046

[26] Eurozone agrees bailout fund of 500bn euros, (2011). *BBC News Business,* 14 February. Available at: http://www.bbc.co.uk/news/business-12460527

[27] Greece aid package boosts stock markets (2011). *BBC News Business,* 22 July. Available at: http://www.bbc.co.uk/news/business-14246787

References

24 Billion Euro Austerity Package: Italy Joins Europe's Wave of Belt-Tightening. (2010). *Der Spiegel.* May 26. Available at: http://www.spiegel.de/international/europe/24-billion-euro-austerity-package-italy-joins-europe-s-wave-of-belt-tightening-a-696848.html (Accessed on 20 January 2013).

Eurozone agrees €85bn deal for Ireland, (2010) *RTE.ie* (Ireland's National Public Service Broadcaster), 29 November. Available at: http://www.rte.ie/news/2010/1128/294894-economy/ (Accessed on 20 January 2013).

Labour's Burton says Ireland is 'banjaxed' (2010) *RTE.ie* (Ireland's National Public Service Broadcaster), 29 November. Available at: http://www.rte.ie/news/2010/1128/294902-economy2/ (Accessed on 20 January 2013).

Aguiar, Mark, & Gopinath, Gita (2006) Defaultable debt, interest rates and the current account. *Journal of International Economics,* 69(1), 64–83.

Arellano, Cristina (2008) Default risk and income fluctuations in emerging economies. *MPRA.* Paper No. 7867.

Arellano, Cristina (2008) Internal Debt Crises and Sovereign Defaults. *National Bureau of Economic Research.* Working Paper No. 13794.

Batzoglou, Ferry, Braun, Michael, & et. al. (2010) Bracing for Bailouts: Which EU Problem Child Will Be Next? *Der Spiegel.* Nov. 26. Available at: http://www.spiegel.de/international/europe/bracing-for-bailouts-which-eu-problem-child-will-be-next-a-731335.html (Accessed on 20 January 2013).

Broad, Mark (2010) Lessons in cuts from Ireland's Mr Snip. *BBC.* May 24. Available at: http://www.bbc.co.uk/news/10146537 (Accessed on 20 January 2013).

Callender, Guy, & Kouzmin, Alan (2002) Economics in the New Age of Economic Regulation: All Care but Ultimately No Responsibility. *Administrative Theory & Praxis,* 24(1), 197–218.

Central Statistics Office. (2010) *Foreign Direct Investment 2009.* Dublin: The Stationery Office.

Central Statistics Office. (2011) *National Income and Expenditure Annual Results for 2010.* Dublin: The Stationery Office.

Central Statistics Office. (2010) *Measuring Ireland's Progress 2009.* Dublin: The Stationery Office.

Chari, Vilma, & Kehoe, Patrick (2007) On the need for fiscal constraints in a monetary union. *Journal of Monetary Economics,* 54(8), 2399–2408.

Cheung, Yin-Wong, & Chinn, David (2001) Currency Traders and Exchange Rate Dynamics. *Journal of International Money and Finance,* 20, 439–471.

Cheung, Yin-Wong, Chinn, David, & Marsh, Walter (2000) How Do UK-Based Foreign Exchange Dealers Think Their Market Operates? *National Bureau of Economic Research.* Working Paper No. 7524.

Cole, Harold L., & Kehoe, Timothy J. (2000) Self-Fulfilling Debt Crises. *The Review of Economic Studies,* 67(1), 91–116.

Coletto, David (2010) Effects of economic crisis on Italian economy. *European Industrial Relations Observatory Online.* Available at: http://www.eurofound.europa.eu/eiro/2010/03/articles/it1003019i.htm (Accessed on 20 January 2013).

Constâncio, Vítor (2011) Presentation of the ECB Annual Report 2010 to the Committee on Economic and Monetary Affairs. Brussels. May 2. Available at: http://www.ecb.int/press/key/date/2011/html/sp110502_1.en.html (Accessed on 20 January 2013).

Currency wars: Lessons from the US experience. (2011) *Vox*. Oct. 03. Available at: http://www.voxeu.org/article/currency-wars-lessons-us-experience (Accessed on 20 January 2013).

Di Mauro, Filippo, Forster, Karin, & Lima, Ana (2010) The global downturn and its impact on euro area exports and competitiveness. *ECB Occasional Paper,* (119). Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1683325 (Accessed on 20 January 2013).

Dublin's Merkel Problem: Irish Debt Causing New Jitters Across Europe. (2010). *Der Spiegel.* Nov. 11. Available at: http://www.spiegel.de/international/europe/dublin-s-merkel-problem-irish-debt-causing-new-jitters-across-europe-a-728582.html (Accessed on 20 January 2013).

Ederington, Louis H., & Lee, Jae H. (1993) How Markets Process Information: News Releases and Volatility. *The Journal of Finance,* 48(4), 1161–1191.

Ernst, David, & Young, Paul. (2010) *Waking Up to the New Economy: Ernst & Young's European Attractiveness Survey.* Available at: http://www.eyeim.com/pdf/Ernst%20&%20Young's%202010%20EAS%20Waking%20up%20to%20the%20new%20economy.pdf (Accessed on 20 January 2013).

EU says no plans for Portugal aid. (2010) *BBC*. Nov. 26. Available at: http://www.bbc.co.uk/news/business-11845046 (Accessed on 20 January 2013).

Euro zone leaders' meeting on Greece. (2010) *Reuters*. Available at: http://www.reuters.com/article/2010/05/07/eurozone-idUSLDE6461QJ20100507 (Accessed on 20 January 2013)

European Central Bank. (2010) *Annual Report 2009.* Frankfurt. Available at: www.ecb.europa.eu/pub/pdf/annrep/ar2009en.pdf (Accessed on 20 January 2013).

European Commission. (2011a) *Quarterly report on the euro area December.* Vol. 10 No: 3. Available at: http://ec.europa.eu/economy_finance/publications/qr_euro_area/2011/qrea4_en.htm (Accessed on 20 January 2013).

European Commission. (2011b) *Quarterly report on the euro area July.* Vol. 10 No: 2. Available at: http://ec.europa.eu/economy_finance/publications/qr_euro_area/2011/qrea2_en.htm (Accessed on 20 January 2013).

Fender, Ingo, & Gyntelberg, Jacob (2008) Overview: global financial crisis spurs unprecedented policy actions. *BIS Quarterly Review,* 9.

Freeman, Nathan J., & Bartels, Filipe L. (2000) *Portfolio Investment in Southeast Asia's Stock Markets: A Survey of Institutional Investors' Current Perceptions and Practices.* Citeseer.

Gavan, Reilly (2010) "Official Terms Of The Irish Bailout Have Been Released", *Business Insider,* 1 December. Available at: http://www.businessinsider.com/official-terms-of-the-irish-bailout-have-been-released-2010-12 (Accessed on 20 January 2013).

Heatley, Colm, & Doyle, Dara (2010) Collapse of Cowen Government Gives Ireland Chance to Rebuke Prime Minister. *Bloomberg*. Nov. 23. Available at: http://www.bloomberg.com/news/2010-11-23/cowen-s-future-in-jeopardy-as-voters-in-ireland-get-first-chance-at-rebuke.html (Accessed on 20 January 2013).

Huynh, Quynh-Nhu (2011) *Economic Report July* (Economic Report No. 201105). Brussels: ACEA. Available at: http://ec.europa.eu/economy_finance/publications/qr_euro_area/2011/qrea2_en.htm (Accessed on 20 January 2013).

Ireland. (2010a) *Financial Times.* Apr. 28. Available at: http://docs.newsbank.com/s/InfoWeb/aggdocs/AWNB/12F6455556004360/0FA5BD299B01E287?s_lang (Accessed on 20 January 2013).

Ireland. (2010b) *Financial Times.* Jul. 20. Available at: http://docs.newsbank.com/s/InfoWeb/aggdocs/AWNB/13119F8C718DE5D8/0FA5BD299B01E287?s_lang (Accessed on 20 January 2013).

Ireland may skip debt auctions on Greek woes. (2010) *Financial Times.* April 30. Available at: http://docs.newsbank.com/s/InfoWeb/aggdocs/AWNB/12F6EDAC03D56E18/0FA5BD299B01E287?s_lang (Accessed on 20 January 2013).

Kahneman, Daniel (2003) A perspective on judgment and choice: mapping bounded rationality. *The American psychologist,* 58(9), 697–720.

Keefer, Philip (2007) Elections, Special Interests, and Financial Crisis. *International Organization,* 61(3), 607–641.

Krueger, Anne (2002) *A New Approach to Sovereign Debt Restructuring*. Washington D.C.: International Monetary Fund.

Krugman, Paul (1998) Japan's trap. Available at: http://web.mit.edu/krugman/www/japtrap.html (Accessed on 20 January 2013).

Laboratoire Europeenne d'Anticipation Politique (2010) Global systemic crisis: Second half of 2011, European context and US catalyst, Explosion of the Western public debt bubble. *Public announcement GEAB* N°50. LEAP/E2020. Available at: http://www.leap2020.eu/Global-systemic-crisis-Second-half-of-2011-European-context-and-US-catalyst-Explosion-of-the-Western-public-debt-bubble_a5625.html (Accessed on 20 January 2013).

Laibson, David (1997) Golden Eggs and Hyperbolic Discounting. *The Quarterly Journal of Economics,* 112(2), 443–478.

Leblang, David (2003) To Devalue or to Defend? The Political Economy of Exchange Rate Policy. *International Studies Quarterly,* 47(4), 533–559.

Markets rise on Greek aid package. (2011) *BBC.* Jul. 22. Available at: http://www.bbc.co.uk/news/business-14246787 (Accessed on 20 January 2013).

Marsh, Bill (2010) Europe's Web of Debt – Graphic – NYTimes.com. May 1. Available at: http://www.nytimes.com/interactive/2010/05/02/weekinreview/02marsh.html (Accessed on 20 January 2013).

Mendoza, Enrique G., & Terrones, Marco E. (2008) An anatomy of credit booms: evidence from macro aggregates and micro data. *International Finance.* Discussion Paper No. 936.

Murray Brown, John (2010) Threat of Ireland reneging on debt dismissed. *Financial Times,* Apr. 13. Available at: http://www.ft.com/cms/s/0/0507e130-4697-11df-9713-00144feab49a.html (Accessed on 20 January 2013).

New euro fund to be 500bn euros. (2011) *BBC*. Feb. 14. Available at: http://www.bbc.co.uk/news/business-12460527 (Accessed on 20 January 2013).

Oberlechner, Thomas, & Hocking, Sam (2004) Information sources, news, and rumors in financial markets: Insights into the foreign exchange market. *Journal of Economic Psychology,* 25(3), 407–424.

Pereiro, Luis E. (2002) *Valuation of Companies in Emerging Markets: A Practical Approach.* John Wiley & Sons.

Preparation of Eurogroup and Economic and Finance Ministers Council, Luxembourg 7 and 8 June 2010. (2010) *EUROPA – PRESS RELEASES.* Jun. 7. Available at: http://europa.eu/rapid/press-release_MEMO-10-238_en.htm (Accessed on 20 January 2013).

Q&A: Greece's economic woes. (2010) *BBC*. May 2. Available at: http://news.bbc.co.uk/2/hi/business/8508136.stm (Accessed on 20 January 2013).

Rabin, Martin, & Thaler, Ron H. (2001) Anomalies: Risk Aversion. *The Journal of Economic Perspectives,* 15(1), 219–232.

Red C poll shows support for FF at 18%. (2010) *RTE.ie.* Oct. 23. Available at: http://www.rte.ie/news/2010/1023/poll.html (Accessed on 20 January 2013).

Reinhart, Carmen M., & Rogoff, Kenneth (2009) *This Time Is Different: Eight Centuries of Financial Folly.* Princeton University Press.

Spillane, Alison (2010) Mythwatch – Spin in the Media. *Politico.ie.* Irish Politics, Current Affairs and Magazine Archive. November 29. Available at: http://politico.ie/component/content/article/6943.html (Accessed on 20 January 2013).

Thomson Reuters Datastream. (2010) *Comparison of yields on Euroland 10 year government bonds.* Available at: http://www.leap2020.eu/photo/art/default/2554206-3601679.jpg?v=1292524579 (Accessed on 20 January 2013).

Tomz, Michael (2011) *Reputation and International Cooperation: Sovereign Debt across Three Centuries.* Princeton University Press.

Tsebelis, George (2011) *Veto Players: How Political Institutions Work.* Princeton University Press.

Volkery, Carsten (2010) Britain's "New Politics": Queen Announces New Government Austerity Measures. *Der Spiegel.* May 25. Available at: http://www.spiegel.de/international/europe/britain-s-new-politics-queen-announces-new-government-austerity-measures-a-696695.html (Accessed on 20 January 2013).

Wade, Robert, & Veneroso, Frank (2004) The high debt model versus the Wall Street-Treasury-IMF complex. *Global Governance: Critical Concepts in Political Science,* 4, 185.

(Waterfield, 2010), Ireland forced to take EU and IMF bail-out package, *The Telegraph,* 22 November. Available at: http://www.telegraph.co.uk/finance/financialcrisis/8150137/Ireland-forced-to-take-EU-and-IMF-bail-out-package.html (Accessed on 20 January 2013).