

# Budget conflict splits European Union

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The collapse of the European Union summit in Brussels early Saturday has plunged the EU into deep crisis. Following the breakdown of negotiations over the EU budget for the years 2007 to 2013, European leaders turned on one another and exchanged insults in a manner not seen since the eve of the Second World War.

German Chancellor Gerhard Schröder and French President Jacques Chirac dispensed with diplomatic niceties and directly laid the blame for the debacle on the heads of the British and Dutch governments, Tony Blair and Jan Peter Balkenende. Schröder said an agreement would have been possible “with good will on all sides,” but concluded, “The fact that there was no deal is due solely to the completely inflexible stance of the British and the Dutch.” He spoke of “one of the deepest political crises which Europe has ever experienced.”

Chirac said the “egoism of two or three rich countries” was responsible for the breakdown, and made very clear his disapproval of the British stance.

The uncompromising attitude adopted by Blair encouraged other states to maintain rigid positions at the expense of the community as a whole.

Luxembourg Prime Minister Jean Claude Juncker, who led the summit in his capacity as acting president of the EU Council, also laid the blame on Great Britain. Some member countries lacked the political will to come to an agreement, he said.

He added that there are two opposing concepts of Europe: “There are those who just want a market and nothing other than a big market, and there are those who want a politically integrated Europe.”

For his part, Blair parried: “I’m afraid I’m not prepared to have someone tell me that theirs is the only view of what Europe is. Europe isn’t owned by anybody.” His foreign affairs minister, Jack Straw, regretted the failure of the summit, but said it also offered also the chance for a new start. “Sometimes to secure a turn in democracies, there has to be a shock,” he declared.

The surface cause of the crisis is a controversy over the financing of the EU budget for 2007-2013. The total budget for these years is 870 billion euros—about 1 percent of European gross national product (GNP). The disputed amounts, however, are much smaller.

A large proportion of the funds flowing into the European Union in the form of subsidies finds its way back to the countries of origin, and the dispute centered on net amounts—the difference between what a country pays in and what it gets back.

Before the recent expansion of the EU to include an additional 10 countries, the relatively wealthy western European states paid in more to the common budget than they received back in the form of subsidies. Poorer countries in the south of Europe, as well as Ireland, had been able to benefit from the old arrangement as net receivers.

In 2003, the last year prior to the EU expansion, Germany was by far the largest donor, paying a total of 7.7 billion euros. Then came Great Britain (2.8 billion) and the Netherlands and France (each paying 1.9 billion).

France’s net contribution was lower than that of Germany and Britain because it was one of the largest receivers of farm subsidies. In 2003, there were just four countries that received net repayments: Ireland (1.6 billion), Greece (3.4 billion), Portugal (3.5 billion.) and, by far the biggest

beneficiary, Spain (8.7 billion euros).

EU expansion into eastern Europe meant that 10 new countries now made claims for net subsidies from Brussels. None of the old members, however, was prepared to make any significant increase in their contributions, and current beneficiary EU countries were unwilling to give up any of their subsidies to the new members.

Vigorous conflicts over the EU budget had already surfaced long before this latest summit. The European Union Commission had originally demanded a budget exceeding well over 1 trillion euros. After lengthy negotiations with the individual governments, this amount was lowered by Council President Juncker to 870 billion euros.

Juncker’s compromise proposal envisaged that Great Britain would gradually give up the discount that had first been fought for by Prime Minister Margaret Thatcher in 1984. Without this discount, the British government would have to transfer an additional 4.6 billion euros to Brussels per annum. It would then be paying a similar amount as Germany—the EU country that profits most in economic terms from the expansion to the East.

London rejected the compromise, and Juncker suggested freezing the amount of the discount, which was due to double in size in coming years. His proposal fell on deaf ears, and Blair called instead for a reduction of farm subsidies, which constitute more than 40 percent of European Union expenditure.

The farm subsidies had been fixed three years previously and were due to run until 2013—at the insistence at the time of French President Chirac, and with the agreement of Blair. Now Chirac intervened to reject any lowering of these subsidies.

The Netherlands, Sweden and Finland took the side of Britain against Juncker’s compromise plan. Together with Germany, the Netherlands and Sweden are the largest net contributors per capita to the European Union (based on GNP). Spain was also against the compromise because it feared for its own subsidies.

The new eastern EU members, on the other hand, declared in favour of Juncker’s suggestion. At the time of the invasion of Iraq, these countries had shown solidarity with Blair, but now they aligned themselves with Chirac and Schröder. The Polish government head, Marek Belka, warned Blair: “If you prevent a compromise, you will no longer be our star.” In the end, fearing they could lose everything, they even offered to voluntarily renounce part of the funds to which they were entitled- but without success.

There has been no lack of hard-nosed negotiations over budgets in the history of the European Union. The notorious cry, “I want my money back,” by an uncompromising Margaret Thatcher led other countries to agree to a British discount in 1984. However, in all earlier conflicts, it had ultimately been possible to agree to a compromise, with no country prepared to question the project of the European Union as such.

This time the situation is different. This is clear from comments made by the main participants. A visibly shaken Juncker commented on the breakdown with the words, “Europe is not in a crisis, it is in a deep crisis.” And Poland’s Belka declared, “The fact that we do not have a budget is not disturbing. What is disturbing is the atmosphere in the

European Union.”

European media outlets made similar estimates of the summit. *Die Presse* (Vienna) called Italian Prime Minister Silvio Berlusconi, Chirac and Schröder “the gravediggers of Europe.” The *Gazeta Wyborcza* (Warsaw) accused Blair, Chirac and Dutch government head Balkenende of defending the national interests of their countries “at the expense of a common Europe.” And the *Tages-Anzeiger* (Zurich) wrote, “The French-German motor is no longer just sputtering, it has died.”

It is evident that the present crisis involves more than just the size of contributions to the European Union budget. Competing national interests have assumed proportions that threaten to blow up the entire project of the European Union. There are a number of factors at work.

Most European governments are in deep crisis. They are subject to powerful domestic pressures that reduce their capacity to act, and have responded by hammering away at national interests.

The French president was chastened by the recent defeat of his European constitution referendum initiative. He is unlikely to stand for a further term in two years’ time, and it is questionable whether he will hold out until then. Since the “no” vote by the French electorate was primarily directed against the neo-liberal orientation of the European constitution, Chirac could hardly afford to make concessions at the Brussels summit to Blair, who is regarded in France as the epitome of neo-liberalism.

In addition, any reduction in agreed farm subsidies would have explosive implications for French society. The traditionally militant French farmers have reacted to previous threats to cut subsidies with street battles bordering on civil war. Chirac only recently had to dismiss his unpopular prime minister, Jean-Pierre Raffarin, who was considered a leading representative of rural France. He could not therefore risk any further conflict with his rural supporters.

The German chancellor is entering an election campaign and is at pains to portray himself as an opponent of the type of “free-market” radicalism associated with the British prime minister (although it is well known that in past years Schröder espoused the economic conceptions of Blair). Through close colleagues in Brussels, Schröder made it known that his reaction to the “destructive role” of Great Britain was one of “bewilderment, anger and rage.”

Blair was no doubt encouraged in his obstinacy by the prospect that Schröder could soon be replaced by Angela Merkel, the leader of Germany’s conservative opposition, whose own economic and foreign policies are closer to the views of the British premier.

Blair recently won his third consecutive election, but with a strongly reduced majority. He largely owes his hold on government to the lack of any serious alternative and to the peculiarities of the British “first-past-the-post” election laws. Just one in five of the electorate voted for Blair’s Labour Party, which is largely discredited because of its role in the Iraq war. In Brussels, he sought to restore his tarnished image by posing as an uncompromising advocate of British interests against an unpopular European Union.

In addition to these domestic factors, major driving forces behind the eruption of national conflicts in Europe are differences in orientation between key European powers and Washington, and increasing US pressure on the EU. The extent of these differences emerged over the Iraq war.

US Secretary of Defence Donald Rumsfeld’s division of the continent between “old” and “new” Europe struck a sore point, and was obviously aimed at driving a wedge between European nations. “New Europe” stood for slavish adherence to the US and support for the Iraq war. “Old Europe” stood for the more conscious defence of European great power interests under French-German leadership.

Washington supported Great Britain as pivot of an alliance aimed at politically weakening Europe. For his part, Blair saw his alliance with the

US as a chance to strengthen the position of Great Britain in a French-German dominated European Union. He assembled all of the European governments that were sceptical towards or rejected political integration, and sought to limit the European Union to the role of a large-scale economic market.

Italian Prime Minister Berlusconi and the Spanish head of government at the time, Jose Maria Aznar, as well as the new elites of eastern Europe, all of whom made their fortunes by plundering former state-owned property, represent that strand of neo-liberal ideology that seeks to limit as far as possible the role of the state in regulating business and capital markets.

Chirac and Schröder, on the other hand, have sought to strengthen European institutions and regard European political integration as an inevitable process that will enable the continent to develop its own foreign policy and stand up to the US.

The European constitution that they favored was not directed against a neo-liberal social model. Quite the opposite. It elevated to the highest principle the play of “free and genuine competition” over every aspect of social life. But the aim of the constitution was to enforce the process of the political integration of the European Union and enable it to pursue its own imperialist interests in a firmer and more sustainable manner.

The failure of the constitution due to the resistance of French and Dutch voters precipitated a crisis for which last week’s Brussels summit had no response. The summit decided simply to put the ratification process on hold for an indefinite period. It was incapable of either revising the constitution or acknowledging its failure. Both options would have only led to further violent conflicts.

The controversy over the budget showed, nevertheless, that conflicts which emerged during the Iraq war have deepened rather than lessened. In this respect, US attempts to split Europe in order to implement its own imperialist interests in the Middle East have proved to be extremely short-sighted.

In the 1930s, Leon Trotsky once compared Europe to “a system of cages within an impoverished provincial zoo.” Two dozen middle- and large-size capitalist powers are crowded together with a small area, and conflicts at a time of crisis are inevitable.

After the Second World War, American foreign policy took account of this state of affairs and encouraged the economic and political integration of western Europe. This was aimed at avoiding the conflicts that had led to two world wars in the first half of the last century while, at the same time, establishing a bulwark in the Cold War against the Soviet Union.

Since the collapse of the Soviet Union, the attitude of Washington has changed noticeably. With its deliberately divisive policies towards Europe in the run-up to the Iraq war, it set a process in motion that will prove difficult to reverse.

Ninety-one years after the beginning of the First World War and 60 years after the end of the Second World War, conflicts and divisions are emerging between European governments that recall the worst periods of the last century.

The dangers bound up with this development should not be underestimated. A Europe that disintegrates into its national parts and is dominated by national egoism can only offer a future of social decline and violent conflict. At the same time, Europe’s ruling elite has demonstrated its utter incapacity to unite the continent on a progressive basis. Even if the European Union should survive or assume a different form dominated by a core of powerful nations, it would still remain an instrument in the hands of big business for the exploitation and suppression of working people.

The only means of uniting Europe on a progressive basis is the construction of the United Socialist States of Europe through a mass political and revolutionary movement of the European working class.



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