European leaders fail to agree on a common strategy for the financial crisis

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Following the most turbulent week in European financial markets since the 1930s, a group of European leaders met in Paris on Saturday to discuss measures to prevent a collapse of the European banking system.

The heads of state of France, Germany, Italy and Britain, along with European Central Bank chief Jean-Claude Trichet, European Union (EU) Commission President José Manuel Barroso and Luxembourg Prime Minister Jean-Claude Juncker (also head of the Euro group of finance ministers), met in emergency session.

In the course of the Paris summit much criticism was made of the US as the source of the banking and finance crisis, but the assembled European leaders were unable to present any viable coordinated strategy to abate the growing financial storm engulfing European banks.

The only concrete proposal to emerge from the meeting was the establishment of a 15 billion euros fund to help small businessmen. Vague resolutions were adopted for a relaxation of European financial targets and new regulations to rein in the excesses of speculators, and an appeal was issued for a global summit to discuss the crisis. Plans proposed last week for a European bailout fund failed to appear on the summit's agenda.

French President Nicolas Sarkozy called the meeting, at short notice, following the collapse of a series of large European banks.

Just over a week ago, European governments and private banks bailed out no less than five major banks--Germany's Hypo Real Estate, Britain's Bradford & Bingley, the Dutch-Belgian Fortis group, the Belgian Dexia bank and one of Iceland's biggest banks.

Despite the various government bailout packages, the plight of most of the troubled banks has worsened. Last Friday, the Dutch government intervened once again to buy up all of the Dutch assets of Fortis, whose share price has plummeted. In Germany, the bailout package for the country's second biggest mortgage loan company, Hypo Real Estate (HRE), has collapsed. According to the latest estimates, a new rescue package for HRE could cost German taxpayers up to 50 billion euros.

In Switzerland, UBS, having already cut 4,100 jobs as a result of losses from the US subprime crisis, announced last week that it planned to slash a further 2,000 investment banking jobs. Italy's banking sector was also hit last week, with the country's largest bank, Unicredit, losing nearly one quarter of its share value.

All of the major European stock markets suffered heavy losses last week, with bank share prices suffering the biggest declines.

Also last week, economic institutes in France confirmed that the country's economy was entering recession, with anticipated negative growth in the third and fourth quarters of this year. Britain and Spain are already acknowledged to be in recession, and the same fate threatens the German economy in the near future. This would set in motion a chain reaction plunging the entire Eurozone into recession.

It was against this background that a group of leading US and European economists warned that European nations had to take emergency, coordinated action "to address this crisis head-on before it spirals out of control."

Underlining their dire prognosis, the economists, in a statement published by the German Economic Institute (DIW), drew parallels with the 1930s: "Europe is in the midst of a once-in-a-lifetime crisis. Every European knows what happened when financial markets seized up in the dark years of the 1930s. It is not an exaggeration to say that it could happen again if governments fail to act."

The statement issued by the DIW amounted to an appeal for the establishment of a central fund by European nations to bail out banks along the lines of the $700 billion plan drawn up by US Treasury Secretary Henry Paulson and passed by Congress at the end of last week.

Concrete proposals for a pan-European bailout fund were first put forward last week by Dutch Prime Minister Jan Peter Balkenende, who played an active role in the bailout of Fortis, the biggest European banking concern to be toppled by the international financial crisis.

Balkenende called upon all EU countries to contribute three percent of their gross national product towards a €300 billion ($415 billion) fund to assist ailing banks. The French Finance Ministry supported his proposal.

The plan received the enthusiastic backing of leading bankers and economists, including the managing director of Germany's biggest bank, Deutsche Bank, Josef Ackerman, and the president of the German Banking Association, Klaus-Peter Müller. Additional pressure for the establishment of an EU bailout fund came from the managing director of the International Monetary Fund (IMF), Dominique Strauss-Kahn.

An argument advanced in support of the proposal was that it was needed to avert a situation in which individual countries and their banking systems sought to gain an advantage from the crisis at the expense of their European rivals. On Thursday last week, the Irish government announced a blanket guarantee of all deposits in the country's six biggest banks. British bankers immediately criticised the measure, declaring that it gave Irish banks an unfair advantage and would allow them to steal customers from their counterparts in the UK.

On the same day, the Greek government made a similar move, when Finance Minister George Alogoskoufis declared Greece's banking system "totally safe and reliable."

In the midst of this debate, French President Nicolas Sarkozy called for the mini-summit of EU countries that are members of the G-8 group of industrialized nations that was held on Saturday.

Despite the backing of the finance ministries of France and Luxemburg as well as leading European bankers, the EU bailout plan failed to make it onto the agenda of the meeting held Saturday in Paris.

Prior to the summit, both the finance and economic ministers of Germany expressed their opposition to the bailout plan and were supported by German Chancellor Angela Merkel. German qualms about such an EU fund are not based on any principled opposition to bailing out banks.

The leaders of Germany, as well as their counterparts in Britain, Italy and France, have expressed support for the Paulson plan in the US. They have all pursued economic and social policies aimed at maximising the profits of the banks.

In recent days, Merkel, Sarkozy and British Prime Minister Gordon Brown have all been instrumental in diverting huge sums from their countries' public purses to cover the bad debts of leading banks and financial houses.

However, a series of comments by German ministers made clear that while they were quite willing to milk the German taxpayer to prop up German banks, as in the case of HRE, they were not prepared to participate in a scheme that would benefit the banks of rival European states.

Under pressure mainly from Germany, Luxemburg and France were forced to remove their proposal for a bailout fund from the summit's agenda. President Sarkozy went so far as to deny that he had ever supported the plan.

At the same time, sources inside the British government made clear that Britain was opposed to any far-reaching measures regarding the regulation and control of its own financial sector, which is Europe's biggest.

Underlining the disunity of European countries, a number of EU members, in particular Spain, criticised the summit for failing to invite the 23 other states of the European Union.

Even before the Paris summit was held, it was clear that that the assembled leaders would achieve very little. The German chancellor used the opportunity provided by the summit press conference to stress that shareholders and those responsible for the bad debts should pay their share of costs of any rescue operations, while Sarkozy called for a form of capitalism which rewarded "entrepreneurs" rather than "speculators."

Such statements were purely for public consumption. The notion that any of the leaders assembled in Paris will take serious action to penalise the architects of the financial crisis is illusory.

Italian Prime Minister Silvio Berlusconi is also the country's richest individual, having made his fortune largely through dubious real estate dealings. A multi-billionaire, he is personally a key figure in Italy's financial elite. Sarkozy has in the past flaunted his friendship with some of France' richest media and business magnates. He has taken holidays paid for by billionaire bankers of the Lazard finance group.

As for German Finance Minister Peer Steinbrück, Der Spiegel magazine reports that his €27 billion bailout deal for HRE was struck shortly after midnight in a personal telephone call with Germany's highest paid banker, Josef Ackermann.

The failure of the Paris summit to achieve any concrete results is an expression of growing national tensions between the main European states and, in the final analysis, the inability of the European ruling elites to resolve the current crisis.

As a new week begins, there is renewed speculation about which European bank will be next to topple.