

European Union remains paralysed in face of market turmoil

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8 October 2008

The European Union's finance ministers agreed Tuesday to raise the guarantee on bank deposits to a minimum of €50,000 (\$68,160) and "to take all necessary measures to enhance the soundness and stability of our banking system and to protect the deposits of individual savers."

They would "ensure a comprehensive and coordinated response to the current situation," a joint statement declared. The finance ministers ruled out a US-style bailout, but said they would defend "systemic" institutions from collapse.

The declaration was an attempt to present a united front after days of indecision and fractious wrangling. It came in the aftermath of "Meltdown Monday," in which nervousness over the state of Europe's banking system contributed to massive falls in share prices on the major stock exchanges.

In just 24 hours, governments in Belgium, Luxemburg and Germany were forced to mount emergency bank rescue operations, while in Iceland trading was suspended and the government warned of the potential collapse of the country's economy. Russia suspended trading twice on Monday and Tuesday and share values fell by over 20 percent.

The market turmoil exploded claims that Europe was relatively free from the financial crisis gripping Wall Street. Whatever the precise degree of direct involvement by the various European banks in the speculative activities most closely associated with the US and Britain, the world's financial institutions are tightly integrated. Moreover, what began as a liquidity crisis has now spilled over into the rest of the economy.

It was evident that European leaders, like their US counterparts, had underestimated the depth and rapidity of the crisis gripping the world economy. Robert Peston of the BBC said, "One thing, and one thing alone is crystal clear: European governments are as dazed and confused by the mayhem in the global banking system as most of the rest of us."

Even as the finance ministers began their meeting on Monday, Peer Steinbrueck had to excuse himself to work on what was described as a "system-wide rescue plan for Germany." This came just hours after the second bailout in a

week for the German mortgage lender Hypo Real Estate had been put into place.

In addition to the ongoing uncertainty, what frightened international markets was the prospect of beggar-thy-neighbour measures further destabilising Europe. Germany, Sweden, Austria and Denmark had followed Ireland and Greece in making unilateral pledges to support all savings, raising fears of a massive flight of capital across national borders. In particular, Sunday's "political commitment" by German Chancellor Angela Merkel to protect savings in German banks opened up the prospect of cut-throat inter-bank competition throughout the continent.

Merkel's announcement came less than 24 hours after the Paris summit of France, Germany, Britain and Italy had denounced such unilateral guarantees. There was immediate speculation that Britain would have to follow suit-exposing the Brown government to liabilities in excess of £950 billion in retail deposits, double the figure involved in Germany.

Despite the protestations levelled against Berlin, Dublin and Athens, the Paris summit had in fact paved the way for go-it-alone measures when it vetoed proposals for a coordinated bailout plan floated by France and Italy.

The proposal was opposed by both Germany and the UK, which would not countenance bailing out their European rivals. French President Nicolas Sarkozy was later forced to deny having mooted the plan and the summit instead issued a vague commitment that each European government would act to safeguard its own national institutions. This prompted *Forbes* to comment that "Europe's most powerful heads of state" had "managed to quietly figure out that it was going to be every man for himself."

The *Guardian's* financial correspondent David Gow's verdict on the Paris summit was even more damning. It represented "the flight of the EU's seven leading figures from reality," he wrote. "Outside, on a chilly but sunny evening, the creeping Balkanisation of Europe's integrated banking system is moving up a gear; inside, they're talking up a coordinated, collective response to combat the risk of a 1930s-style depression. But they... know full well that the

EU's financial system is going down the Seine and they are preparing emergency 'national measures'."

The fracturing of political relations was made more apparent by the fact that the four acted without any consultation with the rest of the EU's 27 member states, including the 12 others within the euro zone. Spain protested bitterly at its exclusion.

With the markets in free-fall, there were strident demands for Europe to present some semblance of a common position. International Monetary Fund head Dominique Strauss-Kahn insisted, "Europe must prepare to put in place a collective line of defence. The stability of the world economy is at stake."

To this end, on Monday night Sarkozy-acting on behalf of the EU-pledged that "No depositor in the banks of our countries has suffered losses and we will continue to take the necessary measures to protect the system as well as depositors... In taking these measures, European leaders confirm the necessity of a close coordination and cooperation."

Even at the eleventh hour, discord continued. Italian Premier Silvio Berlusconi had reportedly read out the same statement earlier as if it were his own, while claiming that a European-wide bailout might still be possible and that Germany had objected only because Merkel "didn't have the power."

Later, at a joint press conference in Berlin with Berlusconi, Merkel again rejected proposals for a pan-European bailout, insisting that "every country has to live up to its own responsibilities."

Meanwhile, Iceland's prime minister, Geir Haarde, attacked his country's "friends" for failing to offer financial assistance to the ailing economy, forcing him to go cap in hand to Russia for a €4 billion (\$5.4 billion) loan.

Tuesday's package was an attempt by EU leaders to claw their way back from the precipice and make a show of unity. But it was far from convincing. The financial publication *Bloomberg* concluded that the ministers had "failed to find a solution to the frozen credit markets that created the biggest financial crisis since the Great Depression, settling for an increase on consumers' deposit insurance."

Even this limited measure was a compromise, after some countries urged a guarantee on deposits up to €100,000. The minimum level of support that was specified still leaves differing levels of guarantee across the continent. Whatever action is taken remains to be organised on a national rather than European-wide basis.

What does Merkel's demand that every country must "live up to its own responsibilities" mean other than a further descent of the continent into economic conflict? An hour after the statement was issued, Spain announced that it was

raising its guarantee of savings from €20,000 to €100,000.

The Paris summit had already agreed to temporarily relax euro zone rules against state subsidies and limits on national budgets-bringing an effective end to a coordinated monetary policy. There is even some speculation that the euro zone could fracture under the weight of increasingly divergent national interests.

Noting that recent years had seen "extreme movements in competitiveness, unit labour costs and trade balances across the euro zone," the *Guardian* cited Charles Goodhart of the London School of Economics estimating the risk that the monetary union will break up at between 10 to 20 percent.

Leaving aside such doomsday scenarios, the economic and social implications of what has currently been proposed are vast. The banks and major corporations are demanding that billions be made available to them, under conditions in which France is officially in recession, Britain's Chamber of Commerce insists that the UK is in recession and the rest of Europe looks set to follow.

For the last decade, Europe's leaders have slashed welfare and public spending on essential services, claiming that the money was not available and the private sector was more efficient. Now, without any democratic consultation, let alone a vote, they have agreed to direct vast tranches of public funds into unstable financial institutions to pay for rampant speculation by the super rich.

So far this process has gone furthest in the UK, which is one of the world's leading financial centres. Already this year some £200 billion has been made available to just two banks. As Brown held urgent talks with the Bank of England on Tuesday night, there were calls for the government to recapitalise major banks whose shares in some instances fell by around 40 percent.

This is just the tip of the iceberg--and there is no guarantee that it will work. Working people thus face wage cuts and tax hikes to preserve the grotesque wealth accrued by the financial oligarchy under conditions in which tens of thousands have already been thrown out of work across Europe. Unemployment stood at 7.5 percent in August and there are predictions that millions more could lose their jobs by the end of the year.



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