National interests dominate at EU summit in Brussels

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The two-day European Union summit held in Brussels on Thursday and Friday made clear that under the pressure of the financial crisis conflicts are intensifying between the major European powers that threaten to tear the EU apart. Despite protestations of unity and claims of success by EU leaders, it was the national interests of the major European players that dominated at the summit.

The head of the European Commission, Jose Manuel Barroso, announced a €200 billion package aimed at stimulating the European economy. The implementation of the package, however, is to be left to individual European states and little in the way of new money is made available in the package. At a national level, many of the proposed economic measures, such as increased family allowances in Germany, had been decided long ago.

The summit also agreed on a series of measures aimed at reducing CO_2 emissions.

The decisions made in Brussels were immediately attacked by environmental groups, which pointed out that many countries, with Germany, Italy and Poland to the fore, had made extensive concessions to energy, auto and big business lobbies in the course of the negotiations in Brussels—concessions that made a mockery of EU plans to drastically reduce greenhouse emissions over the next decade.

The EU summit was preceded by an open affront to the British and central EU authorities by German Finance Minister Peer Steinbrück (Social Democratic Party—SPD). Steinbrück gave an interview to the US magazine *Newsweek* on the eve of the EU summit in which he condemned the British government and its prime minister, Gordon Brown, for pursuing a policy of "crass Keynesianism" in response to the current financial crisis.

In the online interview on the *Newsweek* web site Wednesday, Steinbrück lashed out at Brown's package of financial and economic measures. According to Steinbrück: "The speed at which proposals are put together under pressure that don't even pass an economic test is breathtaking and depressing."

Then, in a reference to Brown's role as a defender of strict budget policy as chancellor of the exchequer under Tony Blair, Steinbrück noted, "The same people who would never touch deficit spending are now tossing around billions."

Steinbrück went on to directly attack the Brown government's decision to cut the rate of value-added tax just before Christmas. He asked, "Are you really going to buy a DVD player because it now costs £39.10 instead of £39.90? All this will do is raise Britain's debt to a level that will take a whole generation to work off."

Steinbrück's attack on Brown for "crass Keynesianism" is completely misplaced. As chancellor of the exchequer, Brown was a loyal defender of the interests of the City of London financial elite, and his allegiances remain the same as prime minister. The latest tax relief to the ordinary British consumer by the British government in the form of a miserly 2 percent cut in VAT is dwarfed by the gigantic sums the Brown government has made available for the bailout of British banks and their shareholders.

In his *Newsweek* interview, Steinbrück also launched a tirade against plans by the EU, supported by Britain, for a joint European economic stimulus programme. He declared: "For a while the position in Brussels and a few other places has been, 'We're now very much for setting up large-scale spending programmes, but we're not really going to ask what the exact effects of those might be. And since the amounts are so high, well, let's get the Germans to pay because they can.' "

Here, Steinbrück was repeating a criticism that he had made earlier in the week, when he told *Die Zeit*, "Every EU-level proposal that comes from the EU presidency or from France would mean...that Germany would have to pay more money." It should be noted that the current chairman of the EU is French President Nicolas Sarkozy.

The extent of the tensions between Germany on the one side and France, Great Britain and the EU leadership on the other rose to the surface when it was announced that Brown, Sarkozy and Barroso had met in London last Monday to discuss a joint strategy for the this week's EU summit—but failed to invite German Chancellor Angela Merkel (Christian Democratic Union—CDU).

Following the meeting in Downing Street, both sides sought initially to play down differences over the EU's plan for a €200 billion European financial rescue package, but the tensions were unmistakable. The French president declared, "France is working on it and Germany is thinking about it."

The publication of the Steinbrück interview in *Newsweek* was a clear declaration that the German government will not back down in the face of concerted pressure from other European states.

Steinbrück's mauling of the British and EU response to the financial crisis on the eve of the EU summit was no coincidence. It is highly unlikely that he would have given the interview without the explicit go-ahead of the German chancellor.

In more guarded terms, Merkel has also insisted that Germany would refuse "to participate in this senseless race for billions." Merkel also declared that she was "deeply concerned" about a financial policy based on cheap money and massive deficit spending.

Steinbrück's remarks won the immediate backing of leading figures in the German Grand Coalition government, consisting of the CDU, SPD and CSU (Christian Social Union).

In response to Prime Minister Brown's own attempt to calm the waters (Brown told LBC radio on Thursday, "I don't really want to get involved in what is clearly internal German politics"), Merkel's budget spokesman, Steffen Kampeter (CDU), declared bluntly: "Peer Steinbruck's comments have nothing whatsoever to do with internal German politics. In questioning the British government's approach, Peer Steinbrück is exactly expressing the views of the German Grand Coalition."

Later, in comments to *Spiegel Online*, Kampeter declared in reference to EU demands that Germany invest more money in an economic stimulus package: "The British are expecting that we help them out of the muck. But we certainly weren't expecting that they share their profits from the financial market boom with us."

There has been a sharply divided response from the British press and political circles to the German finance minister's criticisms. Predictably, the conservative opposition in Great Britain, backed by the Thatcherite *Sun* newspaper and *the Times*, have welcomed Steinbrück's comments and warned against Brown's policy of running up a huge budget deficit to fund his economic stimulus programme.

Other newspapers such as the *Guardian* pointed to the huge obstacles to a common economic approach by economies so varied as those of Germany and Britain. In a commentary entitled "EU Giant Isolated as Merkel Puts Germany First," the newspaper compiled a long list of issues—the economy, global warming, NATO, Russia, Afghanistan—on which Germany has assumed a different stance from that of Great Britain. The paper then pointed out some salient economic differences between the two countries.

"As the world's champion exporter and with an industrial and manufacturing sector bigger than Britain and France's combined, Germany sees less utility in cutting taxes or reducing VAT. Some 60 percent of German economic output derives from selling things abroad. Unlike Britain, there is little shopaholic culture, relatively little use of credit cards, no boom and bust property markets, low rates of home ownership and mortgage-lending. If, broadly speaking, German households save and British households spend, VAT cuts might spur economic activity in Reading, but they are unlikely to in Düsseldorf."

For its part, the *Financial Times* is alarmed at the lack of readiness by the German government to subsidise a European economic stimulus package.

In a comment on Thursday, the *Financial Times* noted: "Germany is the world's largest exporter and this year is expected to run a current account surplus of 7.3 percent of output. It has acted as a massive source of supply, meeting excess demand from other parts of the world, especially within Europe... But, as the overstretched deficit countries are all cutting back, that demand is falling away. So, as with other surplus countries, Germany must start spending. The consequences otherwise will be dire. IFO, the Munich-based forecaster, is predicting the deepest recession in the history of the Bundesrepublik."

In other words, Germany must release funds to stimulate demand in other countries, otherwise its own export industries will be badly hit. In this respect, the *Financial Times* concluded, "Germany could do with being a little more European."

In Berlin itself, Merkel and Steinbrück confront opposition from within the coalition itself—from sections of the SPD and in particular from the CSU—and from the opposition Green Party, Free Democratic Party, Left Party and influential business layers, which are demanding increased financial stimulus measures inside Germany while warning against offending Germany's European neighbours.

Despite growing pressure, the coalition leadership of Merkel and Steinbrück is determined to maintain a tight grip on the purse strings of the German treasury. For decades, a tight monetary policy and adherence to strict budgetary targets have been the backbone of Germany's European strategy. The German chancellor and her finance minister are not prepared to throw such a strategy overboard at what the government and economic experts admit is only the start of what will be a prolonged and painful recession—even at the cost of alienating Germany's European neighbours.

The stance of the German government was summed in a commentary in Thursday's *Süddeutsche Zeitung* backing the stance taken by Steinbrück. The commentary, entitled "The Bad Guy is Right," declares: "The great recession, the world economic crisis which many have declared as imminent has still not arrived.... But it will come. Many prognoses paint a black picture. Maybe it will be March, perhaps first in April or May. And when it comes, even the biggest of economic stimulus packages will have no affect. Cushion, absorb the effects, perhaps, but nothing can prevent the recession.

"Anybody who starts to toss out billions at this stage will not even have enough money in the pocket for a calming placebo in a few months' time. Already, five EU countries have exceeded the sacrosanct Maastricht criteria, limiting new indebtedness to 3 percent of GNP. Great Britain is on the way. Next year, Lithuania and Latvia, alongside France, will join the club of jolly debt makers. Until they have paid off their debts they can reckon with dozens of economic crises."

The latest EU summit and the controversy unleashed by the remarks of the German finance minister have made abundantly clear that as the financial crisis deepens, the response of European nations is increasingly "Every man for himself."

Conceived by leading European conservative statesmen at the end of the Second World War as a bulwark against fresh rivalries and tensions between European nations, the EU is fracturing under the weight of its accumulated economic and political contradictions.