

European financial summit dominated by national divisions

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24 February 2009

The leaders of Britain, France, Germany, Italy, Spain and the Netherlands met in Berlin last Sunday to work out a joint European stance in advance of the Group of 20 meeting on April 2.

The April meeting of "developed" and "developing" countries in London will be attended by US President Barack Obama. European leaders were keen to develop a joint front in Berlin aimed at asserting their own interests, while seeking to insulate their economies, already in recession, from the burgeoning economic crisis in America. European capitals are particularly alarmed at the "shock tactics" adopted recently by US authorities in relation to the Swiss bank UBS. American officials are demanding details of thousands of the bank's customers.

For their part, European governments are planning a further round of bank bailouts, including the purchase of billions of dollars in toxic debts. The tab for the new bailouts as well as the billions already ploughed into the banks by assorted European governments (HRE in Germany; Fortis in Belgium; Northern Rock, Lloyds, Royal Bank of Scotland in Britain; Banques Populaires, BNP Paribas, Caisses d'Epargne in France) is to be picked up by the taxpayer.

European leaders approved a handful of nebulous and non-committal resolutions to assuage public anger over the preferential treatment given to the banks. After a desultory 90 minutes of discussion, the summit agreed on a resolution stating that "all financial markets, products and participants—including hedge funds and other private pools of capital which may pose a systemic risk—must be subjected to appropriate oversight or regulation."

Major European countries have already pledged to bail out all financial institutions and banks said to be of

"systemic importance." The Berlin meeting made clear that this pledge will extend to "systemic" hedge funds.

The resolutions were nodded through by the leading bankers also in attendance—the heads of the Bank of England and the European Central Bank. Also in attendance was current Euro-Group President Jean-Claude Juncker, the Luxembourg prime minister.

One after another, the leaders of France, Germany and Britain expressed their concern at the accelerating economic crisis in Europe and the necessity for joint action by European nations to regulate financial markets.

Announcing plans to make an extra \$250 billion (€195 billion) available to the International Monetary Fund (IMF) to deal with financial crises, British Prime Minister Gordon Brown told a press conference, "There is a need for a global New Deal so that the world economy can recover."

French President Nicolas Sarkozy said participants at the April summit in London "will bear a historical responsibility" and warned that concrete decisions had to be taken in advance because "if we fail, there will be no safety net."

German Chancellor Angela Merkel in contrast sought to stress the opportunities opening up for Europe in the wake of the crisis. "It's not a case of talking up the situation," she said, "but we want to send the message that we have a real opportunity to come out strengthened from this crisis."

There was a farcical element to the strained attempts by European leaders to demonstrate unity in Berlin. For the press and television cameras they exchanged greetings and kisses and slapped one another on the back. Behind the scenes, however, divisions between the leading European powers are growing.

A report in the *Suddeutsche Zeitung* on the

conference gave some impression of the real state of European relations. The newspaper wrote: "The atmosphere was sour in the chancellery, with no initial indication of Angela Merkel's confirmations of unity. An invisible web of wounds, mistrust or at least caution spread across the table in the conference room. The Germans had not forgotten that the French had worked on a European form of economic governance against their wishes. The Spaniards cannot be sure if they are really taken seriously by their northern neighbours. All together they swear their adherence to the struggle against protectionism. But is it not the case that Great Britain's premier, Gordon Brown, once demanded 'British jobs for British workers,' and is it not the case that the industry minister in Spain appealed to the country's citizens 'to rely on our products, our services and our industries?'"

The disunity between the leading European players in Berlin was underlined by comments made after the meeting by Czech Prime Minister Mirek Topolánek, whose country holds the rotating European Union presidency. Topolánek told reporters that Sunday's talks had exposed deep rifts. "If I put it very gently, the divergence in opinions was rather big.... It was obvious that the four countries representing the EU in the G-20 (France, Germany, Britain, Italy) do not have the same opinion on a number of issues."

In Berlin, Topolánek refused to shake hands with Sarkozy because of the latter's recent threat to French automakers that they would not be subsidised by his government if they sought to produce cars in the Czech Republic.

The hypocrisy of the uniform calls by European leaders to oppose protectionism was especially clear in the case of Brown. On the same day as the Berlin meeting, he gave an interview to the *Observer* in which he declared that he did not advocate any divide between high street retail banking and riskier investment banking. Instead, he said, the system had to be "refocused."

With British companies complaining they could not get the credit they needed, Brown declared that there had to be a "clearer focus" by British banks to lend primarily to UK firms. Brown and Chancellor of the Exchequer Alistair Darling are planning to announce this week a massive state buy-up of the toxic debts held by British banks. His comments to the *Observer*

confirm that the main purpose of the meeting of European leaders in Berlin was to cover their tracks as they promulgate nationalist policies and prepare to hand out further gigantic sums to the banks.

The protectionist trend in Europe is also underlined by the decision last week by the European Commission not to extend help to Austria, whose banks are particularly hard hit by the collapse of a series of East European economies. The EC turned down an appeal by Austria with the argument that it preferred "a country by country approach" to the crisis.

Far from being able to develop a common approach to counter and compete with US financial interests, European nations are increasingly reacting to the crisis by embracing economic nationalism in a manner that threatens the break-up of the European Union and the credibility of the European political elite. On the eve of the Berlin summit, a comment in the British *Financial Times* raised precisely these dangers:

"The succeeding months have seen...the return of once-banished nationalism. Economics is international but even in postmodern Europe the crisis has reminded us politics remains rooted in nation states. Grand declarations of solidarity have been lost to policies shaped by domestic political pressures."

The FT continued: "The risk now is that, as the recession deepens, popular disturbances become self-sustaining: that a defensive move here fans the embers of nationalism there; that the single market unravels.... For Mr. Brown nothing is more important than the forthcoming summit in London of the Group of 20 nations. Yet what credibility does he, or any other European, possess amid the cacophony of discord within Europe?"



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