EU summit rejects US demand for increased stimulus packages

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23 March 2009

European Union leaders emerged from a two-day summit last week. The 27 assembled heads of government and state announced that they had been able to reach a consensus on a number of measures in response to the growing international financial and economic crisis.

The summit followed the lead given by the German delegation, headed by the German chancellor Angela Merkel, to reject demands by the United States for further stimulus programmes and instead prioritise new forms of regulation of financial markets.

An initial meeting of G20 finance ministers in England on March 14-15 revealed growing strains and tensions between Europe and America. The meeting of EU heads in Brussels was in preparation for the G20 summit of world leaders to be held in London at the beginning of April and revealed a hardening of attitudes. Germany, in particular, is keen that the EU present a united front at the G20 summit and defy US pressure to pump more money into the world economy.

A number of events last week served to concentrate the minds of EU leaders and lead them to close ranks behind the proposals made by the German delegation.

New figures emerged at the start of last week on the extent and rapidity of the economic downturn in Europe. According to HSBC Global Research, the combined budget deficit of the eurozone's four biggest countries—Germany, France, Italy and Spain—will increase to 6.4 percent of GDP in 2010, compared to 5.8 percent this year and just 2.0 percent in 2008. The public debt of the same quartet of countries is forecast to climb to nearly 83 percent of GDP from 79 percent this year and 71 percent in 2008.

Europe's biggest economy, Germany, has been particularly hard hit. Its export industry is in free fall and unemployment in the country is expected to rise rapidly. According to the *Financial Times Deutschland* last week, "The economic crisis has surpassed even the most dismal prognoses, and the downward spiral continues. German firms had 37 percent fewer orders than in mid 2007. Companies working at this capacity don't need their entire staff."

The paper ends by warning that a rapid rise in unemployment could threaten "a social and psychological catastrophe."

Reports of a collapse of industrial production and a growing threat to jobs in Germany was accompanied by the latest figures from Britain, where unemployment has topped 2 million and is expected to exceed 3 million in 2010.

Leading European politicians have already warned on a number of occasions of the explosive social consequences of mass unemployment. Their fears were reinforced by the huge demonstrations that took place in France last Wednesday involving between 2 and 3 million protesters.

The second important development last week was the decision by the US Federal Reserve to buy up to US$300 billion in Treasury bonds plus US$850 billion in other debts in a bid to fire up the moribund US economy. The decision by the Federal Reserve to basically print money to pump into its banks and economy follows similar measures taken recently by the Bank of England and the Bank of Japan.

The immediate effect of the US Federal Reserve initiative was to drive up the euro almost 4 percent against the dollar—its biggest-ever one-day increase—creating additional problems for major European export nations such as Germany and increasing pressure on the European Central Bank to take similar measures to inject money into the economy. The ECB is the only major central bank to refrain from pumping huge sums of new capital into ailing financial and economic markets.

Leading newspapers in Germany reacted guardedly to the Federal Reserve measures, warning of the dangers of hyperinflation as governments print money in response to the crisis.

One day before the EU summit in Brussels, the Luxembourg prime minister Jean-Claude Juncker and president of the Euro-group declared, "I am against us Europeans [responding to] the American wish for a more voluminous economic recovery package."

On the same day, the German chancellor, Angela Merkel, told the German parliament, "It is not time to look at more growth measures. I disagree with this idea completely. The existing measures must work, they must be allowed to develop."

In an indirect reference to the latest measures taken by the US Federal Reserve, Merkel continued, "A competition to outdo each other with promises will not calm the situation," describing opposing transatlantic proposals to deal with the crisis as "very dangerous."

Declaring that the German government had done enough with its own stimulus packages Merkel stated, "We need to send good psychological signals to London and not engage in a competition for unrealisable growth packages. We have already done our part."

The same point was made somewhat more bluntly by one European Commission official, quoted in the *Guardian* newspaper: "The Americans are claiming they are doing a lot more. We're telling the US, you need not give us lectures."

At the summit itself, the growing opposition on the part of leading European nations to what is regarded as bullying from the US side was summed up by the Austrian finance minister, who asked, "Flooding the market with money—where will that lead?"

Despite frictions and horse-trading with a number of nations at the summit—in particular, Great Britain sought to water down proposals for the regulation of finance markets—the German delegation was able to push through most of its demands. The only immediate stimulus programme to emerge from the summit involves the relatively small sum of €5 billion for investment in internet technology and energy projects.

At the same time, the assembled EU leaders agreed to double the amount in the EU crisis fund from €25 to €50 billion. The aim of this fund is to bail out European countries confronting bankruptcy. The EU states also agreed to increase their payments to the International Monetary Fund by €75 billion—on condition that this money is paid out only to ailing European states.

In another important decision, the EU formally launched the so-called Eastern Partnership, aimed at forging closer political and trade links with six former Soviet countries—Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. Azerbaijan and Georgia are important for the EU's pursuit of alternative gas and oil import routes from the Caspian Sea region. Belarus also hosts a major gas pipeline system. The Russian foreign minister, Sergei Lavrov, reacted angrily to the EU decisions, accusing EU leaders of "blackmail."

Sections of the German media reacted with undisguised jubilation to the results of the summit. According to *Spiegel Online*, Merkel "dictated the EU crisis agenda.... The closing document agreed on by European Union leaders gathered in Brussels reads like a German wish list. Chancellor Merkel was able to convince the EU to focus on financial-market regulation—and to resist new stimulus programmes."

The broader political implications of the summit were summed up in an editorial in the *Süddeutsche Zeitung*, which notes that 20 years after the fall of the Berlin wall, one of the axioms of the post-World War II world has been overtaken by reality—"i.e., that America can show the way out of the crisis. For many years the [west] Europeans have looked across the Atlantic and oriented themselves on the American model. Now this model has ceased to exist. The new American government has reacted to the crisis in such a fainthearted fashion that the Europeans suddenly see themselves forced to do what they did not dare formerly, to lead the way."

The unity displayed by EU leaders in Brussels at the end of last week is in fact very fragile. The instability of political relations in Europe was underlined by the offer of resignation by Hungarian Prime Minister Ferenc Gyurcsany, just one day after the summit. Hungary is one of a number of east European countries that confront state bankruptcy as a consequence of the deepening world crisis.

Nevertheless, European nations, with Germany at the forefront, are responding to the growing economic and political pressure from America by raising their own claim to world leadership. While the US seeks to use its political power and influence to force Europe to share the burden of the crisis, Germany and France are going to the G20 conference in London armed with their own agenda of demands.

At the same time, the German chancellor made clear that her government's increasing defiance of Washington would be combined with harsh and uncompromising policies aimed at making the European working class pay for the crisis.

At the end of the summit, Jean-Claude Juncker warned of the prospect of a "social crisis" resulting from growing joblessness, which sparked off the latest mass protests in France. Chancellor Merkel brushed off Juncker's remarks, warning that Europe's leaders shouldn't compete to paint the gloomiest picture and concluded dismissively, "This isn't the first time there's been a strike in France."