European Union wracked by divisions over Greek crisis

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The Greek debt crisis has exposed deep fault lines within the European Union, above all within the core group of 16 countries which constitute the eurozone.

On Thursday, the heads of government of the European Union will attend a summit in Brussels. The meeting was widely expected to have as its focus the Greek budget crisis.

Last Friday, José Manuel Barroso, president of the European Commission, issued a statement calling on the EU leaders to reach a clear agreement on the Greek crisis this week, warning that the lack of clarity was unsettling the financial markets.

Two days later, German Chancellor Angela Merkel gave an interview on German radio in which she declared that Greece had not asked for any money from the EU. Merkel implied that there was no particular urgency in agreeing to a bailout plan to back up the PASOK government's efforts to raise tens of billions of dollars to meet its debt obligations in the coming months.

Merkel said that, to her knowledge, the Greek crisis was not even on the agenda of this week's EU summit.

The German chancellor's statements are all the more provocative under conditions where Greek Prime Minister George Papandreou has publicly warned that unless the EU summit agrees to a financial rescue plan, his government may not be able to meet its debt obligations because the lack of such an agreement is fueling international speculation against Greek government bonds, driving up Greece's borrowing costs and negating its savings from its draconian austerity measures.

Greek officials are complaining loudly that the EU, under pressure from Germany, demanded that the social democratic government impose the sweeping attacks on jobs, pensions, wages and living standards contained in its austerity program, provoking mounting opposition in the working class, and now refuses to provide a financial backstop in return.

Papandreou has threatened to turn to the US-dominated International Monetary Fund for relief if the EU fails to act. In response, leading German officials have suggested that Greece do precisely that, further roiling relations with France and other EU countries that are opposed to an IMF intervention.

French Finance Minister Christine Lagarde recently intimated that Germany had some responsibility for the crisis facing European countries, and advised Berlin to adopt measures to boost domestic demand and thereby assist its EU partners' ailing export industries. Lagarde's concerns were promptly dismissed by the German chancellor a few days later.

The stakes are high. In a column in Monday's *Financial Times*, Wolfgang Münchau describes two possible outcomes of the EU summit in Brussels. Either the assembled leaders fail to arrive at a consensus, or a deal is struck on the basis of other European countries agreeing to "Germany's gruesome agenda," involving "stricter rules and the dreaded exit clause, under which a country could be forced to leave the eurozone against its will."

Münchau concludes: "But either outcome will mark the beginning of the end of Europe's economic and monetary union as we know it. This is the true historical significance of Ms. Merkel's decision."

The implications of German economic policy for its European neighbours is drawn out in a paper entitled "Eurozone Crisis: Beggar Thyself and Thy Neighbour," recently published by the Research on Money and Finance (RMF) group.

In its introduction, the authors of the paper declare: "Guided by EU policy, eurozone countries have entered a 'race to the bottom' encouraging flexibility, wage restraint, and part-time work. Labour has lost out to capital across the eurozone.

"The race has been won by Germany squeezing its workers hard in the aftermath of reunification. The eurozone has become an area of entrenched current account surpluses for Germany, financed by current account deficits for peripheral countries. Monetary union is a 'beggar-thy-neighbour' policy for Germany, on condition that it beggars its own workers first."

Based on its booming export industry—two-thirds of Germany's exports go to other eurozone countries and 75 percent to Europe—Germany has been able to run up large current account surpluses. These surpluses are then used for foreign direct investment and bank lending to Germany's eurozone partners, which import German goods.

The influx of investment from the US, Germany, Britain and other major European countries helped fuel real estate bubbles in countries like Spain and Ireland and a consumer boom with attendant huge increases in personal debt in countries such as

Greece and Portugal.

This entire process was driven forward by the monetary policies adopted by institutions such as the European Central Bank. The RMF report also notes that the institutions of the eurozone have more than a merely technical function. “Rather, they have had profound social and political implications. They have protected the interests of financial capital by lowering inflation, fostering liberalisation, and ensuring rescue operations in times of crisis. … Not least, they have facilitated the domination of the eurozone by Germany at the expense of peripheral countries.”

Having encouraged other countries to take out huge loans and increase their indebtedness to buy German goods, the German government and banks are now adamantly refusing to come to the assistance of the Greek economy and effectively blocking any measures which would enable the country to ward off bankruptcy. In a chauvinist campaign, leading German politicians and sections of the media claim that Greek workers are to blame for the crisis and demand that the Greek government intensify its austerity measures to make the working population of Greece pay for the crisis.

Go broke and face being fined and tossed out of the eurozone as a result! This is the message for the Greek government from Berlin.

The chauvinist policy of the German government has the full support of the Social Democratic Party opposition and the trade unions. The most effective measures for depressing labour costs and creating a huge cheap labour sector in Germany were developed and introduced by the Social Democratic Party-Green Party coalition government (1998-2005), in close collaboration with the trade unions.

The success of this period, from the standpoint of big business and the banks, is one reason why they are now contemplating the replacement of the divided coalition of the free market Free Democratic Party and the conservative parties by an administration involving the social democrats and the trade unions.

The outbursts of chauvinism in Germany are matched by the equally nationalist responses from its European neighbours. But while there are deep divisions between leading European nations, they are united on one central point—that the working class in Europe pay the full cost of the crisis.

The latest eruption of national egoisms threatens the breakup of the European Union and increasingly draws Europe into conflict with the continent’s main rival across the Atlantic, the United States.

The transatlantic post-war settlement—the basis for relative stability and prosperity in the Western hemisphere—is unravelling. The once-mighty United States is in an accelerating process of economic decline. The lynchpin of the transatlantic political and military alliance—a common Cold War front against the Soviet Union after the Second World War—has vanished along with the Stalinist states, and, after decades of division, Germany is once again reunified and attempting to set the agenda in Europe.

In the aftermath of the collapse of the Soviet Union and its satellite states two decades ago, both the British and the French heads of state expressed consternation at the prospect of a reunited Germany. Then-Chancellor Helmut Kohl recalls in his memoirs that 20 years ago, British Prime Minister Margaret Thatcher bitterly complained to government leaders gathered for an official dinner, “We beat the Germans twice, and now they’re back.”

Thatcher’s fears were shared by French President Francois Mitterrand. At lunch in the Elysée Palace in January 1990, Mitterrand warned Thatcher that reunification would result in Germany gaining more European influence than Hitler ever had.

A reunited Germany sought to counter the fears of its European neighbours by making a major concession. Berlin declared that it was prepared to ditch its independent currency—the Deutschmark—and agree to the deeper integration of its growing economy into the European Union by adopting a joint European currency.

On January 1, 1999, the euro was introduced and is now the official currency of 16 European countries. Greece joined the eurozone at the start of 2001. As a condition for relinquishing its currency, Germany demanded strict budgetary criteria for the eurozone. No member country was to be allowed to run an annual deficit of more than 3 percent of its gross domestic product.

Now, in the wake of the financial crash of 2008-9, voices are being raised across Europe complaining that the strategy of reining in German influence by the adoption of the euro has seriously backfired. Germany is increasingly using its weight as the continent’s biggest economy to achieve economic and political dominance.