European summit proposes bailout and austerity plan for Greece

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A two-day European Union (EU) summit in Brussels concluded yesterday, announcing plans for an as-needed bailout package for Greece and tougher sanctions against eurozone countries whose deficits exceed European guidelines. The meeting caps weeks of rising tensions between the major European powers over how to deal with the Greek debt crisis.

The plan was adopted late Thursday night, incorporating word-for-word a statement written by German Chancellor Angela Merkel and French President Nicolas Sarkozy a few hours earlier. It specifies that the International Monetary Fund (IMF) and the eurozone countries could jointly bail out Greece, if Greece adopted devastating austerity measures.

The plan left maximum ambiguity over support available to Greece, so Greek Prime Minister Giorgios Papandreou could keep citing financial pressures to justify wage, job and pension cuts. However, reports cited estimates of a potential Greek bailout at €22 billion to €30 billion, two-thirds of which would come from the eurozone. Eurozone countries would contribute in proportion to their respective capital vested at the European Central Bank (ECB), which issues the common currency.

The 16 eurozone countries must unanimously agree to the bailout for it to take effect. This effectively gives Berlin, which was most strongly opposed to a European bailout scheme, veto power over any proposed bailout. The summit statement added that the bailout "mechanism has to be considered ultima ratio," that is, a last resort to avert default by Greece.

The plan did not specify the interest rate at which eurozone countries would lend, but declared it would be "non-concessional, not contain[ing] any subsidy element" — that is, higher than rates charged by the IMF. Greece will have to refinance €23 billion in debt in April and May, prompting concerns of another credit crunch. It is currently paying unsustainably high interest rates—around 7 percent, roughly double the rate paid by Germany.

In a move to boost bank profits and calm fears on the financial markets of a Greek default, the ECB lowered its credit requirements on bonds it will accept as collateral for loans. This will increase private banks' willingness to lend to Greece, as they can now get cash from the ECB in exchange for bonds rated as low as BBB-, including BBB+-rated Greek bonds. The banks will make huge profits from the difference between the high rate paid to them by the Greek government, and their own payments to the ECB, which is currently charging only 1 percent interest.

In a statement at the end of the summit, EU leaders proposed setting up a task force to ensure "better budgetary discipline." The eurozone's Stability and Growth Pact calls for limits of budget deficits to 3 percent of gross domestic product (GDP). The pact provides for fines and penalties against countries breaching these requirements, but these sanctions are typically not enforced: Greece has violated the limits six times, and Portugal, France, and Germany have each violated them five times.

"It's simply a fact that ... at present the handling of deficit procedures isn't sufficiently regulated," German Chancellor Merkel told a news conference. She called for changes to the EU treaty in response to eurozone budget problems.

The IMF is an institution that mainly bails out debt-stricken Third World countries, while requiring massive budget and wage cuts. It has not intervened in Western Europe since the 1970s. Its intervention in Greece is a stark warning on the character of the bourgeoisie's plans. The IMF funded bailouts in a number of Eastern European countries, including Hungary, Romania, Ukraine and Latvia, after the 2008 credit crisis sparked by the collapse of Lehman Brothers. They give an idea of the type of measures being considered in Greece and the rest of Europe.

In a briefing last month to Bloomberg News, S&P analyst Frank Gill spelled out the consequences of the IMF intervention in Latvia. With staggering pay cuts of 45 percent in the public sector, and 5 to 30 percent in the private sector, "wage levels are once again very competitive." Moreover, Latvia's economy has suffered a 19 percent decline, with unemployment hitting 22.8 percent in December—the highest in the eurozone.

The poverty conditions imposed on Latvian workers preclude improvement in the economy or state finances, Gill noted: “What is missing is job creation. Only job creation will put a floor under the economy. Until then, without question, wage deflation and rising unemployment will weigh heavily on public finances.” Gill expected the Latvian economy to contract again in 2010.

As for the eurozone governments, they have indicated their unanimous support for imposing similar conditions in Greece—while demanding higher interest rates for their loans. The bourgeois press widely praised the IMF intervention as a way to strengthen governments’ offensives against the working class.

Thus, *Le Monde* welcomed IMF involvement as “a relief, both from a financial and ‘psychological’ standpoint. The EU is not used to confronting the unpopularity of shock therapies and might give in to street demonstrations in Athens. The IMF, on the other hand, will not hesitate to rely on its reputation as a ‘big bad wolf’ to help the Greek government impose sacrifices on the population.”

Such plans are a damning indictment of the sclerotic character of European capitalism, and the pseudo-democratic façade its political regime gives to the dictatorship of the banks. They also intensify national divisions within Europe.

Other European countries, particularly those in a weaker financial position, have tried to project an accommodating stance. Spanish Tax and Economy Minister Elena Salgado claimed Spain would be willing to provide €2 billion—its share of the bailout—to Greece. The current value of this pledge is unclear, however, as the other 15 eurozone members are not proposing to proceed with a bailout.

In a March 15 *Financial Times* interview, French Finance Minister Christine Lagarde criticized German economic policy: “Clearly Germany has done an awfully good job in the last 10 years or so improving competitiveness. When you look at unit labour costs, they have done a tremendous job in that respect. I’m not sure it is a sustainable model for the long term and for the whole of the group.”

Such comments have found a largely hostile reception, however. The German bourgeoisie has no intention of increasing wages or allowing its competitors to take back market share. Alexander Dobrindt, general secretary of Bavaria’s Christian Social Union (CSU), called Lagarde’s comments “outrageous” and “the behaviour of a bad loser.”

In an interview with *Der Spiegel*, Deutsche Bank chief economist Thomas Mayer said, “We can’t really apologize for the ability of our industries to compete internationally,” adding that Germany “cannot apply the brakes to competitiveness artificially.”

However, he conceded that this was also an economic dead end for German industry, once other European countries begin cutting their deficits: “It will be inevitable that our neighbors will buy less from us, because they don’t have the money.”

Berlin is refusing to give up the advantages that have helped make it one of the world’s leading export powers: a substantial low-wage workforce policed by social legislation like the Hartz IV laws, and export markets inside Europe that use its own strong currency, the euro.

The *Daily Telegraph* recently reported that Germany’s export surplus is expected to reach $190 billion this year. Citing EU figures, the *Telegraph* estimated: “Germany has gained some 30 to 40 percent in cost advantage against Italy and Spain since the mid 1990s, and over 20 percent against France.”

Re-establishing Europe’s economic equilibrium on the basis of competition and private enterprise entails a devastating cut in wages and living standards, plunging the continent into depression.

A similar, if superficially different, proposal came from four professors—Wilhelm Hankel, Wilhelm Nölling, Karl Albrecht Schachtschneider and Joachim Starbatty—whose March 25 comment in the *Financial Times* called for eliminating the euro.

They noted that to return to competitiveness, “The Greeks would need to devalue by 40 percent. But in a monetary union, that is impossible.” They called for Greece to “leave the euro” and “recreate the drachma,” Greece’s former national currency. The drachma would plunge in value, making Greek exports more competitive and impoverishing workers through inflation in the cost of imported goods.

Fearing that deficit spending involved in a Greek bailout would lead to inflation, they threatened: “Should eurozone governments provide assistance to Greece in a manner that contravenes the no bail-out rule”—that is, a 1993 ruling of Germany’s constitutional court mandating that Germany will participate in the monetary union only if it obeys inflation-fighting guidelines—“we would have no hesitation in lodging a new lawsuit at the constitutional court to enjoin Germany to depart from monetary union.”