On eve of EU summit

Europe split over Greek crisis

Stefan Steinberg
25 March 2010

European diplomats are working feverishly to reach some sort of compromise on the Greek debt crisis and prevent an economic and political debacle at the summit of European Union heads of government meeting in Brussels Thursday and Friday.

The run-up to the summit was characterised by sharp differences between leading EU officials and German Chancellor Angela Merkel, who has repeatedly insisted that no firm aid package be offered to reassure the financial markets, which are betting heavily on a default by the Greek state.

At the same time, the crisis in Greece, one of 16 countries that share the European currency, is undermining international confidence in the euro. The value of the euro has fallen sharply in recent weeks.

Athens needs to raise tens of billions of dollars to meet its debt obligations in the coming months. Only recently, Greece's social democratic prime minister, George Papandreou, warned that his government might not be able to meet its debt repayments because the lack of a financial backup agreement is fuelling international speculation against Greek government bonds, driving up Greece's borrowing costs and negating the savings from his draconian austerity measures.

Within Greece, popular opposition to the austerity measures, which has already resulted in two one-day general strikes, is mounting. The Greek unions, which are closely linked to the social democratic PASOK party of Papandreou, are doing their best to dissipate and exhaust the opposition by limiting resistance to one-day actions and futile protests. The position of the unions is that severe cuts in jobs, wages and pensions are necessary, but they should be made more "fair" and the unions should be involved in their formulation.

At the same time, the unions in Greece are promoting nationalism to divert popular anger away from Papandreou and block a unified struggle of the European working class against austerity measures that are being drawn up throughout the European Union.

The position of the German government was summed up by a "senior official" quoted by Reuters as saying, "The condition for action, as a last resort, is that Greece's financing on the capital markets is exhausted."

One week ago, Chancellor Merkel distanced herself from her own finance minister and declared she was prepared to accept the intervention of the International Monetary Fund to help bail out Greece, while once again stressing that she saw no reason for offering Greece any European assistance.

Other EU countries, with France to the fore, together with German Finance Minister Wolfgang Schäuble and the European Central Bank (ECB), have thus far resisted any involvement by the IMF, regarding, according to *Der Spiegel* magazine, "an intervention by the Washington-based institution as a declaration of bankruptcy for Europe."

In an interview with the German weekly *Die Zeit* this week, ECB executive member Lorenzo Bini Smaghi reiterated the central bank's opposition to IMF assistance for Greece. "If the IMF steps in, the image of the euro would be that of a currency that is able to survive only with the external support of an international organisation…. Market reactions in the last few days have shown that resorting to the IMF can be detrimental to the stability of the euro."

Last Sunday, Merkel gave an interview on German radio in which she not only declared that Greece had not asked for any money from the EU, but added that to her knowledge the Greek crisis was not even on the agenda of the EU summit.

The response from other European countries was prompt. On Monday, French Foreign Minster Bernard Kouchner announced that the issue of Greece would definitely be on the agenda and that he was confident a solution would be found. Similar comments were made by the president of the European Commission, José Manuel Barroso.

The Greek government responded bitterly. Papandreou declared, "If it is not on the agenda, we will put it on!"

French President Nicolas Sarkozy and Spanish Prime Minister José Luis Rodríguez Zapatero proposed a separate meeting of the 16 eurozone countries on Thursday to discuss the Greek crisis—only the second such meeting in the 10-year history of the European currency.

Pressure for a deal in Brussels also came from the financial markets, which drove the euro lower against the dollar this week. One market strategist said on Wednesday: "The euro is increasingly vulnerable…as traders come to terms with the fact that three months have elapsed since the last credit downgrade of Greece and there is still no credible solution on how it will obtain €56bn for its short-term obligations."

Against this background, government sources in Paris reported that France was now prepared to accept the German proposal for an intervention by the IMF. The IMF, however, has made clear that it would not be able to provide all of the finance that Greece needs to service its debts and expected the EU to contribute its own share of funding. According to a report in the *Financial Times*, the IMF is prepared to put up €10 billion of the estimated €20 billion required by Greece, with the rest of the total to be raised in Europe.

European leaders have failed to arrive at any concrete agreement on which nations should contribute to a bailout package for Greece. Merkel has so far ruled out any contribution by Germany, arguing that such assistance would contravene European treaty regulations and be unconstitutional.

Berlin is also insisting that there be no let-up on pressure on the Greek government to press ahead with its austerity measures. While ruling out any concrete German aid, Merkel is adamant that assistance from other sources be tied to strict adherence by Greece to its cost-cutting programme. Germany is also seeking to link any deal in Brussels to the adoption of much tougher rules to enforce budget discipline in the eurozone.

While EU officials and diplomats are working frantically on a compromise document for the summit, it is clear that any final communiqué will remain noncommittal regarding European financial commitments.

As the crisis deepens, European states are responding by seeking to whip up nationalism, further exacerbating the centrifugal tendencies that are tearing apart the EU. Singled out by powerful financial institutions to create a precedent for beating down the living standards of the entire European working class, Greece has now become the battleground where the future of the eurozone and the European Union as a whole is being fought out.