No agreement at Madrid summit on measures for Greek crisis

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The April 16-17 Ecofin summit of Eurozone finance ministers and central bankers in Madrid ended without substantial agreements on problems facing the European economy as a result of the Greek debt crisis.

European officials had held out hopes for decisions on bank regulations, European guidelines on budget deficits and public spending, and how to help the debt-stricken Greek economy. However, the summit produced contradictory statements by leading European officials on the major topics at hand, amid rising expectations that the Greek financial crisis will snowball throughout Europe.

The Spanish daily *El Pais* called the Ecofin summit "disappointing." It said that Europe's finance ministers "did not advance decisions aimed at strengthening the necessary economic government of Europe, or at the prevention of future financial crises. It is probable that the EU will arrive at the next meeting of the G-20 with little more than generic statements."

Talk of a tax on financial transactions led to disagreements over the impact such measures would have on proposed Basel banking accords. Italian Economy Minister Giulio Tremonti said, "There is no proposal, there is nothing specific." He declined to say what Italy's position would be if there were a formal proposal for such a measure.

European Central Bank (ECB) President Jean-Claude Trichet insisted that a bank levy would have to be arranged on a global and not a European level "to ensure that we have a level playing field." As US financial institutions have refused to consider such measures, this postpones the matter indefinitely. Asked if he supported a global bank levy, Trichet commented, "We are not that far yet. First, we must look at different proposals."

The summit also failed to stem rising fears of a Greek financial collapse. The government of social democratic Prime Minister Giorgios Papandreou is imposing huge social cuts on the population—including a 10 percent cut in social spending, a two-year increase in the retirement age, and the elimination of public sector jobs and two months of wages for public service workers—to reduce its deficit. However, there are rising fears that such devastating measures will not be enough to avoid state bankruptcy.

Athens will have to borrow €32.5 billion by the end of the year to refinance its debts, and the interest rate charged by major banks on international debt markets continues to climb. At the end of last week, it reached 7.3 percent, near its all-time highs. Athens must borrow €12 billion in April alone.

The French daily *Le Monde* commented, "Borrowing at such rates—compared with 4.5 percent rates two years ago—would cost Athens all the gains it has made by unprecedented, severe austerity measures now inflicted on the Greeks."

The Ecofin meeting acknowledged that Greece had sought "consultations" for implementing a joint EU-International Monetary Fund (IMF) bailout totalling €45 billion, of which €30 billion would come from Eurozone countries. Greek Prime Minister Giorgios Papaconstantinou told reporters at the Madrid summit that this was "not tantamount" to asking for the bailout itself. However, the *Financial Times* cited a "top economist" in Greece who said that the request for talks "amounts to a done deal."

In a speech to the Greek Parliament, Papandreou said a Greek appeal for a bailout was "inevitable." He told *Ekathemerini*, "[T]his country was on an inescapable path to the IMF. We have guaranteed that there will be a European presence [in the bailout agreement]. I simply wanted to protect Greece from bankruptcy."

Officials from the European Commission, the ECB, and the IMF are due to arrive in Athens today to discuss conditions for loans and how they will be financed. European and IMF authorities have made clear that conditions on the bailout will include ongoing cuts directed against the working class.

Despite these plans, there are lingering doubts as to when and whether such a bailout will take shape. According to some reports, Berlin agreed to plans for an EU-IMF joint bailout only after French President Nicolas Sarkozy and Italian Prime Minister Silvio Berlusconi threatened to bail out Greece on their own. (See: “Franco-Italian summit makes strategic deals, calls for bailout of Greece,”.)

German Chancellor Angela Merkel’s coalition has fallen in opinion polls since her re-election last September. Press reports note that supporting an unpopular Greek bailout might cost her coalition their hold on the North Rhine-Westphalia region, which is holding elections on May 9. A defeat would wipe out Merkel’s majority in the upper house of the German parliament.

Joachim Starbatty, a euro-skeptic German economist, has pledged to challenge German participation in any Greek bailout in Germany’s Constitutional Court. In the event of a €30 billion Eurozone bailout for Greece, Germany’s contribution would be €8 billion. A challenge is considered more likely if the Eurozone countries charge Greece lower interest rates than the current, extremely high rates charged by the financial markets.

This has led to concern that the IMF and European countries might disagree over the interest rates Greece would pay for loans. The *Financial Times* wrote, “the Eurozone and the IMF may end up jostling for primacy in controlling the rescue. ‘This has all the hallmarks of a screwed-up arrangement,’ said Morris Goldstein at Washington’s Peterson Institute for International Economics.”

The Madrid summit confirmed Europe’s continuing economic disunity, with calls to strengthen pan-European budget regulations going unheeded. At the conference, Dutch officials and EU Monetary Affairs Commissioner Oli Rehn called for Eurozone states to submit their budgets to European authorities for review prior to submitting them to national parliaments. However, there was no concrete action on such proposals.

Spanish Economy Minister Elena Salgado stressed that the EU is “not going to substitute for the decisions made by national parliaments.”

As these disagreements continue, competitive pressures are building up throughout Europe. On April 9, the Polish Central Bank sold its currency, the zloty, to keep it from rising too far against the euro. The *Financial Times* noted this might signal a “broad-based move” by Eastern European countries to keep their currencies—and hence their exports to Eurozone countries—cheap.

The newspaper cited financial analyst Martin Blum: “Such a sea-change in strategy would…ramp up competitive pressure further on the countries on the periphery of the Eurozone. In short, it shouldn’t be ruled out that this action by the National Bank of Poland is a game-changer, not only for Poland but for the region.”

There are indications that Portugal will be the next country banks and big investors target for speculation, combined with demands for harsher social austerity. Besides its impact on Portuguese workers’ living standards, this will intensify tensions inside the Eurozone as fears rise that Portugal will require its own bailout.

In the *New York Times*, financiers Peter Boone and Simon Johnson labelled Portugal the “next global problem.” They wrote that Portugal’s debt was “78 percent of [gross domestic product] at the end of 2009 (compared with Greece’s 114 percent of GDP and Argentina’s 62 percent of GDP at default).”

They added that Portugal is “not even considering serious cuts” because they are “waiting and hoping that they may grow out of this mess—but such growth could come only from an amazing global economic boom.”

Boone and Johnson noted that the outflows of capital needed to service and pay down Portugal’s debt were so immense (10 percent of GDP) that they probably could not be maintained. Instead, they predicted that the Eurozone would break up, so that the Southern European countries could boost their competitiveness by devaluing their currencies—at the cost of slashing the purchasing power of workers in those countries.