European Union sharpens its austerity measures

Peter Schwarz
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The European Union this week significantly increased the pressure on highly indebted member states to reduce their deficits through harsh austerity measures. It was the German government that set the tone for the deal that was struck.

On Tuesday night, the finance ministers of the 27 EU states met with European Central Bank chief Jean-Claude Trichet and EU President Herman Van Rompuy to discuss the proposals. German Finance Minister Wolfgang Schäuble had previously written a letter to all participants demanding harsh sanctions against countries that violate European budgetary rules. In addition to damaging fines and the withdrawal of EU subsidies, Schäuble also proposed the withdrawal of voting rights in the EU's highest body, the Council of Ministers.

Schäuble was unable to push through his proposals, which met with resistance from Southern European countries and French Finance Minister Christine Lagarde, who opposed automatic sanctions. But the finance ministers were in principle agreed that the penalties should be significantly increased for countries with excessive debts.

On Wednesday, EU Commissioner Olli Rehn presented a package of laws strengthening the Euro Stability Pact. This proposes a “debt brake” similar to the German model, tough sanctions for states exceeding the deficit ceiling and fixed targets for debt reduction, as well as heavy fines for countries failing to meet the new targets. Rehn had closely coordinated his proposal with Berlin, which fully supports the measures.

If Rehn's proposals become law, EU members will be compelled to provide a “compulsory deposit” of 0.2 percent of GDP in Brussels at the start of an excessive deficit procedure, i.e., when their new debt exceeds 3 percent of gross domestic product (GDP). If they then continue to fail to meet fiscal targets, this deposit will be withheld as punishment. The sanctions apply “semi-automatically”, with the Commission empowered to implement them without a further Council decision. Member states can only prevent their implementation if, within 10 days, they are voted against by a statutory majority. Previously, heavy fines could only be imposed when two thirds of member states had agreed beforehand—something which never occurred in practice.

Rehn is also seeking direct influence on the fiscal and wage policies of individual governments. To this end, the Commission intends to monitor their economic policies and intervene as soon as they deviate from key economic indicators. This will also include ordering wage cuts.

Public sector salaries are a vital element of national competitiveness, argued Rehn's spokesperson Amadeu Altafej in justifying these measures. In the case of Greece, high public sector wages were a cause of the crisis, he said. The European Commission chief official for Economic Affairs, Marco Buti, told *Die Welt*: “If wages in the public sector clearly harm price stability and competitiveness, then there will be a call for the country to correct this trend. And of course, wages in the public sector strongly influence the private sector.”

Rehn's proposals must still be approved by the member states and EU bodies. This will take weeks or months, and will involve revisions. Nevertheless, it is obvious that the EU wants to take a much harder line. After ordering drastic austerity programmes in Hungary, Romania, Greece, Spain and Portugal, pressure is now being increased on other countries to significantly reduce the living standards of broad social layers.

The EU is clearly operating on behalf of the most powerful European financial and business circles, which insist that the massive deficits in public finances resulting from the economic crisis and bank bailouts be countered by slashing wages and social spending. The German government, acting on behalf of the German export industry, is calling the tune.

There is no lack of voices saying these policies are short-sighted. On Monday, four leading European economists warned in the *Financial Times* that such harsh measures were necessary but risky. They threaten to trigger a depression affecting the whole eurozone. The resulting economic, financial and social stresses could destroy the eurozone. They suggested, therefore, a European solution: the European Financial Stability Facility established in the spring should become a permanent instrument that can be used to support highly indebted countries.

The proposals of the economics professors were supported by four politicians who had all advocated on behalf of the EU at different times: former Commission presidents Jacques Delors and Romano Prodi, former German foreign minister Joschka Fischer and former Belgian prime minister Guy Verhofstadt.

EU policy, however, is not guided by long-term considerations but rather by short-term interests, i.e., the interests of the same ruthless financial elite, which sacrifices all social ideals to selfish profit-grabbing. The Europe of 2010 increasingly resembles the Europe of the 1930s, which staggered from one world war to the next.

The international financial and economic crisis has intensified national conflicts in Europe. Germany, whose banking sector remains crisis-ridden, while its export sector (thanks in large measure to wage restraints imposed with the help of the trade unions) is emerging stronger from the crisis, is determined to defend its advantages at the expense of the rest of Europe. Britain will not accept any measures that run contrary to the interests of the City of London. And France retaliates against its German neighbour by looking for new allies in southern Europe.

Europe's ruling elites are responding to the growing social tensions by stoking up xenophobia and nationalism. In Hungary, Italy, Denmark and Holland, racist parties now sit at the cabinet table or support the government. In France, the president is personally whipping up a frenzied campaign against Roma and Muslims.

While Finance Commissioner Olli Rehn was announcing the tougher austerity course being pursued by the EU in Brussels the European Trade Union Confederation (ETUC) was demonstrating on the streets. But this protest is hollow and false. The perspective of the ETUC does not go beyond pressuring the EU Commission to take a somewhat more moderate course. The ETUC has repeatedly made clear that it supports the austerity measures of the EU in principle. It merely seeks to advise the Commission how it can pursue this course without conflicts, and therefore more effectively.

The national organisations of the ETUC divide European workers by playing off one “production location” against another, agreeing to wage cuts in order to strengthen “their” employers against international competitors. They defend the interests of the corporations by pitting workers against each other, imposing industrial discipline and suppressing any genuine struggle.

The EU's austerity measures, growing national tensions and the resulting threat of war can only be opposed through the independent movement of the European working class. Workers must break with the trade unions, the social democratic parties and their “left” appendages, and turn to a socialist perspective. The banks and large corporations should be nationalised, and the economy reorganised in the interests of the whole of society. In place of the European Union—a tool of the banks and corporations—workers must struggle to establish the United Socialist States of Europe.

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