EU steps up pressure for austerity measures

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The European Union has intensified pressure on its highly indebted member states to reduce their deficits by drastically cutting public expenditures. The driving force is Germany, which is ruthlessly using its economic power to dictate terms to weaker countries.

In the early hours of Friday morning, the European heads of state and government agreed to tighten the Euro Stability Pact. In the future, states that breach the deficit ceiling of three percent of GDP will be punished sooner and more harshly than before. The penalties range from depositing "collaterals" running to billions of euros, to substantial fines.

In addition, the EU summit decided to establish a permanent crisis mechanism for the euro zone. This will replace the €750 billion rescue package that had been set up during the Greek debt crisis to fend off speculation against the euro. President Herman Van Rompuy was commissioned to draw up corresponding changes in the EU's treaties by December.

The goal is a kind of insolvency law for the euro-zone countries. It should, according to the German Chancellor Angela Merkel, ensure that private creditors have to take responsibility for losses when a state can no longer finance its debts. In reality, however, it will not be the private banks and investors, but highly indebted states that will be the victims of the new rules. They will only be able to raise government bonds at extremely high interest rates or not at all if investors lose a portion of their claims when a state goes bankrupt. This measure serves to increase the pressure for debt reduction as well.

Ahead of the summit, Germany had literally blackmailed the other EU members to force through its austerity diktat. Chancellor Merkel demanded that sanctions against deficit offenders should apply automatically in the future, without requiring any prior decision by European finance ministers. She also demanded that continued breaches of the deficit rules by an EU member would lead to the suspension of their voting rights. She threatened that Germany would refuse to agree to the reform of the Stability Pact if the Treaty of Lisbon (the EU's constitution) was not changed accordingly at the same time.

Merkel also used the €750 billion rescue package as leverage; making it clear that as the largest donor, Germany would not renew it when it expires in 2013. If no new crisis mechanism were in force by then, Greece, Portugal, Ireland, Spain and other highly indebted countries would face bankruptcy.

The German ultimatum sparked violent tensions. While Merkel's demand for automatic sanctions was supported by several countries in central and northern Europe, she met with resistance in France and southern Europe.

The loss of voting rights for deficit offenders was almost unanimously rejected. Even Commission President José Manuel Barroso, not known usually for plain speaking, unequivocally discarded Merkel's proposal. It would require that the Treaty of Lisbon, which only came into force a year ago, be re-negotiated and confirmed in some countries through a popular vote. This is widely regarded as a futile exercise. Nevertheless, Merkel reiterated her demand in a government policy statement before she left for Brussels on Wednesday.

A week earlier, on the fringes of a Franco-German-Russian tripartite summit in Normandy, Merkel and French President Nicolas Sarkozy had agreed on a joint course of action. Merkel made slight compromises regarding her demand for automatic sanctions, while Sarkozy accepted changes in the EU Treaties and tougher sanctions against deficit offenders.

For Sarkozy, who was at the highpoint of the conflict over pension reforms, the alliance with Merkel was of great value. While millions of workers were protesting on the streets of France against an increase in the

retirement age, he received Berlin's endorsement for his austerity policies.

The alliance between Sarkozy and Merkel is facilitated by the nationalist politics of the trade unions, who support the policies of their respective governments. While the French trade unions are seeking to restrain the opposition to the pension reforms, and categorically reject an offensive to overthrow Sarkozy, the German unions have not raised a finger to support the French protests.

The support by the unions also explains why Merkel can adopt such an arrogant stance in Europe. Many German companies are emerging from the crisis strengthened because they can enjoy record profits and a stronger competitive position thanks to years of wage restraint imposed by the unions. For example, auto manufacturer Daimler has raised its profit forecast for this year from 2.3 to 7 billion euros. At the same time, the unions have supported the development of a low-wage sector, in which millions now toil on minimum wages.

In Brussels, the German-French agreement met with outrage. The President of the Euro Group, Luxembourg Prime Minister Jean-Claude Juncker, described it as "unacceptable". Merkel and Sarkozy had reached an agreement without consulting him, he told *Die Welt*. "The style is simply impossible."

But after Merkel put pressure on all 26 EU leaders in personal phone calls, she was largely able to prevail in Brussels. Apparently, the threat of withdrawing the euro rescue package proved effective. Not a single European government is willing or able to stand up to the dictates of the banks and corporations, whose interests Merkel represents. Even *Spiegel Online* called her actions "pure blackmail" and stated: "Her hegemonic actions provoke criticism across Europe."

Merkel has prevailed at the EU summit in her key demands—strict austerity measures, and the anchoring of a permanent crisis mechanism within the EU treaties. She moved away from her maximum demands for a withdrawal of voting rights and automatic sanctions, but these were bargaining chips to increase the pressure on her opponents.

The change to the EU treaties will be carried out in such a way that it can be implemented without requiring parliamentary approval or a referendum. No European government currently believes it could gain a majority of voters for such a proposal.