Sharp divisions at European finance ministers' meeting

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A meeting of European finance ministers on Monday and Tuesday revealed profound and deepening divisions among European governments over how to deal with the continent's worsening economic crisis.

In particular, the two-day meeting in Brussels showed a hardening of positions dividing a handful of northern European countries led by Germany from the rest of Europe.

Discussions at the summit were dominated by two proposals for fresh emergency measures to deal with the debt crisis.

Over the weekend, the prime minister of Luxembourg, Jean Claude Juncker, and the Italian finance minister, Giulio Tremonti, published an article in the *Financial Times* calling upon European politicians to issue a new type of bond, a so-called euro-bond, to replace the existing system of separate national government bonds.

The second proposal discussed at the Eurogroup meeting was a massive hike in the fund set up earlier this year to bail out European banks and defend the continent's common currency, the euro. In the wake of the Greek debt crisis, European governments had agreed to a €445 billion European Union-International Monetary Fund rescue fund to deal with further economic contingencies.

Following the recent €85 billion package to rescue the Irish banks and the imminent threat of more European bailouts, leading financial institutions and lobbyists have intensified their call for a more than four-fold increase in the European rescue fund, i.e., a fund totaling up to €2,000 billion.

The proposal for a massive injection of new monies into the rescue fund was backed over the weekend by Didier Reynders, the Belgian finance minister, who chairs the EU's economic affairs council. Reynders also claimed that the International Monetary Fund supported such a move. Belgium has recently been put on the list of those European countries which, according to the markets and rating agencies, are in need of imminent financial support from the European Union.

In the event, both of the proposals were torpedoed by leading German politicians, who are reported to have the backing of at least two other European governments—Austria and the Netherlands.

At a press conference in Berlin on Monday, German Chancellor Angela Merkel said she saw no need to increase the size of the European Union's €445bn rescue fund. Merkel also rejected the proposal for a euro-bond, arguing that such a bond would contravene European treaties.

Merkel's comments had been preceded by remarks by German Finance Minister Wolfgang Schauble, who gave an interview to the *Bild* newspaper over the weekend. Schauble made clear he rejected both a euro-bond and any increase to the EU rescue fund.

The stance taken by Germany, supported by a handful of other governments, will only intensify the widening gulf in Europe. The disunity which reigned at the Brussels summit is symptomatic of the intensification of national divisions and the growth of national egoism within Europe.

For a number of years following the introduction of the euro in 1999 it was possible to paper over the growing economic differences between European nations.

Leading European banks—with those of Germany, France, Austria and Switzerland at the forefront—pumped money into weaker peripheral and Eastern European economies. This influx of funds fueled the demand for the consumer goods of leading exporting powers such as Germany. It also fueled property and debt bubbles which have exploded so spectacularly in Ireland and Spain.

This investment strategy by the European banks was endorsed and encouraged by their respective national governments. In Germany, the Social Democratic-Green Party government which took power in 1998 introduced legislation which facilitated the international investment strategy of Germany’s leading banks.

For nearly a decade, based on its common currency, it was possible for the European political elite to cover up the economic disparities between European states and project an image of harmony and growing integration. This policy exploded in 2008 with the crash of Lehman Brothers and the onset of the international financial crisis.

The crisis which began in the US quickly revealed the rottenness of the investments made by the European banks. One European government after another reacted by implementing a massive bailout of its banking system. For the first time in history, the German government intervened to nationalize a German bank, pumping a total of €105 billion into Hypo Real Estate, which had heavily invested in the Irish speculative bubble.

Now the German chancellor rejects an increase in the European rescue fund and proposals for a euro-bond because it would have negative consequences for German banks and German companies. Both proposals involve extra outlays by Berlin, which is aggressively opposed by the country’s business and financial lobbies.

Germany’s own alternative is to impose harsh sanctions on weaker European economies. It is demanding and attempting to secure the power to enforce the type of “shock therapy” tactics implemented by the IMF in a series of Latin American countries in the 1990s, and which prevailed across Eastern Europe following the breakdown of the Soviet Union.

From being a leading force for European integration in the post-war period, Germany is turning into a force for destabilization and division within Europe. The German economy has profited hugely from the introduction of the euro and it remains the case that financial and business circles, along with the German government, are keen to maintain the common currency.

At the same time, the increasingly nationalist orientation of the German government has led to a furious political debate about the future of the euro and the European Union itself. In a column for the *Süddeutsche Zeitung* on Tuesday, former German foreign minister and leader of the Greens, Joschka Fischer, sharply attacked the German government, accusing it of historical “amnesia” and encouraging a “German Europe” instead of a “European Germany.”

Meanwhile, at a book launch in Berlin last week, the former head of the German industrial federation BDI, Hans-Olaf Henkel, presented his new book, entitled *Rescue Our Money*. Henkel’s own proposal for the crisis is to split the euro zone in two, with northern Europe (Germany, the Netherlands, Austria) in one camp and southern countries such as Spain, Italy and France in another.

Henkel’s proposal is nothing less than a stepping stone to the breakup of the euro and the disintegration of Europe as a whole. Henkel’s book is warmly recommended by the prominent social democrat Thilo Sarrazin, who recently published his own book advancing racist arguments against Muslim immigrants. The guest of honor at the book launch of *Rescue Our Money* was none other than the German finance minister, Rainer Bruederle.