EU summit agrees to new rescue fund for the banks

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Following weeks of sharp conflicts, European government leaders agreed Thursday in Brussels on initial steps for establishing a permanent financial crisis mechanism. The European Stability Mechanism (ESM) will replace the existing euro rescue scheme beginning in 2013.

Setting aside the fine words about "European solidarity" that always accompany summit decisions, the new European crisis mechanism amounts to two things:

First, it guarantees that international speculators will continue to be reimbursed with public funds when their investments collapse. Second, it ensures that the cost of such rescue operations will be passed on to ordinary people through draconian austerity measures.

The summit participants agreed to supplement the Lisbon Treaty with two sentences overriding the existing prohibition against mutual financial assistance. The German government had insisted on such an amendment because it feared that Germany's Supreme Court would otherwise ban the extension of the current euro rescue fund beyond 2013.

The 16 member nations of the euro zone will now provide mutual financial support after 2013 when a country falls prey to international speculators. However, this will be coupled with extremely tough conditions.

The German government insisted that financial aid be given only where strict conditions are met, and the crisis mechanism applies only if the euro zone as a whole is threatened. For a country to receive protection against speculative attacks, it must unconditionally submit to the austerity diktats of the International Monetary Fund (IMF), the European Central Bank (ECB) and the EU Commission, as Greece and Ireland have already done.

The original proposal, whereby private bond holders would automatically be asked to share the financial pain should a state run into payment difficulties, was buried at the Brussels summit. This will now happen only in individual cases.

The details of the new crisis mechanism, including its scope, remained undecided on Thursday. A future summit will decide on these issues.

A joint proposal by Luxembourg Prime Minister Jean-Claude Juncker and Italian Finance Minister Giulio Tremonti that a part of the national debt of all euro zone countries be financed by issuing euro bonds was brusquely rebuffed first by Germany and then by France.

Juncker and Tremonti had hoped that this proposal would provide better protection against speculative attacks on the euro and result in lower interest rates for highly indebted countries. But the German government was not prepared for the sake of presenting a common front to accept a slight increase in the interest on its own debt. This led to a heated public exchange between German Chancellor Angela Merkel and Juncker in advance of the summit.

After the meeting, the German chancellor spoke of "a good day for the euro," saying the new crisis mechanism meant the summit had agreed "to ensure the stability of the euro as a whole."

In fact, the crisis of the euro continues unabated. Just a day before the summit, the US rating agency Moody's threatened to lower the credit rating of Spain. This would have forced the country to pay the highest interest rate on its debt in 13 years. A day later, Moody's threatened Greece with a further reduction in its credit rating.

Since December 2009, when several rating agencies downgraded Greece, triggering the current euro crisis, the same pattern has repeatedly emerged. First, a country's rating is lowered. Next, the interest rate on any new debt is increased.

If the country falls into a debt spiral because the interest burden is growing faster than public spending can be reduced, it is forced to turn to the European rescue mechanism. This guarantees the banks full repayment of

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their investments, while the government concerned is committed to implement harsher austerity measures.

This represents a great deal for the banks. They receive high interest rates on bonds, while the risk is borne by the European rescue fund. If things go badly they can cash out, their profits having been secured by the intervention of the EU.

Mohamed El-Erian, head of the investment company Pimco, admitted this candidly in a recent *Financial Times* article. “Rather than being reassured by the provision of liquidity to peripheral countries,” he wrote, “existing depositors and creditors have used the rescue funds to exit their holdings.”

The Greek crisis established the pattern now followed by the banks in one country after another. They provoke a crisis by pushing up interest rates on government bonds, forcing the country to adopt a rescue package and a cuts programme that decimates the living standards of the working class. Greece was followed by Ireland. Next come Portugal, Spain and perhaps Italy.

The class character of these measures is becoming more and more apparent. While Greece’s high public debt had a long and complex history, Ireland’s was a direct consequence of the speculative orgy of the banks. The national debt was relatively low until the government in Dublin decided to assume full responsibility for the losses of the Irish banks. Now, public-sector jobs, social spending, incomes and pensions are being gutted to pay off the debts of the banks.

There is not a single European government—whether conservative, liberal or social democratic—that is willing to oppose the dictates of the international financial aristocracy. Like an insatiable Moloch, it constantly requires fresh sacrifices, until the last remnants of the social gains of the working class over six decades have been destroyed.

At the same time, the banks are aggravating national tensions in Europe. While governments prostrate themselves before international financial capital, they try to push the brunt of the crisis onto their neighbours. This threatens the economic fragmentation and political balkanization of the continent. The incitement of nationalism goes hand in hand with xenophobia and attacks on democratic rights.

In Germany, there is talk of founding an Anti-Euro Party. To this end, economic nationalists such as former employers’ federation president Hans-Olaf Henkel and racists like Social Democratic Party (SPD) member Thilo Sarrazin are boosted by the tabloids and talk shows.

They find support in the right wing of the Christian Democratic Union (CDU), the Free Democratic Party and sections of the SPD. The uncompromising posture of CDU leader Merkel on the European stage is in no small part due to fears that her own party may break apart.

In Greece, right-wing and pseudo-left demagogues try to turn popular outrage over the austerity measures of the Papandreou government into anti-German nationalism.

A crucial role in the nationalist agitation is played by the trade unions, which everywhere stand behind their respective governments, either openly or behind the scenes. They support the austerity measures and sabotage any attempt to develop a pan-European movement of the working class.

In 1924, Leon Trotsky wrote of the fragmentation of Europe:

“Bourgeois economists, pacifists, business sharpers, daydreamers and mere bourgeois babblers are not averse nowadays to talk about a United States of Europe. But that task is beyond the strength of the European bourgeoisie, which is utterly corroded by contradictions. Europe can be unified only by the victorious European proletariat. No matter where the revolution may first break out, and no matter what the tempo of its development may be, the economic unification of Europe is the first indispensable condition for its socialist reconstruction.” (Leon Trotsky, “Europe and America”).

These words still apply today. Europe is at a crossroads. The alternatives are a descent into depression, dictatorship and war, or the unity of the European working class in the fight for workers’ governments and the socialist transformation of society in the form of the United Socialist States of Europe.

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