EU finance ministers meeting

No agreement on euro crisis

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A summit of European finance ministers held on Monday and Tuesday of this week failed to arrive at any clear consensus on how to tackle the continent's escalating economic and social crisis.

Held under conditions of a renewed offensive on the international markets against selective European economies, the latest summit in Brussels once again confirmed that EU states adamantly refuse to undertake any action against those banks and finance houses that are conducting a systematic campaign of austerity across the continent and threatening to plunge Europe into further economic chaos.

At the same time, the finance ministers' meeting made clear that splits and divisions inside the EU are intensifying as the fallout from the finance crisis in 2008 enters a third year.

The main issue up for discussion at the EU meeting was an extension of the European Financial Stability Fund (EFSF), which was originally set up in May of last year in a hasty attempt to defend the euro from a wave of speculation directed against the Greek economy.

European nations agreed on a sum of €440 billion in May of last year with an additional €280 billion guaranteed by the International Monetary Fund. Since being established, the fund has been whittled away. In November of last year, the fund was used to bail out the Irish economy to the tune of around €100 billion. Ireland was a signatory to the original EU fund, meaning that a special clause had to be inserted into the agreement allowing the country to contribute to its own bailout. The original sum of €440 billion shrunk further due to commitments undertaken by the EFSF to obtain a triple-A rating from the finance markets.

Then, at the end of last year, a series of other economies that are also contributors to the €440 billion fund—including Portugal, Spain, Belgium and eventually Italy—also came into the sights of the rating agencies and bond markets, which have systematically driven up the interest payments on the debts of these countries. The consensus in finance and political circles is that the three-quarter trillion euros agreed on in May is completely inadequate to cope with an imminent bailout of Portugal and possibly Spain.

As a result, European governments, and in particular, the continent's biggest economy, Germany, have been under intense pressure to increase their commitment to the EFSF fund. For its part, the German government is stubbornly defying any hike in its stake and continues to insist on an intensification of austerity measures across Europe.

A series of incidents in the run-up to the Brussels summit revealed the growing tensions within the European Union on how to deal with the crisis.

One week ago, German Chancellor Angela Merkel declared that the time was not right for an increase in the EFSF fund. Merkel was responding to comments from the president of the European Commission (EC), Jose Manuel Barroso, and EU Monetary Commissioner Olli Rehn, who had both issued calls for an expansion of the EFSF in the run-up to Monday's meeting.

Merkel's response was regarded as a clear rebuff to Barroso, a man who belongs to the same European political grouping as the German chancellor and whose recent reappointment as EC president was in large measure due to German support. In its report on the incident, the *Guardian* described the heated, behind-the-scenes exchange between the German chancellor and the EC's leading official.

"Publicly, Merkel and her finance minister, Wolfgang Schäuble, described Barroso's intervention as "unnecessary". Privately, the chancellor's office told

Barroso to shut up, that the €440 billion guaranteed by eurozone governments was none of his business since it was not his money."

Another indication of the fraying tempers within Europe was related in the same article, which described a desperate telephone call by the Portuguese prime minister, Jose Socrates, to the German chancellor prior to the EU meeting. Under enormous pressure from the markets, Socrates asked Merkel what he should do, promising to do anything she wanted in order to avoid a bailout involving even more intense austerity measures.

Merkel put Socrates on hold to ask advice from her visitor at the time, the head of the International Monetary Fund, Dominique Strauss-Kahn. Strauss-Kahn immediately dismissed Socrates' plea for help, declaring that the Portuguese prime minister could not be relied upon to do as he was told.

European pressure on Berlin was again stepped up with both the head of the European Central Bank, Jean-Claude Trichet, and the Belgian finance minister, Didier Reynders, calling for a hike in the balance of the EFSF prior to Monday's meeting.

At the finance ministers' summit itself, further divisions emerged, with a separate meeting to discuss strategy taking place between those members of the eurozone with a triple-A rating on the finance markets—Austria, Finland, France, Germany, Luxembourg and the Netherlands. No details have emerged of the discussions at this meeting, but it is significant that this club of wealthier European nations are conducting their own separate negotiations.

Following the EU meeting, the German government has made clear that it is prepared to agree to a relatively small increase to the EFSF fund in order to restore its original total of €440 billion. Any extension of the powers of the EFSF to make it able to buy up government bonds in a manner similar to the European Central Bank is to be discussed at a later date.

The EU finance ministers also agreed to a new series of so-called stress tests for European banks, but these tests will only publish their results in July of this year. The previous set of tests held last year has been widely described as farcical. Ireland's two leading financial institutions at the centre of the country's economic meltdown—the bankrupt Bank of Ireland and Allied Irish Bank—were both given a clean bill of health in last year's tests.

The summit of EU finance ministers at the start of this week in Brussels is the latest in a series of such meetings that have taken place in the past year. When one discounts the anodyne pronouncements made by leading EU officials—Jean-Claude Juncker declared that the summit was characterised by a "very high level of convergence"—it is clear that the rifts and divisions that have emerged over the last year between European nations and groups of nations are reaching a breaking point.

In fact, EU states and European institutions are only united in one respect: their utter subservience to the interests of the banks and the finance markets. This is despite mounting evidence that the policy of the international finance elite—austerity everywhere and a huge re-division of social resources in favour of the wealthy—is massively accelerating the crisis on the European continent.

In its latest report on the World Economic Situation for 2011, UNCTAD warns against any euphoria that Europe may be emerging from its crisis.

The report notes that the economic development in Europe in 2010 "masks a number of important weaknesses". The report states that industrial production across the continent remains 12 percent below its peak in 2008 and "most ominously recovery is taking place at different speeds. At the one end are countries (led by Germany) showing a relatively strong rebound…who were able to take full advantage of the improvement in global trade. At the other end of the spectrum are the countries entrenched in fiscal crises, such as Greece, Ireland, Portugal and Spain, which will either remain in recession or see minimal recovery.…"

The report concludes grimly, noting, "Risks to the forecast are slanted to the downside," and then warns: "The impact of the fiscal austerity under way or planned could risk a renewed economic downturn…renewed financial market turbulence" and undermine "confidence in the euro."