EU leaders discuss further austerity measures

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Leaders of the European Union's 27 member nations discussed plans for the imposition of further austerity measures at a meeting in Brussels on Friday.

Over the course of the last year, Greece and Ireland introduced a series of swingeing budgets cuts, resulting in a rapid slump in the living standards of millions of workers. Other ailing EU states that are under severe pressure from money markets, such as Portugal, Spain and a number of eastern and central European countries, have implemented similar measures. These include slashing public sector wages and raising prices on basic commodities through an increase in value-added tax.

Now, at the behest of Europe's two biggest economies, Germany and France, this process is to be broadened and deepened.

At their meeting on Friday, which was originally scheduled to discuss energy policy, EU leaders were presented with a six-point, Franco-German statement described in the press as a "Pact for Competitiveness". In exchange for agreeing to a €200 billion increase in the €440 billion European bailout fund, Germany and France are seeking to dictate budget policies across Europe.

Key elements of the pact include a universal increase in the retirement age to 67, the abolition of agreements in a number of countries that protect salaries by linking them to the rate of inflation, and the adoption of constitutionally mandated spending limits.

Two of these polices—retirement at age 67 and the so-called constitutional "debt brake"—have already been introduced in Germany. Because the country has never had a policy of adjusting wages to the rate of inflation, it will be unaffected by the abolition of this principle in the EU.

The proposals made by Germany, with the agreement of France, have long been demanded by leading business and finance circles. German Chancellor Angela Merkel centred her contribution at the recent world economic summit in Davos, Switzerland on extolling the virtues of precisely such austerity measures, winning considerable applause from the bankers and leading CEOs assembled.

Retirement at age 67 was originally advocated by leading members of the Social Democratic Party, and later passed into law under the current German conservative coalition. The measure is intended to save billions in pensions. Its extension across the continent will have stark consequences for the lives and health of European workers.

Millions of workers took to the streets in France in October of last year to protest the implementation by the French government of a retirement age of 62. Now their working life is to be extended to 67, and this is only the start. A Green Paper issued by the European Union in July 2010 proposed gradually increasing the retirement age to 70 by the middle of the century. A number of central and eastern European Union members have average life expectancies hovering around 70, meaning that many workers will literally wor k themselves to the grave.

Another prominent measure advocated by Germany, the so-called "debt brake", means that national governments will be restricted by their own constitutions from raising extra funds to finance public works projects or finance social spending. This proposal would make it illegal for any political party to react to popular pressure, making even limited concessions on budgetary policy. Following its implementation in Germany, the debt brake has been utilised by the Merkel government to justify its own €80 billion package of spending cuts.

The third proposal made in Brussels, which calls for an end to inflation-based adjustments to salaries, is specifically directed against a number of countries where such agreements have been in place for some time, in particular Spain, Belgium and Luxembourg. This demand has also been high on the list of priorities of the major banks and European business elite.

It should be noted that while European heads of state discuss the abolition of automatic wage increases for workers, they oppose this measure for leading EU deputies. At the end of last year, EU officials approved an inflation-based increase (backdated six months) in their own salaries, which have risen to approximately €200,000 in 2011.

While the final details of the "Pact for Competitiveness" are to be thrashed out at a summit of Eurozone leaders in March, followed by an EU summit later in the month, it is clear that the latest proposals from Brussels will only serve to intensify divisions inside Europe. Both the French and German heads of state argued at a press conference on Friday that their proposals will serve to "harmonise" Europe. In fact, they will do quite the opposite.

The "Pact for Competitiveness" was drawn up by the 17 members of the Eurozone. It is then up to the remaining 10 states of the European Union to decide whether they will accept the terms. Inside the Eurozone club, Germany and France are increasingly dictating policy, seeking to bypass longstanding European institutions, such as the European Commission, along the way.

At the summit, a number of EU countries outside the Eurozone criticised the Franco-German pact and made strong objections to the way in which the continent's two biggest economies were throwing their weight around. Traditional allies and Eurozone members Belgium, Austria and the Netherlands also express their disagreement.

Commenting on the Pact in the *Berliner Zeitung*, German economist Peter Bofinger noted, "The pact is based on the idea: 'May Europe be healed by the German spirit' ('Am deutschen Wesen soll Europa genesen') and cannot work".

Bofinger points out that the German economy was able to profit in recent years from its concentration on exports, based on a significant reduction in wage levels and a marked decrease in state expenditures. When other countries are forced to swallow the same medicine, Bofinger argues, the result will be economic stagnation across the continent of Europe.

The German and French governments are well aware of the risks and consequences of more austerity, but they are determined to ensure that the working population of Europe pays the full tab for the speculative orgy that ended in the financial crisis of 2008.