European summit demands more social cuts for Europe

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EU leaders meeting in Brussels on Thursday and Friday agreed on reform measures, the so-called "Pact for the Euro", which will mean new rounds of harsh austerity measures across the continent.

The package of proposals was largely the initiative of the continent's biggest economy, Germany, which has agreed to increase its contribution to the European Financial Stability Fund (EFSF), in exchange for far-reaching powers to intervene in the economic and social policy in individual European countries.

The original European fund of €440 billion has been increased to €700 billion, and Germany agreed to pay around one third of the increased fund. The increased fund, however, only comes into effect in 2013, with Germany agreeing to fund a third of the increase in the form of guarantees and €22 billion in cash over a period of five years.

The staggering of payments to the EFSF over five years was also an initiative of the German government. One of the partners inside the ruling German coalition, the neo-liberal Free Democratic Party, objected to Germany making payments to the Euro fund in a year (2013) scheduled for a federal election. Despite initial objections from the Netherlands, Spain and Italy, the German proposal was finally accepted after hours of wrangling.

Alongside the revamped euro fund, the assembled European leaders also agreed on a swathe of policies to cut wages, reduce pensions, and slash welfare provisions and social protections. In particular, the "Pact for the Euro" commits individual states to limiting wage increases, reductions in public services, strict limits on government borrowing, and a shift away from income taxes to consumption-orientated taxation.

The ruling class expects that these new rounds of wage cuts and attacks on welfare provisions will provoke widespread popular opposition. They intend to ram them through with blatant disregard for public opinion. The *EU Observer* cited European diplomats who insisted that "the tough measures be taken domestically as quickly as possible, very quickly when it comes to the most unpopular measures, in order to not get bogged down by local resistance".

This advice from EU bureaucrats follows mass demonstrations and strikes earlier this month in both Portugal and Greece to protest against austerity measures already imposed by these countries' respective governments.

Outside the Brussels meeting a rally of around 20,000 assembled on Thursday to protest against the economic policies taken by governments across the continent. Angry workers were prevented from nearing the site of the summit by police using water cannons and pepper spray.

In the wake of the international finance crisis of 2008 and, in particular, after the bail out of Greece in the spring of 2009, European economic summits have been increasingly fractious affairs. This latest summit was also characterized by considerable frictions, not least due to major policy differences between Germany and France over the war against Libya.

Nevertheless, European states agreed overwhelmingly to support the German proposals. In addition to the unanimous agreement amongst European nations to implement more austerity measures to satisfy the demands of the banks, the summit participants were undoubtedly influenced by the growing crises of the Portuguese and Spanish economies.

In common with their practice prior to previous summits, speculators and the rating agencies conducted a systematic offensive against Europe's weakest

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economies in the run-up to the meeting in Brussels. Following the collapse of the Portuguese government earlier this week, the rating agency Fitch devalued the country's credit rating. Then, on the evening before the summit, Standard & Poor followed suit and also downgraded Portugal's sovereign debt.

These measures have driven up the cost of Portuguese borrowing to 8 percent for 10-year bonds. This is widely regarded as a level that makes it impossible for the country to repay its debts. Accordingly, the country is increasingly expected to follow the footsteps of Greece and Ireland—applying for a bailout from the European Fund in the next few weeks.

In addition to downgrading Portugal, the rating agencies also turned their sights on its larger neighbour, Spain. On Thursday, Moody's credit rating agency downgraded the deposit ratings of 30 local banks, or *cajas*, in the country, indicating that further downgrades were likely. This latest move comes just a fortnight after the agency cut the country's credit rating.

Following the collapse of the country's housing market, Spain's local banks are estimated to have tens of billions of worthless assets on their balance sheets. At the same time, any escalation of the crisis in Portugal would immediately impact Spanish banks, which are reckoned to possess one third of the total exposure of foreign banks in the Portuguese financial system.

While Portugal and Spain are both regarded as credible candidates for a European bailout in the near future, the first country to be bailed out—Greece, with a loan of €110 billion in April 2009—has announced before the summit, that despite a series of savage austerity programs its debt burden is actually growing. Last year, Greece's total state debt stood at 148 percent of gross national product. As a result of government cuts, economic recession and drastically declining revenues, the Greek debt burden is expected to rise to 160 percent of GDP this year.

As for the second European country to be bailed out—Ireland—EU officials expressed their concern that there could be a fresh banking crisis in Ireland within weeks. Bank stress tests are likely to reveal that the amount of worthless deposits in Irish banks far exceeds the €35 billion so far allocated. The Irish prime minister, who attended the EU summit with the declared intention of renegotiating the stringent terms of Ireland's loans from the EU, came away empty handed.

This highlights the socially and financially disastrous impact of the austerity policies pursued thus far by the European bourgeoisie. As the crisis escalates across Europe, however, the ruling class is responding simply by intensifying its campaign for social cuts targeting the working class.

Reviewing the current situation in the EU, the French business paper *La Tribune* writes, "A full 18 months after the outbreak of the Greek crisis, the 'peripheral' countries of the Eurozone…are sinking into recession and political crisis. In view of their weakness, they are condemned to face a triple punishment: a brutal course of austerity, the appreciation of the euro, which is already overvalued with regard to their competitiveness, and the mistrust of financial markets that force them to accept excessive interest rates".

The paper forecast that these states would either go bankrupt or abandon the euro as the common European currency. The only solutions, it said, were to "reduce the burden on over-indebted member states, which means making the investors pay, or organize their exit from the Eurozone".

Leading European nations, especially Germany, have repeatedly rejected any option that involves penalising the banks and large investors, while inside Germany itself, scepticism about the role of the euro is also growing.

In a commentary on the latest summit the conservative newspaper *FAZ* deplores the development of the European Union into a "transfer union", requiring richer countries like Germany to transfer funds to poorer peripheral countries. The paper writes that while the Libyan war demonstrated the complete inability of Europe to develop a credible foreign policy, the latest EU summit expresses its utter incapacity to establish any political mechanism to harmonise Europe.

It wrote, "The history of the euro is the history of broken promises".

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