Fissures deepen over European debt crisis

Stefan Steinberg
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Major differences are emerging within the so-called troika—the International Monetary Fund (IMF), the European Central Bank (ECB), the European Union (EU)—and between individual European nations on how to prevent a breakup of the euro zone.

An IMF staff report issued Wednesday sharply criticised euro zone authorities for failing to develop a unified position on measures to combat the continent's debt crisis. The report warned that the lack of unity among European nations raised the possibility of a disorderly default by European nations.

The IMF, ECB and EU had worked together to draw up bailout plans for Greece and Ireland in 2010 and Portugal in 2011. Now, the IMF is increasingly directing its fire against its European partners—in particular, Germany.

One day before the IMF report, the new managing director, former French finance minister Christine Lagarde, gave her support to calls for an emergency meeting of European heads of government on Friday. The proposal for yet another summit comes on the heels of a meeting of euro zone finance ministers held Monday. That meeting failed to calm the financial markets.

The proposal for a Friday meeting was originally made by EU Council President Herman Van Rompuy and has the backing of France as well as a number of major financial institutions.

In a statement issued on Wednesday, however, the German government made clear that it was opposed to any new meeting. The statement declared bluntly, "There are no concrete plans for a special summit."

The main source of differences between Berlin and Paris has centred on the demand of the German government that the banks and private bondholders accept part of the cost of any new rescue plan for Greece. The German plan has been rejected by France as well as the ECB. The latter, which has tens of billions of dollars of Greek debt on its books, fears heavy losses for itself and for European banks and a possible chain-reaction collapse of the European financial system.

In its statement issued Wednesday, the IMF indicated its own support for the German position, declaring that the scale of financing for a new Greek bailout required "comprehensive private sector involvement." At the same time, in acknowledgement of the power of the financial markets, which bitterly oppose any participation in a new bailout package for Greece, the German newspaper *Handelsblatt* announced that the German government no longer believes it will be possible to require private bond holders to make a "substantial voluntary contribution."

The growing divisions on how to deal with the burgeoning euro crisis follow a concerted campaign by the financial markets to force the troika to come up with huge new sums to back US and European banks, while ensuring that private investors are not forced to subsidise any further bailouts.

At the end of last week, doubts were raised in the financial press regarding the ability of the Italian government to implement a drastic austerity programme, leading to a near-panic over Italian debt.

Over the past year, the main targets of banks and speculators have been smaller economies on the periphery of the EU, such as Portugal, Ireland and Greece. Now they have turned their attention towards Europe's third biggest economy. Italy's total debt of nearly €1.8 trillion dwarfs that of Greece (€340 billion) and is more than two-and-a-half times bigger than the total amount (€750 billion) available in the EU bailout fund.

Italy's bond market is the third largest in the world, after the US and Japan. A large-scale withdrawal of funds from Italian banks would have enormous repercussions for the international banking system. As a result, Italy has been described as a country “too big to fail” and at the same time “too big to save.”

At the meeting held Monday in response to the ongoing crisis in Greece and the new crisis in Italy, European finance ministers made a concession to the financial markets, agreeing to the possibility of using the resources of the EU bailout fund to directly buy up Greek debt.

The credit ratings agencies then turned their attention to Ireland. On Tuesday, Moody’s downgraded Ireland’s debt to junk status, citing the “growing possibility” that Ireland may need a second bailout at the end of 2013. Moody’s had made a similar move last week, downgrading Portugal’s rating, also to junk status.

The offensive by the rating agencies continued Wednesday when Fitch Ratings once again downgraded Greek sovereign debt, declaring it considered the country’s default to be “a real possibility.”

The arrogance of the financial elite in dictating terms to governments across Europe was summed up by the head of the European Investment Bank, Philippe Maystadt. Speaking in support of the demand for a new emergency summit of European leaders at the end of this week, he declared: “Markets abhor uncertainty. When a situation is unclear, markets think the worst. Therefore they must be reassured and it must be done with clarity.”

Under conditions of deepening crisis and growing social opposition from the working class, a discussion is developing within European political circles regarding the necessity to junk outmoded democratic procedures in favour of dictatorial forms of rule.

In Germany, this debate is being led by a professor at Berlin’s Humboldt University, Herfried Münkler, who previously made a name for himself with a critique of what he describes as “lame duck democracy.” Germany’s most widely read magazine recently opened its pages to the professor, who returned to his pet theme in relation to the euro crisis.

In an essay for *Der Spiegel* entitled “The Need for a Centralisation of Power,” Münkler began by noting: “Despite the myriad problems currently facing the European Union, democratisation is not the answer.”

What is needed, Münkler declared, is a Europe with “a strong and powerful centre.” Otherwise, he warned, “it will fail.”

Münkler asserted that despite their mistakes, “it is the elites who are keeping Europe together.” “Rather than thinking about democratisation,” he continued, “should we not be looking at ways to improve the capabilities of the elites?”

Münkler specifically criticised European leaders for failing to set up a European ratings agency capable of challenging the dominance of the American dollar. The problem, he concluded, was that European elites regarded themselves as “something of a gentle giant and not as political players who fight for their interests abroad and prevail at home.”

This essay provides insight into the thinking of an influential section of the German and European bourgeoisie. It should be noted that Münkler enjoys close relations with leading Social Democratic and Green Party political circles in Berlin.