Fierce tensions in run-up to euro-zone emergency summit

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The euro zone emergency summit taking place today in Brussels is seen by many observers as critical for the future of the euro and the European Union. If the assembled heads of state and government do not agree on crucial steps to overcome the European debt crisis, according to many commentators, then what is threatened is another wave of speculation against the common currency, the failure of the euro, and the breakup of the European Union (EU).

"The euro zone's strategy for dealing with its members' fiscal problems is in tatters, and it is far from certain that its leaders will be willing and able to come up with a more successful alternative when they meet Thursday," writes the *Wall Street Journal*. "If they do not, the currency area will not survive."

The *Financial Times* comments: "Now it is obvious that the battle for the euro is entering an altogether more dangerous phase. Europe faces...not a mere liquidity problem in a small, sun-kissed Mediterranean state, but a systemic crisis of its monetary union."

"The Euro", the British financial newspaper continues, "stands as the crowning achievement of the post-1945 project of European political and economic integration. Remove this pillar and there is no saying what may happen to the rest of the architecture, as well as to the EU's influence in the world."

The economics professor and EU advisor Stefan Collignon even compares the situation with the eve of World War I. "Europe is now in a situation like 1913," he said in an interview with *Die Welt.* "No one wanted the First World War, but everyone slid into it out of incompetence and lack of foresight."

The summit has been preceded by two dramatic weeks. While the governments in Greece, Ireland, Portugal and other highly indebted euro zone members have pushed through brutal austerity programmes, the financial markets and rating agencies have stepped up the pressure and extended this to core EU countries such as Italy, Spain, and to some extent France.

The yield on two-year Greek government bonds has climbed to 42 percent. In other words, the country has to pay 42 percent interest if it borrows money on the open market rather than from the EU and the International Monetary Fund (IMF). Despite the austerity measures, Greece's total debt continues to rise unabated. The cause is the recession triggered by the austerity programmes and the relatively high interest rates it must pay for funds from the European rescue package.

Greek public debt will reach 175 percent of gross domestic product in 2013. The country will have to spend 27 percent of its tax revenues just to service the interest on the debt. Under these circumstances, escaping from the debt trap is impossible; bankruptcy can only be avoided through a debt write-off or restructuring. However, European governments are deeply divided over how such an event should take place.

Ireland, too, must now pay higher interest rates than before on the open market, although the country is considered a model pupil of the IMF and achieved strong economic growth in the first quarter of 2011.

Earlier this week, interest for Italian and Spanish government bonds rose sharply, although the Italian parliament passed an austerity package last week worth some €79 billion. Interest rates lie over 6 percent for both countries; 6.5 percent is estimated to be the limit above which it is impossible to keep the debt under control.

With the increase in interest rates, the financial markets are pressuring European governments to put together a new multibillion-euro financial package. While this is officially dispensed as a "bailout measure" for the indebted countries, in reality the funds would flow directly into the accounts of the banks and financial investors.

The case of Greece shows this very clearly. The country has not been saved through international "aid", but ruined. Unemployment, homelessness and hunger have increased dramatically. A study by Professor Savas Robolis of the University of Panteion in Athens concludes that the workers' and pensioners' living standards will fall by 40 percent by 2015, compared to 2008.

Of the now 800,000 unemployed, only 280,000 are entitled to modest state assistance; the rest face destitution. In the capital, homelessness has risen by a quarter. In the centre of Athens alone, 4,000 people are fed each day from soup kitchens run by the Orthodox Church. In the rest of the country, there are hundreds more such kitchens.

Small businesses with no more than four employees, which include 930,000 out of 960,000 Greek companies, are not doing much better. Last year, about 60,000 of them closed. This year, it will be a similar number again.

The international bailout funds are not being used to help the Greek people, but to refinance the debt. Banks and major investors receive full payment on a debt for which they have already collected high risk premiums, while a large part of the risks surrounding the new debt are being shouldered by the public purse of the euro zone countries. The European Central Bank has also spent vast sums purchasing Greek government bonds, freeing the private banks from risk.

In principle, all the European governments agree that they must comply with the demands of the banks and put together new billion-euro rescue packages to fund deficits largely created by bank bailouts after the 2008 financial crash. But the question of who bears the costs has led to deep tensions and conflicts that now threaten to blow the EU apart.

Above all, the German government—and with it some of the wealthier countries like the Netherlands, Austria and Finland—has made participation by private creditors a condition for further bailout packages for Greece. This is not directed against the banks, but at reducing their own share of the costs. As the economically strongest country, Germany will have to shoulder about a quarter of the cost of public rescue packages in the euro zone. German banks—which in the event of a Greek bankruptcy would be bailed out by the government—hold a much smaller proportion of Greek debt compared to their counterparts in other countries, such as France.

Germany and her allies also oppose other measures that would make them shoulder a higher proportion of the costs. For example, they reject the issuing of "euro bonds", a common European bond that would provide Greece access to funds at low interest rates, but which would slightly raise their own interest rates.

However, such euro bonds are favoured by France and Italy, which fear being dragged into the vortex of speculation. While the interest rates on Italian bonds have already risen sharply, in France, the price for credit default swaps (CDS) has shot up.

Ahead of the summit, hectic discussions about various models and scenarios to resolve the crisis are taking place behind the scenes, which will then be decided at the summit itself, if at all.

Especially in Germany, the euro crisis has unleashed fierce internal political tensions. Within the government parties, there is a vocal minority that rejects providing any financial support to Greece. In Finland, Austria and the Netherlands, strong right-wing populist parties are openly opposed to the EU.

Chancellor Angela Merkel is accused of adapting too readily to these forces and speaking out too little for the preservation of the euro and the EU. Business circles point out that German export industries have greatly benefited from the euro, and that the failure of the single currency would prove far more expensive than taking a higher stake in the new bailout fund. Former chancellors Helmut Schmidt (Social Democratic Party, SPD) and Helmut Kohl (Christian Democratic Union, CDU) have accused Angela Merkel of showing a lack of European commitment.

Last week, three leading Social Democrats—party chair Sigmar Gabriel, parliamentary leader Frank-Walter Steinmeier and former Finance Minister Peer Steinbrück—issued a joint letter to Merkel, offering her a kind of informal coalition. They called for a "Marshall Plan for Europe's peripheral countries," a cut in debt for Greece and the issuing of euro bonds, promising the chancellor the support of the SPD if she acted more forcefully to advocate the preservation of the euro.

What the SPD leadership presents as a "solution to the financial crisis" has nothing to do with taking a stand against the dictates of the banks. On the contrary, Gabriel, Steinmeier and Steinbrück believe that Germany must impose its imprimatur on Europe far more strongly, ensuring harsher attacks on the working class not only in Greece but throughout Europe.

In the SPD-Green Party coalition under Gerhard Schröder, and then in the grand coalition under Angela Merkel, in which all three were ministers, the SPD was central to the creation of a massive low-wage sector. They imposed welfare and labour "reforms" and raised the retirement age to 67. Now, they are proposing to impose these policies across all Europe.

SPD leader Gabriel specifically offered to support Merkel even when she imposes unpopular measures. "It costs the state money, and that costs the citizen money, for which they get nothing. But the SPD must nevertheless support this," he said.

The Italian Democrats (successor to the Italian Communist Party) have undertaken a similar initiative. Last week, they approved the new austerity programme of the Berlusconi government; they are now looking for ways to replace Prime Minister Silvio Berlusconi, who in business circles is regarded as too weak and too concentrated on his own interests to impose the brutal social cuts. Former Prime Minister Massimo D'Alema (a Democrat) has proposed a government of national unity, to be led by the non-partisan economist and former EU commissioner, Mario Monti.