Merkel and Sarkozy propose financial dictatorship

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German Chancellor Angela Merkel and French President Nicolas Sarkozy met Tuesday at an emergency summit in Paris to discuss how to contain the euro crisis and calm the markets. The end result, however, fell far short of the expectations that had been raised.

Merkel and Sarkozy agreed on three proposals intended to demonstrate what they declared to be their “determination to maintain the euro.” However, they did not go beyond previously discussed measures that experts give little chance of being realized.

First is the creation of a “European economic government” to better coordinate the economic and financial policies of the 17 euro zone countries. Merkel and Sarkozy proposed that the euro zone government leaders meet for this purpose twice a year under the chairmanship of European Union Council President Herman Van Rompuy.

Such an economic government had been announced previously at a special EU summit in February of this year, and that announcement failed to stem the euro crisis. As a result of a joint German-French initiative, Van Rompuy was then tasked with working out a “Pact for the Euro,” which was adopted in March at a second special meeting.

The pact commits the euro zone nations to coordinate closely on financial matters, to strictly limit public debt, and to accept common goals regarding wages, pensions and taxes. In return, the German government agreed to accept an increase in the euro rescue fund and the establishment of a permanent euro bailout mechanism.

Merkel and Sarkozy proclaimed in Paris in the spring, “Germany and France are determined that 2011 will be the year of new confidence in the euro.” They made the same pledge using almost identical language at their summit on Tuesday. How the new proposal differs from the previous one is unclear.

The second proposal made by Merkel and Sarkozy this week is also not new. By mid-2012, all 17 euro zone countries are to enact a constitutionally anchored upper debt ceiling, along the lines of the German model. This is supposed to ensure that all countries maintain strict austerity measures, regardless of election results or changes of government.

Since in most euro zone countries a constitutional amendment requires a two-thirds majority, there is little chance that this proposal will be implemented, even if all governments were to accept it, which is by no means certain. In France, Sarkozy does not possess the necessary majority for such a decision.

Even the third proposal by Merkel and Sakozy—a tax on financial transactions—has no chance of being realised, according to experts. Such a tax would be effective only if the UK and the US followed suit, but they reject this course of action. The proposal is designed to draw in supposedly “left” forces that have long demanded such a “Tobin Tax.”

The reaction of the German media and financial experts to the summit largely oscillated between disappointment and ridicule. “Big words, small deeds,” wrote *Spiegel Online*. “A mini-reform for Europe,” declared *Handelsblatt*.

Commerzbank said of the outcome of the summit, “The results were expected and will hardly provide the euro with a tailwind.” European stock markets opened Wednesday in the red, but recovered slightly during the day.

Merkel, Sarkozy and other European leaders have lost control of the crisis that began in 2007 in the US subprime market, spreading to the banks in 2008 and now focused on European government debt. The trillion-euro bank bailouts have proven as unable to overcome the crisis as the brutal austerity programmes to which Greece, Ireland, Portugal and other highly indebted countries have had to submit.

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Since Merkel and Sarkozy announced their "Pact for the Euro" in February, which was supposed to rescue the common currency, there have been fortnightly summits held on a bilateral, European and international level. Despite all this, the debt crisis of the smaller states on the periphery of the euro zone has spread to Spain, Italy and now threatens France. Meanwhile, economic growth in Europe and Germany has collapsed, which will further aggravate the debt crisis.

The stock market panic of the past two weeks has been fuelled by rumours, among others that the rating of French government bonds may be lowered and France's second largest bank, Société Générale, faces payment difficulties. President Sarkozy invited the German chancellor to the crisis summit in order to calm the markets. But the result of the meeting means that the next crisis summit cannot be long in coming.

Despite the meagre outcome, the meeting between Merkel and Sarkozy was more than a failed public relations event. Both signalled to the financial markets their willingness to push through further cuts programmes and the establishment of a kind of European financial dictatorship. They just need more time.

Even before the meeting, it was clear that the euro, and with it the European Union, cannot be maintained if Germany does not reach deeper into its pockets to satisfy the creditor banks. So far, the German government has always insisted that each country is responsible for its own debts and tied its support for the euro rescue fund to tough conditions.

This course is proving hard to maintain after the austerity measures imposed on Greece and the other highly indebted countries have driven them into a deep recession, and now Spain, Italy and France must pay ever-higher interest on their debts. As a result, a fierce debate has erupted in Germany over the question of how much money must be provided to defend the euro.

Although economists are agreed that a failure of the euro would throw the export-dependent German economy into a disastrous crisis, the Free Democratic Party (FDP) and other members of Merkel's coalition government categorically reject the establishment of so-called euro bonds. Other members of the coalition government, and especially the opposition Social Democratic Party (SPD) and Greens, regard this as the only way to save the euro.

Such common European bonds would reduce the interest burden of highly indebted countries considerably, while Germany and other countries would have to pay higher interest rates.

Shortly before the summit, signals came from the German government that it would no longer categorically oppose the issue of euro bonds. Currently, however, Merkel is unable to take such a decision without jeopardizing her governing majority.

For his part, in deference to Merkel's plight, Sarkozy has not spoken out openly in favour of euro bonds. He has left it to lower-ranking members of his government to make the appropriate noises to the media. At the end of the summit, he said, "Perhaps we can imagine such bonds at some point in the future at the end of a process of European integration. But not at the beginning."

Germany is linking extremely harsh conditions to any consent to euro bonds. Countries that wished to use such bonds to finance government spending would have to submit their financial, fiscal and labour market policies to the dictates of the European institutions which—like the European Central Bank—are supposedly "independent," i.e., subject to no democratic control.

This process of ending any accountability of government to the popular will is already well advanced. "The cancer of contempt by European elites for parliamentary accountability, for some two hundred years of the principles of responsible government, is metastasising as the euro zone crisis deepens," writes Britain's *Observer*.

The proposals that Merkel and Sarkozy presented in Paris proceed further in this direction. The "economic government" they advocate still has few concrete contours, but it points clearly towards a dictatorship of the most powerful European financial interests over all aspects of social life. The balanced budgets they demand means the disempowerment of parliaments, which would lose their most important power—deciding on state expenditures and revenues.

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