German parliament approves increase in European bank bailout fund

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The German Bundestag (parliament) ratified on Thursday the expansion of the European bailout fund aimed at ensuring the banks and financial institutions threatened by state insolvency.

By a vote of 523 to 85, the parliament agreed to increase the guarantees in the European Financial Stability Facility from 400 billion euros to 780 billion euros, with Germany itself pledged to 253 billion euros.

The EFSF is a joint stock company formed by the euro zone members. It takes out loans on favourable terms and passes them on to those euro zone countries unable to raise money on the free market due to their weak credit rating.

Since it was established in June 2010, the EFSF has been responsible for ensuring that banks who lend to over-indebted countries in the euro zone not only received the full amount of their loans on time, but also all the interest. With the new measures, the EFSF can now directly bankroll the financial institutions. In the future, the fund can buy government bonds directly from investors, lend money for bank bailouts and award contingent lines of credit to states that do not directly face insolvency.

The aim of these measures is to transfer the risk of national bankruptcy from the banks onto the budgets of the euro countries. The previous initiatives already mean that the complete bankruptcy of Greece would immediately cost the state about 28 billion euros, but only cost German banks about 12 billion euros.

The rescue fund will not provide any relief for workers in highly indebted countries such as Greece, Spain or Portugal, however. On the contrary, support from the EFSE is linked to tough austerity conditions.

The “troika” of the EU Commission, European Central Bank (ECB) and International Monetary Fund (IMF) has ordered Greece to implement massive social cutbacks, which are driving the mass of the population into abject poverty and plunging the country into a deep recession. This will not resolve the debt problem, but make it worse. It will not be the banks that will bear the risk, however, but the European countries.

Representatives of the troika travelled to Greece on Thursday to investigate the measures implemented so far and lay down the line for more austerity. The Greek social democratic PASOK government, in the face of mass demonstrations and strikes, has pledged to follow the dictates of the financial aristocracy.

The operations of the EFSF mean that such austerity measures will be spread throughout Europe. Not only highly-indebted countries such as Spain, Italy or Portugal will be affected, but all parts of the euro zone. It represents a fundamental redistribution of wealth from the bottom of society to those at the top.

The state debts now being passed on to the population throughout Europe are themselves the result of an orgy of enrichment by those at the top of society. In Germany, public debt has risen over the last twelve years from 1.2 to 2.0 trillion euros. During the same period, private wealth has risen from 3.4 trillion to nearly 5 trillion euros, with the top third of society owning 90 percent of this wealth.

The vote in the Bundestag makes clear the overwhelming support within the political establishment for these policies. The Christian Democratic Party/Christian Social Union (CDU/CSU), Free Democratic Party (FDP), Social Democratic Party (SPD), Greens, employers associations and the unions all support the measure. The opposition attacked the government by saying that they did not go far enough.

Former Finance Minister in the previous CDU/CSU and SPD grand coalition government, Peer Steinbrück (SPD), said that while certain austerity measures had been implemented in Greece, “they are not sufficient.” He suggested an orderly bankruptcy should be considered. The leader of the Greens, Jürgen Trittin, criticized the government for its reluctance to take action: “This crisis is too large for small steps,” he said.

In recent weeks, representatives of the SPD, Greens and Left Party had repeatedly called for the rescue measures to be extended and for the introduction of euro bonds, i.e. common European government bonds for which all states of the euro zone would provide guarantees for the banks.

In July, the SPD leadership had promised full support for Angela Merkel for the bailout mechanism and all the unpopular measures that result from it. The leader of the Left Party, Gregor Gysi, called the establishment of euro bonds “unavoidable”. The party’s leader, Klaus Ernst, claimed this had been a proposal of the Left Party, which now “everyone was discussing”.

While the Left Party voted “no” in Thursday’s vote, this was nothing more than a transparent manoeuvre. Whenever their votes were really critical, such as the sanctioning of the fast track measures to rescue the banks, the Left Party has never hesitated to support the government. In this debate too, they essentially defended the government line. Their only real demand was that the ECB should provide the indebted countries with cheap loans. The mechanism for this would be the same as that of the EFSF: the banks would be supplied with fresh funds, while the public finances would bear the costs.

A week ago, the four leading employers’ associations in Germany spoke out clearly in favour of the rescue measures. Without the EFSF, there was a threat of “incalculable consequences for the European Union and for the common currency”, they wrote in an open letter to parliament. The fund was a “key means to hold the euro zone together.”

The pressure from German big business meant that when it came to the vote only a handful of members of the ruling coalition rejected the bailout package. In recent weeks, several members of the CDU and FDP had spoken out against the law, on the basis of a right-wing nationalist perspective.

Critics of the measure, such as Wolfgang Bosbach (CDU) or Frank Schäffler (FDP), had already stressed before the vote that they would speak out against any German liability for the debts of other countries.

Finance Minister Wolfgang Schäuble (CDU) has envisaged a scenario in which Greece does not receive any more support, goes bankrupt, and only the German financial institutions would be rescued with German money. On the other hand, the EFSF funds benefit all banks that are active in the indebted countries.

These views express the growing nationalism with which all European countries are reacting to the crisis. While the majority of the ruling elite currently sees Germany’s interests being upheld in a rescue of the euro under German domination, the voices are growing for a national road.

Such a path would have catastrophic consequences for workers in Germany and Europe. Even *Spiegel Online* does not exclude armed conflict in this case. The failure of the euro would not only mean the “meltdown of the global financial system”, it wrote. Throughout history, the end of a common currency has been preceded by “collapse of political alliances or even war”. The “end of monetary union would be a nightmare scenario.”

Before the vote, tensions between the US and Germany had significantly worsened. President Barack Obama had not only demanded an increase in the size of the EFSF to two trillion euros, but also complained that European inaction was putting “the world in fear.”

Schäuble had previously been restrained in responding to this demand so as not to endanger the vote in the Bundestag. Now pressure from the US will mount, and the discord within the German government will grow.