Conflicts deepen over European bailout

Nick Beams
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The more the European sovereign debt and banking crisis intensifies, the more open become the divisions among the major powers, both within the eurozone and internationally.

Last Sunday, after months of wrangling, French President Nicolas Sarkozy and German Chancellor Angela Merkel announced they had come to an agreement to “recapitalise” European banks. They gave no details of the deal, however, because fundamental differences remain.

The French have been insisting that recapitalisation, which involves handing over billions of dollars of public finances to the banks, must take place through the European Financial Stability Facility (EFSF). They fear that a direct intervention by the national government would lower France’s credit rating and call into question its financial stability. Reflecting the concerns in French ruling circles, Prime Minister Francois Fillon warned: “Make no mistake, we are on a volcano that could at any time blow up the European continent, its democratic contract, its monetary unions, its political union.”

On the other hand, Germany has demanded that the first port of call should be private markets, with national governments stepping in if that approach fails. The EFSF should only intervene as a kind of lender of last resort. The German concern is that if the EFSF bears the major burden, Germany’s financial standing will be called into question, as it is the chief prop for the fund.

European Council President Herman Van Rompuy has pledged that when the leaders of the European Union meet on October 23 they will “finalise our comprehensive strategy” in preparation for the November 3 meeting of the G20. But that promise cuts little ice. As the *Financial Times* economics correspondent Martin Wolf wrote yesterday, no one can feel confident that the crisis will soon be over. On the contrary, there are indications it is worsening.

“A straw in the wind of the rising anxiety,” Wolf noted, “is that credit default swaps [insurance on debt default] on the eurozone’s most credit worthy large sovereigns, France and Germany, have begun to rise. Astonishingly, Germany’s spread is a fraction higher than the UK. This must reflect concern that bailing out weaker eurozone members might be an excessive burden. My own view is that Germany will do whatever it can to keep the eurozone functioning provided it does not threaten its own solvency.”

Herein lies the main barrier to any “economic” solution to the crisis. Instead of resolving the sovereign debt crisis, bailouts have the potential to extend it from the “peripheral” countries to the core.

From across the Atlantic, Obama administration officials have been demanding that the Europeans organise a massive bailout of the banks along the lines of the US Tarp scheme. The motivation for such calls is fear that a major European default will severely impact on US banks and financial houses that hold credit default swaps on European debt.

Former deputy US Treasury Secretary Roger Altman is the latest to add his voice to the demands for a “European Tarp.” Writing in the *Financial Times* yesterday, he claimed that a bank rescue plan organised by France and Germany was a “golden chance to redeem the fading credibility of Europe’s leaders.” They had to “apply the blueprint of America’s banking intervention” and ensure that “the financial equivalent of overwhelming force is applied."

As Daniel Gros, director of the Brussels-based Centre for European Policy Studies, was quick to point out, however, the US and European financial crises have a different form. The US Tarp was launched to bail out the banks after their losses on real estate and securities.

"In contrast today European banks are under water because the value of the government bonds they hold has gone down. Their governments cannot get them out of this hole because the region's banks and governments are now linked so closely that they should be considered to have a consolidated balance sheet. In effect, recapitalisation by national governments is just a shift from the left to the right pocket. This is why a 'euro Tarp' will not solve the eurozone's key problem: the loss of confidence in government debt."

In fact, Gros continued, a bailout might make the situation worse by increasing government debt.

This is also the view of prominent German economist Hans-Werner Sinn, whose opinions reflect those of powerful sections of the German ruling elite. According to Sinn, rather than create a firewall around Europe's solvent governments, "excessive rescue funds" are more likely to create a "fire channel," drawing them into a "morass of debt."

Whatever the final form, any bailout will not bring about an economic revival. Rather it will be accompanied by a deepening onslaught against the working class, not only in Greece and other indebted countries, but across Europe as a whole.

On top of the conflicts within the eurozone, there are concerns that the crisis is destabilising the entire European Union. Describing the sovereign debt situation as having entered a "very dangerous phase," former British foreign secretary David Owen this week co-authored an article calling for Britain, Sweden, Poland and other non-euro countries to formalise their position by establishing a "Non-Eurogroup" within the EU.

While the proposal was presented as a constructive strengthening of the EU, it is further evidence of its disintegration.

Indeed, the fragility of the EU and the eurozone was underscored by this week's vote in the Slovakian parliament to reject an increase in the lending capacity of the EFSF to €440 billion from its present €250 billion. The Slovakian decision could be dismissed as a case of "the mouse that roared" and might well be overturned when a new government is formed. But it is indicative of future developments as the EU fractures along national divisions.

The European bourgeoisie held out the prospect of the EU and the euro providing a way forward for the peoples of the continent, putting an end to the conflicts that erupted in the first half of the twentieth century. But the entire project has turned into a nightmare, bringing poverty and the ever-increasing danger of a Balkanised Europe and war. The only way forward for working people is the fight for the overthrow of the European Union of the banks and corporations, and its replacement with the United Socialist States of Europe.

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