Merkel and Sarkozy plan a Europe of austerity

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On Monday, German Chancellor Angela Merkel and French President Nicolas Sarkozy presented a joint plan to restore the confidence of the financial markets in the euro. It will be sent to all EU members today and is supposed to be decided on Friday at a summit of the Heads of State and Government in Brussels. “We are determined to bring about a decision at this summit,” Sarkozy insisted.

The plan has two components. First, it guarantees that international investors will never again have to pick up the bill for an indebted euro-zone country. A debt “haircut” as in Greece, where investors have given up 50 percent of their claims, would not happen again, Merkel and Sarkozy assured.

Secondly, it forces euro zone states to introduce ironclad budget-cutting measures. Countries with an annual budget deficit exceeding three percent of gross domestic product would be punished automatically; the 17 euro countries would be committed to imposing a constitutionally mandated balanced budget (“golden rule”) along the lines of the German model, to be policed by the European Court of Justice.

In addition, the enactment of a permanent European Stability Mechanism (ESM) replacing the temporary European Financial Stability Facility (EFSF) will be brought forward one year to late 2012.

To enforce stricter budgetary discipline, Merkel and Sarkozy intend to change the European treaties by March 2012. If possible, they want to do this within the framework of the European Union and its 27 members. If, however, countries like Britain stand opposed, they do not exclude going it alone. “Then we will make an agreement among the 17 countries, and anyone who wants to come later, do as you please”, Sarkozy threatened.

The Franco-German proposal meets the demands of the international financial markets. They have insisted that over-indebted euro-zone countries balance their budgets at the expense of the public, and that private investors be exempted from any risk—even if they previously benefited from high interest rates.

In the case of Greece, Chancellor Merkel has insisted that private investors accept a debt “haircut”—not out of hostility for the banks, but because it will be cheaper for Germany. When Merkel and Sarkozy met one year ago in the French town of Deauville to agree an earlier plan to rescue the euro, Merkel prevailed on this issue.

The financial markets reacted to this by driving up interest rates for European government bonds to breath-taking heights, forcing one country after another to make use of the euro rescue facility. A representative of the European Central Bank (ECB) called the private participation in the haircut a “terrible mistake,” because investors could no longer trust that they will get back money they have lent to euro-area countries.

Merkel has now given way and has excluded private participation in a haircut in other countries. She justified her reversal by saying: “euro loans should not be less secure than bonds elsewhere in the world.”

Sarkozy in turn gave way on automatic penalties for states exceeding the deficit limit. In Deauville, he had rejected such an approach, because it takes away governments’ fiscal room for manoeuvre to respond to economic changes or social pressures. Automatic penalties and a “golden rule” would force them to make massive cuts in public spending, even if this caused a severe recession and social unrest.

The financial markets reacted positively to the proposals of Merkel and Sarkozy on Tuesday. Interest rates for Italian and Spanish government bonds fell significantly, and stock markets rose. But the plan did not go far enough, as far as top financial officials were concerned.

International Monetary Fund (IMF) chief Christine Lagarde referred to the plan in a speech to the European Institute in Washington as “very important” but “not sufficient.” She added, “It takes a lot more to bring the whole situation under control and make market confidence return.”

On Tuesday, the rating agency Standard & Poor’s stepped up the pressure on the upcoming EU summit, threatening to downgrade the credit rating of all the euro countries,

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including Germany. If the economically strongest countries in Europe lose the top rating "AAA," this would raise the cost of the euro rescue fund, placing a question mark over all previously agreed measures to deal with the debt crisis.

Leading EU representatives were visibly angered by S&P's move, which they regard as the voice of US financial interests. Euro group chief Jean-Claude Juncker described the decision by Standard & Poor's as a "knock-out punch for all states that are seeking to reduce their budget deficits." It was "unfair" and "completely excessive," Luxembourg's prime minister said. He was "astonished" that this came just before a crucial EU summit.

Merkel and Sarkozy reacted to the announcement by the rating agency by pledging their complete loyalty to the financial markets. "France and Germany, in full solidarity, confirm their determination to take all the necessary measures, in liaison with their partners and the European institutions, to ensure the stability of the euro area," they wrote in a joint statement.

But the financial markets will not rest until all social gains have been destroyed, which the European working class won after World War II. In their view, benefits and pensions in Europe are still far too plentiful; wages are too high and working conditions too inflexible; health and education too expensive, and the public sector too bloated. Anything that does not satisfy their insatiable hunger for profit must be cut and eliminated.

They are not satisfied by declarations of intent, they want action. The technocrat-led governments in Greece and Italy have now started this. Earlier this month, the Greek government sacked the first 16,000 public sector employees and drastically cut salaries in state-owned companies. In the coming days, a new austerity budget will be submitted to parliament. The Italian government has fast-tracked pension cuts, which their predecessors tried to implement unsuccessfully for 20 years.

Europe is becoming increasingly reminiscent of the 1930s, when similar drastic austerity measures resulted in mass poverty, dictatorship and war. Even some bourgeois politicians and commentators now make such parallels.

Under the title "The long shadows of the 1930s," *Financial Times* columnist Gideon Rachman wrote on November 28: "The risk of a grave economic crisis in Europe is severe. The threats of sovereign-debt defaults and the break-up of the European single currency are rising—and with it, the attendant threats of collapsing banks, popular panic, deep recessions and mass unemployment.... The lesson of the 1930s is that a global depression weakens democracies, leads to the rise of radical new political forces—and, in the process, raises the risk of international conflict."

The 92-year-old former German Chancellor Helmut Schmidt warned, in a much-publicized speech at the SPD party congress, against Europe relapsing into armed conflicts. He railed against the "globalized banking lobby" and "a few thousand financial traders in the US and Europe, plus some rating agencies that took politically accountable governments in Europe hostage."

But the answers offered by the critics of Merkel and Sarkozy—regulation of the financial markets, Euro Bonds, unlimited ECB loans, etc.—either contribute to exacerbating the crisis or fail to take economic and political reality into account.

The German Social Democrats and Greens—as well as the British and US governments—call for relieving pressure on the euro by flooding the financial markets with new money from the ECB and the issuing of Euro-bonds.

But this is the very course that the governments had already taken during the 2008 financial collapse, bringing about the current crisis. The transfer of trillions from the state coffers into the banks has contributed significantly to the current debt crisis. And most of this money went into speculative transactions, now directed against the euro and the EU.

Without bringing the financial markets under control and seizing the tremendous assets that have accumulated at the top of society, there can be no solution to the crisis. But none of the establishment parties in Europe is willing or able to take this course. They are all too closely linked with capitalist property relations and their associated privileges.

Conservatives, Social Democrats, Greens and "left" parties agree that there is no alternative to austerity. Even public works and economic stimulus programmes, like those implemented in the 1930s under Franklin D. Roosevelt in the US, are no longer discussed.

International capitalism is in a desperate crisis, which can only be resolved through the mobilization of the European working class on the basis of a socialist programme. The major financial and industrial concerns must be expropriated and placed under democratic control, their enormous resources used to meet social needs rather than to enrich the top one percent. This requires the establishment of workers governments and the United Socialist States of Europe.

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