Brussels summit ends with isolation of Britain inside the EU

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The European Union summit held in Brussels on Thursday and Friday was dominated by a major confrontation which ended with the virtual exclusion of Britain from the future affairs of the European Union.

This year has seen increasing speculation in financial and political circles on the possible exit of certain member states from the euro zone as a result of the deepening sovereign debt crisis. This speculation has centred on several of the continent's smallest and most indebted economies, such as Greece and Portugal. Now the year is drawing to a close with the de facto exclusion of Europe's third biggest economy from any effective voice in the operation and organisation of the European Union.

At Friday's session of the summit, 26 of the 27 EU member states declared they would go ahead with plans put forward by France and Germany to enforce new austerity measures and budgetary targets across Europe. The only oppositional voice was that of the British Prime Minister David Cameron.

The conflict inside the summit unfolded on Thursday when, in the course of 11 hours of stormy negotiations, Cameron sought to block the changes proposed by France and Germany after the two latter countries refused to agree to a protocol excluding the City of London from the effects of legislation being drawn up by the EU to regulate a number of financial practices. Justifying his stance, Cameron argued, "I had to pursue very doggedly what was in British national interest."

Three other nations—Sweden, the Czech Republic and Hungary—declared that they could not agree to the terms proposed by Berlin and Paris and would first have to consult their respective national parliaments.

On Thursday evening, French President Nicholas Sarkozy told reporters that the British stance at the conference was "unacceptable." He went on to scold Cameron for attempting to dictate terms for dealing with the euro crisis while at the same time refusing to join the euro zone. Sarkozy then described the summit as "historic." Alluding to the 17 EU member states that use the common currency and the ten that do not, he hailed the creation of a "euro plus" block (which excludes Great Britain).

On Friday, Sweden, the Czech Republic and Hungary decided to close ranks with the 23 member states supporting the Sarkozy-Merkel plan, leaving Cameron isolated. In previous EU discussions, the British Prime Minister had been able to rely on a degree of support in determining European policy from other non-euro countries such as Poland, Sweden and Denmark. Now the French-German initiative has effectively removed this political prop.

At the heart of the divisions at the Brussels summit are the diverging interests of British finance capital and European banking consortiums. The banks and financial institutions concentrated in the City of London dominate the financial services markets in the EU and have long been a thorn in the side of European banking interests centred in Paris and Frankfurt.

Just a week ago, the British prime minister made clear that his main task at the Brussels summit was to preserve the sovereignty of the British financial markets. "It is absolutely vital that we safeguard it," he told the House of Commons.

The issues at stake for Britain were outlined in a recent report by the Open Europe think tank, which advises the British banking sector. According to the report, the EU was drawing up at least 49 new regulatory proposals that could have negative repercussions for the City of London. Open Europe noted that "whereas in the 1990s and early 2000s, EU politicians and policymakers generally (but not always) felt constrained from imposing financial regulation on the UK, this has now ceased to be the case."

In particular, the report said that proposals for an EU-wide financial transaction tax, bans on short-selling, and the insistence by the European Central Bank that financial transactions in euros be conducted within the euro zone rather than London represented a fundamental challenge to the United Kingdom. Based on its findings, the report advised the British prime minister to take exactly the stance adopted by Cameron in Brussels.

While the Brussels summit exposed a deep rift between British banking interests and the rest of Europe, it would be mistaken to conclude that the EU member states had any intention of reining in the power of the banks. One of the most significant features of the deal worked out in Brussels this week is the agreement forged by France and Germany to ensure that in future no private banks or bondholders would be called upon to suffer losses as a result of the bailout of a European economy. The entire cost of covering the bad investments of the banks is to be born by the working class.

Over the past two years, the call for private investors to take losses in the event of a sovereign debt bailout was a major plank of German financial policy. In the face of unrelenting pressure from the international banks and the credit rating agencies, including a threat earlier this week by Standard & Poor’s to downgrade most euro zone nations, including Germany, the government of Chancellor Angela Merkel dropped the demand during her talks with Sarkozy to work out a common plan in advance of the summit.

Sharp differences remain among the countries that signed up to the Sarkozy-Merkel plan, including between France and Germany. The former wants a somewhat looser regime of fiscal oversight from Brussels and a far more expansionary policy on the part of the European Central Bank to provide cheap euros to hard-pressed European banks—in the first instance, the French banks. Germany wants a more centralized mechanism to override national parliaments and enforce fiscal austerity across the EU, combined with a far more limited role for the European Central Bank.

However, all are agreed—including Britain—on implementing the draconian austerity programs dictated by the international finance elite. On the issue of making the working class pay for the crisis, there are no differences between London, Paris and Berlin.

In addition to abandoning any call for the banks to take a “haircut” as part of efforts to ease the European debt crisis, the main elements of the plan agreed by the 26 nations in Brussels include the granting of semi-dictatorial powers to the Brussels bureaucracy to oversee and dictate the fiscal and budgetary policies of individual EU nations, and the imposition of sanctions on those states that violate strict budget guidelines.

The new agreements are a veritable political and legal minefield. The final text of a deal is to be thrashed out in advance of a new summit planned for the spring of next year.

Most stock markets rose on Friday in response to the summit, primarily because of the abandonment of calls for the banks to take a “haircut” on their European sovereign debt holdings and the summit decision to bring forward by one year the permanent European rescue fund (European Stability Mechanism—ESM) to July 2012.

But proposals pushed by the United States, the International Monetary Fund and many European governments for a massive boosting of the resources of the ESM and its transformation into a bank to flood the markets with cheap credit were blocked by Germany.

The respite in the European crisis is likely to be short-lived. Europe has already plunged back into recession, the US economy remains mired in slump, and economic growth in key “emerging economies” such as China, India and Brazil is slowing. The austerity measures being imposed in the weaker European countries—Greece, Portugal, Ireland, Spain, Italy—have already thrown them into recession and deepened their debt crises, and similar policies in France, Britain and other EU countries will now be intensified.

These policies will fuel a growth of working class resistance as well as a sharpening of inter-imperialist antagonisms. It is only a question of time before the euro crisis takes a new turn for the worse.

The exclusion of Britain from new structures and decision-making bodies marks a nodal point in the disintegration of the European Union itself. Under the blows of the crisis, the capitalist integration of Europe that began more than fifty years ago is rapidly unravelling.