Banks demand deeper cuts following EU summit

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The emergency summit of the European Union held December 10 in Brussels endorsed an inter-governmental treaty constitutionally requiring all countries using the euro to balance their budgets on the backs of the working class. The agreement essentially transforms the European Union into a gigantic austerity zone, setting the stage for an escalation of the assault on jobs, living standards and social services on which tens of millions of working people depend.

The summit exposed the growing fissures within the EU, as Britain refused to back the deal and used its veto to block the provisions from taking the form of a revised EU treaty. The UK acted openly and entirely out of concern for the interests of its banking industry, concentrated in the City of London. The government of Prime Minister David Cameron is pursuing its own drive to destroy what remains of the postwar welfare state in Britain and reduce British workers to poverty, and, along with the rest of the European political establishment, fully supports penalizing EU member-states that fail to lay siege to the social gains won in the previous century by the working class.

The response of finance capital to the Brussels agreement was rapid and peremptory. While welcoming the requirement for all signatories to include so-called “debt brakes” in their constitutions and the establishment of quasi-automatic penalties for countries that fail to keep their deficits to 3 percent of gross domestic product, the big banks, bond-holders and rating agencies trashed the agreement for failing to massively increase the use of public funds to underwrite their bad debts.

In particular, they denounced the rejection—at the insistence of Germany and the European Central Bank (ECB)—of any increase in the EU rescue fund, the creation of euro bonds, or an open-ended commitment from the ECB to back the sovereign debt of EU nations. The major international banks are demanding, in short, an even more massive public bailout, to be paid for by even deeper cuts in working class living standards. This policy internationally is being spearheaded by the United States, the UK and the International Monetary Fund.

For their part, Germany and the ECB are no less insistent on brutal austerity measures. They, however, are driven by a fear of inflation and the protection of German industry and industrial exports. The US and Britain, on the other hand, have largely dismantled their industrial bases. Their industrial policies are more completely subordinated to the needs and demands of the financial elite and its speculative activities.

The banks and rating agencies lost no time whipping the EU and the ECB to come up with more bailout cash. On the first business day after the Brussels summit, Monday December 12, both Moody’s Investors Service and Fitch Ratings declared that the Brussels agreement would not avert a deepening of the sovereign debt and banking crises.

Moody’s reiterated that it was putting the sovereign debt ratings of all EU countries on review for possible downgrade in the first quarter of 2012. It wrote that the measures announced the previous Friday “do not change Moody’s previously expressed view that the crisis is in a critical and volatile stage, with sovereign and bank debt markets prone to acute dislocation, which policy makers will find increasingly hard to contain.”

Stocks plunged in Europe and the US, and by Wednesday the euro had dropped below $1.30, hitting its lowest point versus in the dollar in 11 months.

On Wednesday, Fitch lowered its ratings on five big banks from Denmark, Finland, France and the

Netherlands and the following day downgraded some of the world's largest banks, including Bank of America, Morgan Stanley, Goldman Sachs, Barclays, Societe Generale, BNP Paribas, Deutsche Bank and Credit Suise. It followed this up Friday by placing its ratings on six euro zone nations, including Spain and Italy, on watch for a downgrade, declaring that a "comprehensive solution" to Europe's debt crisis was "technically and politically beyond reach."

Moody's on Friday downgraded Belgium by two notches and gave it a negative outlook.

European governments, fearful of the eruption of mass working class resistance, on the one hand, and facing relentless pressure by the banks for deeper cuts, on the other, are increasingly coming into conflict with one another as each national bourgeoisie seeks to salvage its own interests at the expense of its neighbors.

French officials are anticipating an imminent downgrade of French debt by Standard & Poor's. Last week they argued that the rating agency should downgrade Britain instead. Christian Noyer, head of the Bank of France, said Thursday that Britain "has bigger deficits, more debt, higher inflation, less growth than us and where credit is shrinking."

The next day, French Finance Minister François Baroin added to the attack, declaring, "At this point, one would prefer to be French than British on the economic level."

Following Noyer's anti-UK statement Thursday, Christine Lagarde, the managing director of the International Monetary Fund (IMF), cautioned against the growth of economic nationalism, declaring that there is "no economy in the world" that will be immune to the crisis "that we see not only unfolding, but escalating." Calling for a coordinated global response, she warned that the world faces the risk of "economic retraction, rising protectionism, isolation and… what happened in the '30s."

The same day, reflecting the continuing divisions, ECB President Mario Draghi reiterated his opposition to any major increase in the central bank's purchases of government bonds of highly indebted nations such as Spain and Italy, and to the ECB becoming a lender of last resort, as called for by the IMF. "There is no external savior for a country that does not want to save itself," he declared.

Meanwhile, governments brought to power through the intervention of the financial markets are intensifying their attacks on the working class. In Italy, the technocratic government of Mario Monti won passage in the lower house of parliament Friday of a new 30 billion euro austerity package that includes historic cuts in pensions and a series of regressive taxes. Monti dropped an earlier proposal for a "wealth tax."

The bill was roundly denounced in the financial press for failing to include "structural reforms" to increase "labor flexibility," i.e., eliminate all job security provisions. Monti promised to introduce a new plan early next year including such measures.

In Spain, the newly installed Popular Party prime minister, Mariano Rajoy, on Monday announced plans to introduce sweeping austerity measures early next year.

In Greece, living standards have plummeted and unemployment has reached 20 percent as a result of a series of austerity budgets dictated by the banks, the EU and the IMF. Pensions are to be cut a further 15 percent in January, and more than 40,000 public sector workers are being hit with pay cuts of up to 40 percent.

Now the banks are seeking to extort further concessions from the unelected government of Prime Minister Lucas Papademos, demanding more onerous terms in return for agreeing to a 50 percent "haircut" for holders of Greek government bonds. An accord on the bond repayments is a precondition for the release of the first trance of a new 130 billion euro rescue fund supervised by the EU, the ECB and the IMF.

Last week, the IMF demanded a further reduction in the size of Greece's public sector, stating, "This inevitably will require closure of inefficient state entities, reductions in the large public-sector work force, and adjustments of generous public wage and pension levels."