As Europe tips into recession, France and Germany call for more austerity

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Following a brief pause for the Christmas holidays, the new year has begun with a hectic series of meetings between European leaders. Last Friday, the newly installed technocratic head of government in Italy, Mario Monti, met with French president Nicholas Sarkozy. On Monday Sarkozy met with German chancellor Angela Merkel, who conducted her own meeting with Monti on Wednesday

The head of the International Monetary Fund (IMF), Christine Lagarde, held her own separate talks with Merkel and Sarkozy. The stated aim of the meetings was the development of a joint strategy for yet another European Union (EU) summit to be held at the end of this month. In fact, European leaders and Lagarde used the meetings to discuss how to respond to the ever-deepening crisis in Europe. The upshot of the meetings was to issue new threats against Greece and reiterate the mantra that more austerity is required throughout Europe.

At a press conference following the meeting on Monday, the German chancellor directed her remarks towards Greece. Merkel threatened to withhold a second aid package of €130 billion pledged by the EU and IMF for Greece if the Greek government failed to carry out the latest round of vicious attacks on living standards and jobs demanded by the EU and IMF.

The loan to Greece was finalised at a European summit last year that also required financial institutions to take a minimum 50 percent write down on the value of their Greek bond holdings. Negotiations to restructure Greek debt are currently bogged down due to fierce pressure from banks and investment funds seeking to cut a better deal.

Merkel and Sarkozy had nothing to say on Monday, however, to those investors seeking to hold the Greek economy to ransom. Instead, Merkel's call for more austerity for Greece was endorsed by Sarkozy, who stressed in turn the gravity of the crisis in Europe. He described the situation in the euro zone as "very tense…perhaps more so than ever in the euro zone's history".

On the same day as the Sarkozy-Merkel meeting, Germany sold off government bonds and was able to attract buyers willing to pay an interest rate of minus 0.01 percent. The buying of government bonds by banks at a negative rate of interest is regarded as a measure of the extreme insecurity prevailing within the banking system. Rather than lend to one another because of fears of the amount of junk credit on their respective books, banks prefer to buy bonds at a loss from what is currently regarded as the most stable economy in Europe. The last occasion of negative interest rate buying by the banks was the purchase of US bonds shortly after the collapse of Lehman Brothers, with the financial markets on the brink of meltdown.

The vote of confidence in Germany by the banks comes despite new figures pointing to recession developing throughout Europe in 2012, including the German economy, which posted a significant economic downturn in the last quarter of 2011.

From the outset of the European debt crisis, Greece was identified as the weakest link in the European chain and has been used as a test ground for the implementation of the type of social counter-revolution the international financial elite seeks to impose across Europe. Already at the start of the new year, the unelected technocrat prime minister of Greece, Lukas Papademos, echoed the call of his European colleagues, exhorting his countrymen to make fresh sacrifices. His cabinet is busily attempting to rush through a new gamut of social cuts prior to the visit to the country by

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an IMF delegation at the start of next week.

A new report by Eurostat reveals the extent of the current social crisis in Greece, which is entering its fourth consecutive year of recession. According to a report by the Hellenic Statistical Authority (Elstat) on income and living conditions in 2010, 27.7 percent of the Greek population are living below the poverty line or are designated as socially excluded. In the EU, only Bulgaria, Romania, Latvia, Lithuania, Hungary and Poland have higher rates of poverty.

The report also points out that Greece remains one of the most unequal countries in Europe, with the richest 20 percent enjoying an income 5.6 times greater than the poorest fifth of the population.

In addition to calling for more pain for the working population of Europe, the French and German leaders also expressed support at their meeting on Monday for the introduction of a tax on financial transactions carried out within the euro zone.

A proposal for a minimal 0.1 percent tax on financial transactions in the 27 member states of the EU was made by the EU Commission last September. Seeking to demonstrate his readiness to stand up to the banks in the run-up to his presidential election campaign in March, Sarkozy made the ridiculous suggestion a week ago that France could implement such a tax on its own. The German government has always argued that it was only prepared to support such a tax on condition it be implemented across the European Union. At their joint meeting last Monday, however, Merkel fell in behind Sarkozy's proposal and declared her readiness to support the imposition of a finance transactions levy within the euro zone.

Merkel's and Sarkozy's posturing against the banks should not be taken seriously. The German chancellor's change of tack on this issue is aimed at primarily giving electoral support to her conservative colleague in Paris, while deflecting attention from the completely one-sided, pro-banker policies of the German government and the entire EU. Nor should the support for this measure by the technocrat banker Monti (former employee of Goldman Sachs) be given any credence.

All of these leaders know very well that the chances of introducing such a levy are utterly remote. Leading members of the European Union such as Great Britain, Sweden, Denmark (which currently holds the six-month rotating chair of the EU) and Malta are vehemently opposed to such a tax, as is Merkel's ruling coalition partner, the Free Democratic Party.

Even if such a tax were to be implemented within a number of EU countries, its consequences for the banks would be minimal. The EU Commission estimated that such a tax (first planned for introduction in 2014) would yield possible annual revenues of around €37 billion. This compares to the €4.6 trillion that, according to EU Commission president José Manuel Barroso, European countries have made available to the banks since 2008.

While the leaders of France, Germany and Italy made a common front on the necessity to impose even more stringent austerity policies in Europe, some comments by Monti in Germany pointed to real divisions in the European Union and, in particular, fears of a popular backlash against the EU if Germany does not step up its financial commitment to European banks.

In the *Süddeutche Zeitung,* Monti paid tribute to the "maturity of public opinion and the trade unions in accepting austerity measures, which could be a role model for other countries." But in a interview in *Die Welt*, Monti warned: "If the Italian people do not soon see tangible success for their savings and reform efforts, there will be a protest against Europe, against Germany—seen as the driver of EU intolerance—and against the ECB".

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