EU summit agrees to German plan for austerity straitjacket

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The European Union summit that ended in Brussels Monday evening agreed to a plan drawn up by the German government for a series of measures that will force governments across the continent to implement harsh austerity measures.

According to the plan, all 17 euro zone states will be required to insert a so-called “debt brake” into their constitutions laying down strict limits to government borrowing. The ten EU member states that do not use the common European currency will have the option to adopt the debt brake measure.

Governments will essentially be denied the possibility of ameliorating the deepening social crisis through fiscal measures. Instead, in order to ensure the repayment of their debts to the banks, they will be forced to take draconian deficit reduction measures, primarily by slashing spending on welfare provisions, education, housing, infrastructure, public sector employment, pensions and health care.

Underlining the undemocratic nature of the plan, German Chancellor Angela Merkel declared, "The debt brakes will be binding and valid forever. Never will you be able to change them through a parliamentary majority."

The debt brake was first introduced at a national level in 2009 by the German grand coalition government consisting of the Christian Democratic Union (CDU) and the Social Democratic Party (SPD). The German Bundesbank praised the measure at the time as "a very welcome development."

In addition to the debt brake, the EU summit agreed to a German proposal that countries failing to pay their debts on time be subject to punitive sanctions to be imposed by the European Court of Justice. Such a mechanism is prominent among the demands of the international banks and financial institutions.

Two countries, the United Kingdom and the Czech Republic, declared they would not sign up to the agreement. At the same time, the leaders of the two countries made clear they had no disagreement with the principle of universal austerity.

David Cameron, the British prime minister, backed down from his initial opposition in December to the use of the European Court of Justice to punish countries unable to pay their debts. The Czech prime minister said he was voting against the measure because he feared European policy would increasingly be determined by the core of 17 euro zone countries rather than all 27 EU members.

The summit had been preceded by a propaganda campaign by European leaders who promised substantial financing for economic stimulus and job creation. On Monday, it was announced that unemployment across the continent had reached its highest level since the introduction of the euro.

In the event, summit participants agreed to a vague proposal for the distribution of a mere 82 billion euros in previously unspent funds, in exchange for which national governments are expected to implement a raft of measures to deregulate their labour markets.

The run-up to the summit had been dominated by heated discussion over a German proposal leaked last Friday for the appointment of an external "budget commissioner" for Greece with the power to dictate the terms of the country’s monetary and budget policy. Greek newspapers and politicians denounced the proposal, harking back to the Nazi occupation during World War II, and describing it as tantamount to installing a German Gauleiter to run the affairs of Greece.

In an editorial on Tuesday, the *Financial Times* played down the significance of the German proposal by stressing the powers to dictate policy already in the hands of the EU, the International Monetary Fund (IMF) and European Central Bank (ECB). "It is far from clear" the newspaper wrote, that the Berlin policy "of an EU commissioner with the authority to overrule Athens' taxation and public spending decisions... would differ much from the power that Greece's official creditor "troika" already enjoys."

This proposal was not taken up at the summit meeting. EU leaders made clear, however, that rejection of an external budget commissioner did not mean Greece was off the hook. On the same day as the summit, the *Wall Street Journal* published an interview with German Finance Minister Wolfgang Schäuble in which he warned that the EU would withhold a fresh bailout package for Greece unless it concluded a debt repayment deal with the banks and stepped up its austerity measures.

The same message was delivered to Greek Prime Minister Lucas Papademos by a group of EU and ECB officials at a separate meeting following the close of the official proceedings in Brussels.

Following the EU summit, the banks and financial institutions stepped up their pressure on Europe to pump more cheap credit into the financial markets and allocate more money to guarantee their sovereign debt holdings. It is expected that the European Central Bank, which handed out nearly half a trillion euros in low-cost loans to the banks in December, will enlarge the windfall next month with at least 1 trillion euros in additional loans.