G20 meeting defers decision on boosting European rescue funds

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A meeting of finance ministers and central bankers from the G20 leading economies held over the weekend in Mexico City ended with no agreement on calls for the European Union and the International Monetary Fund (IMF) to double the amount of rescue funds set aside for containing the European sovereign debt crisis.

Coming less than a week after eurozone finance ministers agreed to a second package of loans to avert an imminent default by Greece, valued at 130 billion euros ($175 billion), the sharp divisions that dominated the G20 meeting made clear that the Greek agreement has not resolved the financial crisis in Europe or internationally.

The conference saw the IMF, the European Central Bank (ECB), the European Commission, major economies including Britain, Japan and Canada, and so-called “emerging” economies such as Brazil line up behind the United States to demand that the eurozone increase its rescue fund by 50 percent, with Germany virtually alone in resisting such an expansion.

There were dueling speeches on the eve of the meeting by top US and German officials. On Friday, US Treasury Secretary Timothy Geithner used a speech in Mexico City to ratchet up pressure on Germany, calling for Europe to expand its rescue fund to make it “credible.” Geithner also said it was critical for the eurozone’s larger and more stable economies to be a “source of growth for the continent,” a transparent injunction to Germany to pursue more stimulative policies to boost internal consumption.

Two hours later, German Finance Minister Wolfgang Schäuble rebuffed Geithner, saying the new Greek loan package and write-down on the country’s debt showed that Europe was doing enough. He reiterated German opposition to calls for euro bonds, rejected the printing of euros to provide credit to indebted states, and said fiscal austerity and more “flexible” labor markets were necessary “if we want the euro to be a stable and lasting currency.”

Schäuble echoed German Bundesbank President Jens Weidmann, who also spoke Friday and argued that Germany was already making “a disproportionately large” contribution to the eurozone’s rescue funds. Money alone would not solve the crisis, Germany’s top banker declared. It could only buy some time to slash budget deficits and carry out structural reforms.

On Saturday, Schäuble softened his position, saying “no decision” had been made yet on expanding the EU rescue fund and promising that European leaders would come to an agreement on the matter by the end of March. This meant there would be no decision at an EU summit meeting to be held Thursday and Friday, but the issue would be settled in advance of the IMF’s annual spring meeting in April.

The US wants Germany to agree to fold the 250 billion euros remaining in the EU’s temporary European Financial Stability Facility into the 500-billion-euro European Financial Mechanism that is slated to come on line in July. That would bring the total EU fund to backstop Europe’s banks to 750 billion euros, or $1.01 trillion.

Germany, for its part, spearheaded the call by eurozone governments for G20 countries to allocate up to $600 billion to triple the IMF’s emergency reserve to nearly $1 trillion. Between the IMF and the EU, more than $2 trillion would be deployed in the hope of averting a spread of financial “contagion” from Greece to larger highly indebted economies such as Spain, Italy and France—essentially by guaranteeing the assets of European banks and the investments of bondholders and speculators.

The US has to this point rejected making any further contribution to the IMF and insisted that Europe (meaning primarily Germany) take greater responsibility and commit more money to propping up Europe's banking system. It has set the tone for the IMF and most of the other G20 countries in demanding that Germany give way and accept an expansion of the EU rescue fund before any further funds are lent to the IMF to create what all sides are calling a "firewall" against the spread of the debt crisis.

The differences between Germany and the US and its G20 allies are not over the devastation and humiliation of Greece and the general assault on the working class for which the ruination of Greece is a precedent. All agree on the implementation of savage austerity measures that are already impoverishing large sections of the Greek population. Nor is there disagreement in principle that such measures are required to pay for ever-expanding bailouts of the banks. Rather, the differences center on which countries will initially foot the bill for the bailouts and whose banks will take the brunt of any losses.

The German government of Chancellor Angela Merkel has as well, for historical reasons, a particular fear of unleashing an inflationary spiral and is more blunt than most governments in insisting on "fiscal consolidation" and economic "structural reforms"—euphemisms for the destruction of social welfare programs and the wages and conditions of working people.

The communiqué issued at the end of the meeting makes clear the universal support of all G20 countries—including China, India, Brazil and South Africa—for the new loan package for Greece that is tied to sweeping cuts in wages and jobs and the imposition of a de facto EU dictatorship, exercised in behalf of the banks. It states: "We welcome the important progress made by Europe in recent months to strengthen their fiscal positions, adopt measures to reduce financial stress, build stronger institutions, implement growth enhancing structural reforms and to put Greece on a sustainable path. We also welcome the market improvement associated with the actions taken by the ECB [the allocation of trillions of euros in virtually no-cost loans to the banks]."

But on the disputed issue of increasing the European debt "firewall," the statement merely says: "Euro area countries will reassess the strength of their support facilities in March. This will provide an essential input in our ongoing consideration to mobilize resources to the IMF."

The dirty secret behind the new "rescue" package for Greece and the efforts to create what Angel Gurria, secretary general of the Paris-based Organization for Economic Cooperation and Development, called "the mother of all firewalls" is that they have nothing to do with preventing Greece from sliding into bankruptcy. The major powers and the international banks have concluded that a Greek default and exit from the eurozone are inevitable. They are seeking to make an example of the Greek working class while they buy time to impose similar conditions on workers across Europe in order to shield the banks from the impact of a potential collapse of Spain, Italy or France.

German Interior Minister Hans-Peter Friedrich let the cat out of the bag when he gave an interview over the weekend to *Der Spiegel* in which he said, "The chances that Greece can renew itself and become more competitive are surely greater outside the currency union than within it." Friedrich, a member of the Christian Social Union, the Bavarian sister party of Merkel's Christian Democrats, added that Greece should not be forced to leave the eurozone, but rather given incentives "that they can't refuse."

The US has a particular concern in containing the European crisis because American banks are massively exposed to the danger of a collapse of European government bonds due to their role in insuring bondholders by selling credit default swaps.