

# EU summit adopts Fiscal Pact for European-wide austerity

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On Friday, the European Union heads of government signed the so-called “Fiscal Pact” at a summit meeting in Brussels.

The agreement commits EU members to maintain strict fiscal discipline. They are required to adopt a constitutional debt limit along the lines of the German “debt brake.” If they exceed the specified budget deficit ceiling of 3 percent of gross domestic product they can be sued by the European Court, triggering an automatic procedure for imposing penalties. Countries that do not sign up to the pact will be ineligible for assistance from the European Stability Mechanism (ESM), the permanent European rescue fund, presently set at €500 billion, which is slated to come online in July.

The Fiscal Pact increases pressure on EU member states to cut government spending. It ensures that austerity policies are continued regardless of election results and changes of government. It effectively strips parliaments of their most important power, control over the budget, and deprives voters of any opportunity to influence fiscal policy.

German Chancellor Angela Merkel described this profoundly undemocratic treaty, which came about largely on her initiative, as a “milestone in the history of the European Union.”

Twenty five of the twenty seven EU members have signed up to the pact. In most countries, however, it has to be approved by national parliaments and in Ireland by a referendum before coming into force, with a deadline of the beginning of 2013. Only the British and Czech governments refused to sign, not because they reject austerity measures, but on the grounds that the pact impinges on their national sovereignty.

The Fiscal Pact will only deepen the crisis of the European economy. Prior to the summit, the EU Commission issued a report predicting a deep recession in the euro zone this year. The economy will shrink in 7 of the 17 euro countries and grow only minimally in the remaining ten, the report said.

The crisis has now reached some of Europe's economically stronger nations, such as the Netherlands, whose economy is

undergoing a sharp downturn. The Dutch government needs to save an extra 15 billion euros in order to conform to the deficit ceiling of 3 percent in 2013 and is in danger of collapsing as a result of the country's mounting social and political crisis.

The unemployment rate in the euro zone hit 10.7 percent in January—its highest level since the introduction of the euro. In January alone, 185,000 people lost their jobs. In Spain, the unemployment rate increased by 2.4 percent in the space of one month as a result of the austerity measures introduced by the recently installed conservative government. Unemployment has officially hit 23.3 percent, i.e., nearly one in four Spaniards is out of work. The unemployment rate for youth is significantly over 50 percent.

The Fiscal Pact will push unemployment still higher—and this is intentional. Recession and mass unemployment serve as levers to undermine wages, working conditions and all of the social gains won by the working class over the previous six decades.

In this regard, there was much talk at the Brussels summit of “competitiveness”—a euphemism for flexible labour conditions and welfare cuts. EU President Herman Van Rompuy promised to make specific recommendations for “creating jobs” by improving business competitiveness. Chancellor Angela Merkel said that Europe had a future only if it improved its competitiveness.

The model is Greece, where the government has lowered the living standards of broad sections of the population by up to 50 percent, implementing mass layoffs in the public services, slashing public and private sector wages and pensions, and drastically cutting health and social welfare spending.

Unlike previous summits, the Greek crisis was not the focus of attention this week. Euro group chief Jean-Claude Juncker and German Finance Minister Wolfgang Schäuble even praised the “progress” made by the Greek government, which has approved all of the measures demanded by the EU, the International Monetary Fund (IMF) and the

European Central Bank (ECB), operating as agents of the major international banks.

Last week, euro zone finance ministers agreed to a second financial package for Greece of more than €130 billion. But so far not a cent of this money has been passed on to the Greek government. There are strong indications that the EU is playing for time and plans to drive Greece into bankruptcy once creditor banks have been provided with sufficient protection to avoid a chain reaction.

On the eve of the EU summit, the finance ministers met again to release those parts of the financial package intended specifically for the banks. In order to ensure that the banks write off €107 billion of the nominal value of their holdings of Greek government bonds (which they have already largely done), they are being provided with a financial package amounting to €93 billion, which will add to the total Greek government debt.

On Wednesday evening, the finance ministers awarded €23 billion to Greek banks and another €35 billion to international financial institutions as compensation for their losses. A further €35 billion goes to the European Central Bank as collateral to maintain the liquidity of Greek banks. However, this money will flow only if at least 75 percent of creditors agree to a voluntary debt “haircut” by March 8.

The remainder of the bailout package has been withheld. These funds are intended, among other things, to prevent a default by Greece on March 20, when bonds worth €14.5 billion are due to be redeemed. This money will flow only if inspectors from the EU and the IMF determine next week that the Greek government has implemented 38 specific cost-cutting measures to which it has committed itself. This means that the money can be stopped at any time.

On the eve of the summit the European Central Bank for the second time since December opened up the floodgates of cheap loans to the banks. The ECB offered the banks more than half a trillion euros for a three-year period at just 1 percent interest. This is a massive windfall for the financial elite, which can invest this cheap cash in government bonds with the certainty of receiving a four-fold to six-fold return.

Like the so-called “rescue package,” this measure is aimed at protecting the big banks and investors against a possible default by Greece, even as the cuts required under the Fiscal Pact drive the continent deeper into slump.

Yet another decision has helped strengthen the position of the banks. The International Derivatives Association (ISDA) ruled on Thursday that the haircut for Greek government bonds did not constitute a default. This means the write-down of Greek government bonds will not trigger payouts on credit default swaps (CDS) on Greek government bonds. This is particularly important for major Wall Street banks, which otherwise would be liable to pay off those who

purchased billions of dollars worth of CDS contracts issued by the US banks.

Should Greece actually go bankrupt in the next few weeks, private investors will be largely off the hook. The losses will be assumed by state treasuries, which will, in turn, pass the burden onto the working class.

In this process, the European governments can count on the full support of the trade unions, with which they collaborate in imposing the austerity measures.

In an effort to provide a measure of political cover for the unions in the face of mounting popular outrage, the European Trade Union Confederation (ETUC) called a European day of action against the EU on the eve of the summit. The scattered and sparsely attended actions only underscored the opposition of the unions to mobilizing the working class against the Fiscal Pact.

In Germany, the protest was confined to a photo-op featuring the German Trade Union Federation (DGB) boss, Michael Sommer, at the Magdeburg train station plus a minuscule rally at the Franco-German border near Saarbrücken. Journalists seeking information on the protests found that most union headquarters were unaware that a day of action was even taking place.

In Brussels, union officials proceeded after a token rally directly to a Tripartite Social Summit with EU representatives and employers to demand that they be consulted in the implementation of the austerity pact. On its web site, the ETUC declared, “The social partners must be involved in all decisions concerning the labour market.”



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