Finance ministers increase European bailout fund

Stefan Steinberg
2 April 2012

At a two-day meeting in Copenhagen held March 30-31, European finance ministers agreed to increase funding for the euro zone bail out mechanism. At the Saturday session, however, the finance ministers failed to arrive at a consensus on a European tax to be opposed on financial transactions.

The agreement reached by the finance ministers on Friday corresponds to the proposal put forward by the German government. It involves pooling the €500 billion pledged for the permanent European Stability Mechanism (ESM), due to take effect this summer, with the uncommitted funds remaining in the existing €440 billion European Financial Stability Facility (EFSF).

Prior to the Copenhagen conference, German Finance Minister Wolfgang Schäuble told the press that the new projected funding would total €800 billion, to be used to “fight contagion and protect stability in the euro zone.”

In common with the previous European Union bailout packages, the new financial aid has nothing to do with assisting stricken European economies and their populations. Rather, it is aimed at pumping new funds into the European and international banks.

The almost universal reaction by the banks and financial press to the Copenhagen deal was “too little, too late.”

The *Wall Street Journal* pointed out that much of the money in the EFSF fund has already been spent in bailout packages for Ireland, Portugal and Greece. It concluded that even with the Copenhagen decision, total funding available for European bailouts will not exceed €500 billion.

Last Tuesday, the secretary general of the Organization for Economic Cooperation and Development (OECD), Angel Gurria, declared, “When dealing with markets you must overshoot expectations.” In the company of the EU's top economic official, Olli Rehn, the OECD chief called for the erection of the “mother of all firewalls,” amounting to €1 trillion.

The call for a €1 trillion fund was also supported by French Finance Minister François Baroin and a number of other European officials. The demand for a massive increase in the European “firewall” is also backed by the European Commission and the International Monetary Fund (IMF).

German opposition (joined by the Netherlands, Finland and Austria) to increasing European bailout funds is not due to any opposition to the principle of providing unlimited funding for the banks. Rather, the German government fears that too large a bailout fund could serve to discourage the governments of highly indebted countries from implementing the drastic austerity measures demanded by Berlin. Having imposed cuts in the living standards of the Greek working class which are unprecedented in peacetime, the financial and political elite in Europe is increasingly turning its attention to Italy and Spain.

On the eve of last Thursday's general strike in Spain, German Finance Minister Schäuble warned Spanish Prime Minister Mariano Rajoy that he was obliged to carry out drastic “reform” measures, regardless of the growth of popular opposition.

The day after the strike, Spanish Finance Minister Cristóbal Montoro provided details of what he described as “the most austere budget of Spanish democracy.” The budget, involving cuts totaling €27 billion, has been described by one commentator as “laying out the path for a kind of war-time economy.”

The proposals in the plan, which will be presented to the Spanish parliament this week, include a continued freeze of civil servants' salaries, massive cuts in the budgets of government departments, and hikes of between 5 and 7 percent for gas and electricity. In addition, the government plans to axe €1.5 billion from its existing jobs program, despite the fact that unemployment in Spain, at 23 percent, is by far the highest in Western Europe.

Just as a number of European agencies have declared their dissatisfaction with the size of the bailout package agreed in Copenhagen, they have responded with skepticism to the Spanish budget cuts. After outlining the new cuts, the think tank Open Europe went on to list those items the Spanish government failed to put on its list: e.g., an increase in VAT, cuts in civil servants' salaries instead of a mere freeze, and reductions in pensions and unemployment benefits.

The European political elites are well aware that the implementation of austerity policies in one country after another is driving their economies into recession and only compounding their debt problems. Nevertheless, they are determined to press ahead with their offensive aimed at reducing European labour and social costs toward the levels prevailing in countries such as China and India.

The extent to which European economic policy is dictated by the interests of the banks was underlined by the second item on the agenda in Copenhagen—the introduction of a tax on financial transactions. Such a tax was announced as the official policy of the EU last year.

In a speech in Strasbourg in September, the president of the European Commission, José Manuel Barroso, outlined plans for a new EU-wide financial transaction tax. Barroso declared, "In the last three years, member states—I should say, taxpayers—have granted aid and provided guarantees of €4.6 trillion to the financial sector." He went on to say that it was time for the financial sector to make a contribution to society.

Since Barroso's speech, the sum made available to the financial sector has swollen by more than a trillion in the form of virtually interest-free loans to the banks from the European Central Bank. The latest hike in the European bailout fund brings the total transferred from European taxpayers to the banks to nearly €6 trillion.

But even the token measure of a financial transaction tax cannot be implemented because of the domination of the political system by the banks, which adamantly oppose it. According to the European Commission, the levying of a financial tax is dependent on agreement by all 27 European Union member states. Great Britain and Sweden have made clear they would never agree to such a measure, and other states have raised their own objections, rendering the tax proposal dead in the water.