Europe’s leaders at loggerheads at EU summit as markets tumble

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European leaders in Brussels failed to agree on any concrete measures to deal with the continent’s rapidly worsening economic crisis.

Following last night’s six-hour summit, leaders of the major economies were unable to paper over sharpening disagreements on economic policy, particularly the proposal backed by France’s new Socialist Party President Francois Hollande and reportedly the majority of those present for the issuance of euro bonds, pooling state-backed European debt, and the closely related question of propping up the continent’s crisis ridden banks.

Germany’s Chancellor Angela Merkel categorically rejected the proposal, reflecting the opposition of German capital to subsidizing the weaker economies of the eurozone.

“There were differences in the exchange about euro bonds,” Merkel told reporters after the summit. In the summit discussion, she reportedly dismissed Hollande’s arguments, saying that euro bonds would “not make any contribution to stimulating growth.”

Hollande declared, “We haven’t come together to confront each other … but we have to say what we think—what are the right instruments, the right methods, the right steps, the right initiatives to raise growth.”

The summit broke up late at night, however, without agreement on any methods, steps or initiatives to confront the deepening crisis.

The one area of agreement was a call for Greece to remain within the eurozone on the basis of any new government upholding the commitment to implement drastic austerity measures.

“We want Greece to stay in the euro, but we insist that Greece sticks to commitments that it has agreed to,” Merkel told reporters.

“France and Europe want Greece to stay in the eurozone,” declared Hollande. “We want you to respect your commitments but we want to take steps to show you that we want to restore hope.”

Aside from slight rhetorical differences, there is a consensus that the working class in Greece and throughout Europe must be compelled to pay for the crisis created by capitalism.

The divisions emerging against the background of deepening recession in Europe prompted a slump in shares across Europe. European markets suffered their heaviest losses for a month following a sharp fall on many leading indices last week. The FTSE 100 index fell by 2.5 percent, the French CAC by 2.6 percent, and Germany’s DAX fell 2.4 percent. The main Spanish IBEX index dropped by 3.3 percent, and the euro fell to its lowest value against the dollar in nearly two years. Oil and commodity prices fell, reflecting market concerns on the possibility of a break-up of the eurozone.

The markets were reacting both to the inability of EU leaders to agree to new measures to fund the European banking system and to reports that European governments, led by Germany, were drawing up plans for a Greek exit from the euro. Reuters reported that in a conference call on Monday eurozone finance ministry officials had been asked to reveal their contingency plans for a Greek departure.

Speculation on Greece tumbling out of the euro was fueled by a report from the German central bank claiming that a Greek exit would be “manageable.”

The failure of European leaders to arrive at any consensus in Brussels came as no real surprise. In his letter of invitation for the informal dinner in Brussels, European President Van Rompuy had a priori ruled out the possibility of any firm measures being taken. “The idea,” he wrote, “is not at this stage to draw conclusions or take decisions," but instead to prepare for the next scheduled meeting of the European Council in June.

Prior to the summit, considerable pressure was exerted on Germany and its small group of allies amongst northern European countries by the United States, France and Italy, which all called for increased funding to complement the current drastic austerity policies with a so-called growth component. One of the main demands raised at the G8 summit held at the end of last week was for the introduction of euro bonds to provide a new mechanism to stabilize the European banking system. On Tuesday, both the OECD and the IMF threw their weight behind euro bonds.

Germany's Chancellor Merkel rejected the proposal out of hand, saying that such measures pooling eurozone debt would violate EU treaties.

Also being demanded are measures to transfer massive new sums of money from state treasuries to Europe's ailing banks. Spanish Prime Minister Mariano Rajoy prior to the summit had complained that the introduction of euro bonds would be a much too lengthy process and pleaded for much quicker assistance for his country's ailing banks.

The two proposals being advanced are granting new powers to the existing European fund (ESM) to provide funding directly to banks instead of governments, plus extending the capabilities of the European Central Bank to directly inject more funds into banks and not be forced to go through national governments.

Both measures are fiercely opposed by the German government, because it fears becoming the chief creditor for the bad loans accumulated in the vaults of many European banks.

Recent days have seen a run on the banks of Greece and Spain, as both large and small depositors have withdrawn their savings fearing a collapse. Fears of such a crash were underlined by the chief policy maker of the Bank of England, Adam Posen, who warned at a conference in Tokyo on Monday that European leaders should be prepared to pump billions more into the region's banks to withstand the debt crisis. The main problem in Europe, Posen said, was not Greece, but financial exposure in the interbank market due to undercapitalized banks.

The warnings by Posen and others of an impending banking crash come on the heels of the OECD report earlier this week which warned that the deepening crisis in Europe threatened to disrupt the international economy. Economic data indicates that Europe and the world is on the verge of a new stage of the economic crisis which began in 2008 with the collapse of Lehman Brothers.

The inability of the 27 European leaders gathered in Brussels to formulate a coherent or unified response is a measure of the depth of the crisis faced by European and world capitalism. But they are, in any event, united in one thing: their determination to ensure that the working people of Europe pay the full price for the crisis.

Every proposal advanced, whether Merkel's insistence on "more of the same" or Hollande's call for a "growth strategy," is predicated on a further savage assault on the working class.

"Stimulus" here is a synonym for "more money for the super rich, more pain for everyone else to pay for it." Bailouts in whatever form will continue to be funneled into the vaults of the banks and the pockets of the super rich. According to the European Commission's own proposals, a "job-rich recovery" will need "measures to support labour demand," which means nothing less than cutting wages, speed ups and slashing corporate taxes.

There are no good outcomes for Europe's workers, so long as their fate is left in the hands of Europe's capitalist politicians and the major banks and corporations they serve. Nothing less than rule by the working class—in a United Socialist States of Europe—will do. Only this can ensure that the wealth and productive resources of the continent are liberated from the vampire-like demands of the speculators and their flunkeys in Paris, Berlin, London and Brussels alike and put to socially useful ends—providing the jobs, education and health provision needed by all.