On eve of EU summit

Europe at loggerheads as crisis spreads

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On the eve of a much anticipated European Union summit Thursday and Friday, the European debt crisis has taken a turn for the worse, while the major powers remain bitterly divided.

On Monday, Spain formally requested the bailout for its banks of up to €100 billion ($125 billion) that had been informally agreed upon on June 6, and Cyprus officially asked for its own bailout, bringing the number of EU states on life support to five. Cyprus's resort to a bailout took on added symbolic significance because the country will assume the rotating EU presidency on July 1.

The same day, Moody's Investors Service followed up its downgrade of Spanish government debt with a downgrade of 28 Spanish banks, including Banco Santander, the euro zone's largest bank by market capitalization. At least 12 of the banks were reduced to junk status.

On Tuesday, Spain's borrowing costs soared and demand for its bonds fell in an auction of short-term debt. Madrid had to agree to pay interest to bond investors two to three times the rate it offered only last month.

In Greece, the newly formed coalition government was already in disarray. Vassilis Rapanos, the former head of the National Bank of Greece, who had been appointed finance minister, resigned Monday, ostensibly for health reasons. Prime Minister Antonis Samaras announced that he would miss the EU summit due to an eye operation.

Over the weekend, the coalition of New Democracy, PASOK and the Democratic Left called for a two-year extension on the deficit-reduction targets imposed by the troika"—the European Union, International Monetary Fund (IMF) and European Central Bank (ECB)—plus the rescinding of 150,000 public-sector job cuts, a reversal of pension cuts for low income people, the renegotiation of a minimum wage cut, and a reduction in previously agreed consumption tax increases.

German officials bluntly rejected any modification of the austerity measures. In a newspaper interview, German Finance Minister Wolfgang Schäuble lectured Greek Prime Minister Samaras that his job was to comply with the terms of Greece's bailout "quickly and without further delay instead of asking how much more others can do for Greece."

German officials also said Greece's request to renegotiate the terms of its debt agreement would not be discussed at the summit in Brussels because the troika had yet to visit the country and review its progress in implementing the required "reforms."

With recession spreading across Europe, and growth contracting in the rest of the world, the prospects are for a worsening of the EU debt crisis and an intensification of the pressures tearing apart both the common currency and the European Union itself.

Especially after the failure of last week's G20 summit in Mexico, hopes had been placed in this week's gathering of European heads of government, EU officials and central bankers to agree on concrete measures to relieve the sovereign debt and banking crises, particularly in Spain and Italy. These two economies, the fifth and fourth largest in the EU, have become the main targets of the financial markets as the financial "contagion" has spread from the periphery of Ireland, Portugal and Greece to the core of the European Union.

Dire warnings have been issued of the implications of a failure by the EU summit to take decisive measures. "The very survival of the euro is under threat," said Athanasios Orphanides, until last month, a member of the governing council of the European Central Bank.

The *Financial Times* editorialized on Saturday: "Financial investors seem ready to give up hope. Equities may be treading water, but most financial markets are plumbing greater depths of gloom."

On Tuesday, *Der Spiegel Online* published an interview with George Soros in which the multi-billionaire speculator declared that it was "down to three days to save the euro."

Any expectations within financial and political circles of an agreement on a strategy to contain the crisis have largely been dashed, however. *Der Spiegel Online* commented, "Because there is already little hope that concrete decisions will be reached, the Brussels meeting can already be regarded as a failure."

A pre-summit meeting Friday in Rome attended by the government heads of the four largest euro zone economies—Angela Merkel of Germany, François Hollande of France, Mario Monti of Italy and Mariano Rajoy of Spain—was meant to provide a show of unity. Instead, the post-meeting press conference exposed the sharp divisions within the EU.

Merkel rejected out of hand proposals from Hollande, Monti and Rajoy, also promoted by the International Monetary Fund and Washington, for short-term measures to relieve the debt crises of Spain and Italy, including direct handouts by the European Central Bank to the banks of the two countries, large-scale ECB purchases of their sovereign debt, and the use of EU bailout funds to buy the government debt of foundering countries.

She reiterated German opposition to any mutualization of debt in the form of euro bonds, or broad EU oversight of European banks and a common fund to guarantee bank deposits, until a fiscal union had been established that would centralize control of national budgets in EU institutions, stripping euro zone states of much of their sovereignty.

Germany, as the strongest European economy, would dominate these institutions and largely dictate fiscal policy across the euro zone. Behind Germany would stand the major international banks.

"We need to use all existing mechanisms to stabilize markets, to give confidence, to fight speculation," Hollande said at the press conference. Merkel replied by declaring, "Growth and fiscal discipline are two sides of the same coin."

Answering Merkel's insistence that fiscal union had to precede the floating of euro bonds or other measures entailing greater outlays by Germany to prop up the euro, Hollande said there would be "no transfer of sovereignty without greater solidarity."

The conflict between Germany and France is deeply rooted. Germany, the dominant economic power, seeks to assert its interests within the European Union by strengthening the political authority of the EU over the member states. France, weaker economically, seeks to assert its interests by defending its political position and therefore abhors a weakening of its sovereignty.

The only agreement to come out of the Rome meeting was for a token €120 billion "growth fund," most of which would come from already existing monies diverted from other EU agencies. This marginal sum, which would have virtually no impact on unemployment levels of nearly 25 percent in Greece and Spain and rising joblessness across most of Europe, compares to €4.5 trillion of state aid that has been approved for European banks since 2008, equivalent to more than one-third of EU economic output.

Merkel and Hollande are to meet again on Wednesday, but Merkel has already signaled that she will not shift her position. At a conference in Berlin on Monday she said sharing debt liability within the euro zone would be "economically wrong and counterproductive." She added, "When I think of the summit I feel concerned that yet again we will have too much focus on all kinds of ways of sharing debt."

On Tuesday, European Council President Herman Van Rompuy published a proposal to restructure the European Union and save the euro, which is to be debated at the Brussels summit. The plan was issued in the name of himself and Euro Group President Jean-Claude Juncker, European Commission President José Manuel Barroso and European Central Bank President Mario Draghi.

It calls for a banking union, with a central bank regulator and a common deposit insurance fund; tighter EU control over national budgets, including veto power over countries that fail to meet EU debt targets; and the mutualization of euro zone debt. These are changes that, were they agreed, would take years to realize. Van Rompuy's plan contains no short-term proposals to deal with the immediate crisis.

Germany's deputy foreign minister immediately rejected the plan's call for euro bonds. "By beginning with pooling of debt, we're heading toward a dead end," Michael Link said in Luxembourg.

Britain, for its part, opposes a banking union and will refuse to join one if it is established, reflecting the interests of the City of London.

All of the various plans and proposals proceed from a common premise—that the burden of the crisis is to be imposed on the working class, which is to pay for ever greater handouts to the banks through austerity and so-called "structural reforms," i.e., the gutting of all labor rights and protections.

At the same time, the collapse of the post-World War II economic equilibrium, which was anchored in the economic dominance of the United States, compounded by the global breakdown that began in 2008, has brought to a new intensity the fundamental contradiction between European integration and the nation-state system intrinsic to capitalism.

The growing divergence between Germany and France, whose alliance was at the center of the project for a unified capitalist Europe, heralds the unraveling of the EU and the reemergence of the virulent national antagonisms that led in the last century to two world wars.