Germany takes hard line in advance of EU summit

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German Chancellor Angela Merkel threw down the gauntlet to Europe and Washington on the eve of the two-day European Union summit in Brussels, which began Thursday. According to press reports, Merkel told an internal meeting of her ruling coalition on Tuesday that she would never accept euro bonds in her lifetime.

On Wednesday, she issued a scathing critique before the German parliament of a policy statement released the day before by European Council President Harman Van Rompuy laying out proposals to restructure the European Union in order to save the euro currency. The statement, released in the name of the European Commission President Manuel Barroso, Eurogroup President Jean-Claude Juncker and European Central Bank President Mario Draghi as well as Van Rompuy, is to be a major topic on the agenda of the summit.

“I profoundly disagree with the stance taken in the report that precedence is given to mutualization [of debt], and that more control and enforceable commitments take a second place and are phrased in very imprecise terms,” she said.

She added that euro bonds and proposals for a common debt repayment fund were “economically wrong, counterproductive and in breach of the German constitution.

These statements effectively rule out any possibility of agreement at the Brussels meeting on how to deal with the rapidly escalating euro crisis.

The introduction of euro bonds plus common debt repayment measures for individual European states are key demands to be discussed in Brussels. The call for euro bonds has been raised with increasing insistence in recent months by France, Italy and Spain, as well as the European Commission, the International Monetary Fund and the US government.

Earlier this week, US President Obama advised Italian Prime Minister Mario Monti to increase pressure on the German government to agree to the introduction of euro bonds plus short-term measures to fund ailing European banks.

The summit takes place against a background of growing economic crisis and financial instability in a number of major European countries. Despite the pledge by European leaders two weeks ago to invest 100 billion euros in the ailing Spanish banking system, the yield on Spanish ten-year bonds is once again approaching the critical level of 7 percent. Yields on Italian bonds have risen to their highest level in a year, and this week the island nation of Cyprus announced it would be the fifth European state to apply for a bailout from the EU.

Warning of a popular backlash should the summit fail to agree on concrete measures, Monti told reporters that disenchantment with government and European policy could unleash ‘political forces which say ‘let European integration, let the euro, let this or that large country go to hell,’” a development which “would be a disaster for the whole of the European Union.” In its characterisation of the summit, the German newspaper *Die Welt* compared Europe to the Titanic heading for the iceberg.

In the face of a concerted pressure from financial institutions and European governments for short-term measures to infuse new funds into the banks, Merkel once again declared that there were “no quick, no easy” solutions and no “magic formula” to resolve the crisis.

In her previous statements on euro bonds, Merkel had indicated she was prepared to support their introduction, but only after substantive moves had been made toward fiscal and political union in Europe, i.e., that individual nations would agree to hand over control of their tax and budgetary policies to Brussels.

Merkel's comments this week indicate that the German government has hardened its position and is now unwilling to support euro bonds under any circumstances. It has received flanking support from the opposition Social Democratic Party, formerly a firm advocate of euro bonds, which has dropped the issue in recent weeks.

Under conditions where any fundamental agreement is ruled out, European leaders are already damping down expectations. European Commission President Barroso declared that it would be sufficient if the meeting could provide “orientation and a line,” and declared that “it would be a mistake to believe that one summit could calm the markets.”

Barroso's remarks are largely for public consumption. Behind the scenes, EU diplomats are working furiously to accommodate the banks. In particular, discussions centre on plans to permit the existing European bailout funds to directly buy government bonds. The present practice is that bailout funds can be awarded only to states. Italy and Spain are pushing hard for expanded use of bailout funds to prop up their banks. On Thursday, Merkel brusquely dismissed the demands of the Italian premier.

Media commentators are united in declaring that a precondition for any deal to prevent a meltdown of the euro is a level of agreement between the continent's two largest economies, France and Germany. On Wednesday evening, Merkel flew to Paris for talks with President Francois Hollande just hours before the summit was due to begin. No details of the talks have been leaked, but Merkel's categorical rejection of key points on the summit agenda indicate that there was no agreement between the two leaders.

A number of commentaries have presented the policy differences between Paris and Berlin as a conflict between growth and austerity. Nothing could be further from the truth.

One French “success” the summit will undoubtedly parade at the end of its two days of discussions is the “growth pact,” already agreed at a special meeting of the French, German, Spanish and Italian heads of government last Friday. The 120 billion-euro package was presented in the press as a significant initiative to counteract the negative effects of austerity programs and social cuts with a “growth” component aimed at creating jobs and reviving ailing economies.

In fact, as a recent article in *Der Spiegel* points out, the pact consists chiefly of “empty promises, hot air and accounting tricks” aimed at the electorate and with no positive consequences for jobs of economic growth. An internal European analysis concludes that the pact contains nothing new and was primarily aimed at allowing the French president to save face.

Both Hollande and Merkel are intent on fulfilling the demands of the financial elite and extending austerity across the continent. But France, with its weaker economy and heavy financial exposure in southern Europe, seeks to ensure that Germany opens up the money faucets to bail out the European banks.

Germany, for its part, insists that France and the rest of Europe yield sovereign control of their economies in exchange for financial support. Such a concession is unacceptable to France, which demands the right to impose its own austerity measures without interference from Germany.

EU leaders will likely issue a pro forma statement at the end of the summit stressing their determination to tackle the crisis, but tensions both within the EU and between Europe and America are reaching a critical mass.