German chancellor rejects US-British demands for “immediate response” to the euro crisis

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German Chancellor Angela Merkel delivered a clear rebuff to US and British demands for immediate action to deal with the rapidly worsening European financial crisis in discussions Thursday in Berlin with British Prime Minister David Cameron. After consulting with US President Barack Obama, the UK leader had traveled to Berlin to put pressure on the German government to agree to a plan to bail out European banks.

Merkel responded by declaring “there is no magic bullet” to solve the crisis. She also hinted that Germany was prepared to consider the break-up of Europe into competing economic groups.

The US and British governments are urging Germany to support a fresh injection of funds into the European banking system by either the European Central Bank (ECB) or the European Stability Mechanism (ESM), the European Union’s bailout fund. In the longer term, London and Washington are calling for the introduction of a pan-European finance mechanism, so-called euro bonds, to underpin the continent’s banking system.

All of these measures would require a huge transfer of funds from Germany to the continent’s weaker economies and banks—a step that is opposed by the government, the central bank and broad layers of the business community. Rather than concede to the demands of the US and Britain, which are supported by beleaguered European economies such as Italy and Spain, Merkel made clear that Germany is prepared to forge ahead with a smaller core of countries in a “two-speed” Europe.

Thursday morning, prior to Cameron’s arrival, Merkel gave an interview on German television in which she declared that in response to the crisis, nations “in a currency union have to move closer together.” She continued, “We cannot just stop (the process) because one or the other doesn’t want to join in yet.”

While she did not name Britain, the target of her remarks was clear. Britain has not joined the euro zone and, at the start of this year, refused to agree to the strict fiscal rules drawn up by Berlin to be implemented across Europe. Merkel has repeatedly insisted that any acceptance of euro bonds by Germany is conditional on full acceptance of its fiscal pact. Her remarks were aimed at warning Britain that Germany did not depend on its cooperation in determining future European policy.

The German government also has differences with Britain and the US over the implementation of a nominal European tax on the banks that would create a modest pool of funds over the next few years. On Wednesday, the coalition headed by Merkel’s Christian Democratic Union (CDU) struck a deal with the opposition Social Democrats, who have made support for the government’s EU fiscal pact dependent on moving towards such a financial tax. For their part, the UK and the US reject any measures that might impinge on the leading role of the City of London and Wall Street in international financial markets.

The extent of the differences between Germany and the axis of London and Washington was revealed in an exchange between the chief economic columnist of the *Financial Times*, Martin Wolf, and Ludger Schuknecht, a leading official in the German Finance Ministry.

In a reply to a recent article in which Wolf criticized Berlin for over-emphasizing austerity and failing to take measures to prevent the collapse of the euro, Schuknecht rejected any “short-term measures.” He went on to rule out the creation of euro bonds, saying they would only make the situation worse.

Wolf, in turn, published a scathing rejoinder, warning: “It is often forgotten, not least in Germany, that the rise of Adolf Hitler to power was preceded not by the great inflation, which occurred a decade before, but by the great depression and the austerity of Heinrich Brüning, in response.” Wolf concluded by accusing Schuknecht of ignoring the dangers of the type of economic malaise that is enveloping Europe.

Merkel’s rebuff to Cameron and her airing of a two-track Europe reflect growing sentiments within the German financial and corporate elite. The Friday edition of *Handelsblatt* devotes six pages to an article complaining of the costs of European integration for Germany. The newspaper’s editor, Gabor Steingart, defends the German chancellor’s “cautious approach” to the crisis and urges her to take heart from the fact that she is not as isolated as it appears.

Steingart goes on to reject a Europe that lives at the expense of Germany and declares that proposals to use Germany’s tax reserves and the savings of its citizens (nearly 2 trillion euros) to bail out other countries constitute “a notion that can only harm Europe.”

In its page one lead article, the newspaper writes that the current crisis throws up “issues of historical importance,” and continues: “Should we rescue ourselves to death? Are the costs of rescuing the euro fair in relation to the costs involved in a possible reduction of the currency union to a healthy core?”

Merkel’s comments raising the possibility of a two-track Europe are similar to proposals put forward by Jörg Asmussen, the German board member of the European Central Bank. In a speech two weeks ago, he called for an accelerated process for integrating euro zone countries in a “banking union, fiscal union and political union.” In order to focus on this project, Asmussen proposed that the EU put on hold its expansion plans in the Balkans and Turkey.

While much attention is currently focused on the immediate problems of Spanish banks, they are just the tip of a much bigger iceberg. An editorial in the *Guardian* on Wednesday pointed out that the real issue is not merely insolvent banks in Spain or Ireland, but all of the financial markets of peripheral Europe, plus the major banks (of Germany, France and Austria) that lent to them. The editorial declared: “Forget austerity, fiscal unions, and inflation regimes at the ECB… the euro meltdown is primarily about how governments handle the wreckage in their financial sectors.”

Against the background of a financial meltdown requiring hundreds of billions in new bailout funds, influential business and financial circles in Germany are warning that the time has come to pull the ripcord. Berlin, they argue, must cease to be the paymaster of Europe and prepare for the breakup of Europe into a small core of northern nations dominated by Germany, with the rest left to their fate.

The fact that such a proposition is now being publicly discussed in Germany is an expression of the profound political crisis in Europe. Such a breakup, which could commence with the exit of Greece from the euro zone, would revive longstanding and unresolved historical issues. Where, for example, would France position itself in a divided Europe?

The proposals being aired by Berlin would, if carried out, immensely exacerbate tensions between Europe’s national elites, raising the danger of a Balkanisation of the continent and new military conflicts.

The working class of Europe must be mobilized on the basis of its own independent, international perspective to overthrow the reactionary institutions of the EU and the various national governments and replace them with the United Socialist States of Europe.