Bailout of Spanish banks will "tighten the austerity thumbscrew"

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Remarks by German Finance Minister Wolfgang Schäuble on Monday directly contradict assurances by Spanish Prime Minister Mariano Rajoy that there were "no strings attached" to last weekend's rescue deal for Spanish banks.

The bailout of Spanish banks was hastily agreed at an emergency telephone conference by euro zone finance ministers at the weekend in order to prevent a possible meltdown of the European banking system. The deal came after intense pressure was placed on the Spanish government by the US and European governments, the International Monetary Fund (IMF) and international banks.

Announcing the agreement, Rajoy was anxious to avoid the impression that the rescue represented a full-scale bailout. He declared that the agreement was a "victory for Spain" and gave "new credibility to the European project".

Initial media reports spoke of a "mini bailout" and stressed that the money for Spanish banks did not involve the type of stringent austerity measures and budget supervision laid down by the European Union and IMF as part of their €400 billion in loans to Greece, Ireland and Portugal.

Euro zone finance ministers declared that Spain had already "done its homework" in the form of "significant" fiscal and labour market reforms, and European stock markets responded positively at their opening on Monday. The euphoria was short-lived, however.

Stock markets lost most of their gains in the course of the day and the general opinion in the European press was that the measure had merely bought a limited amount of time for European leaders who are standing on the edge of an economic abyss.

Claims by the Rajoy government that there were no hidden strings to the EU loan were aimed at hoodwinking the Spanish public, which has taken to the streets in a series of mass demonstrations and protests against the austerity measures that have driven Spanish unemployment to record levels.

Rajoy's claims were promptly dashed by German Finance Minister Wolfgang Schäuble, who told German radio Monday that the Spanish deal would be subject to the same sort of strict supervision by the troika (European Central Bank, European Commission, International Monetary Fund) imposed on Greece, Ireland and Portugal.

A further dampener for Rajoy came from the Spanish daily *El Mundo*, which wrote in its Monday edition that the loan and interest payments of 1.8 billion euros a year "will oblige the government to tighten the austerity thumbscrew even further… One thing is for sure: no one lends 100 billion euros without demanding anything in return."

Full details of the conditions of the Spanish bailout have yet to be announced, but what is already known refutes the claims of those, such as Greek SYRIZA leader Alexis Tsipras, that it demonstrates the possibility of pressuring the European Union to water down its austerity policies.

The deal came after a series of meetings and announcements by international central banks last week in which each refused to take any action to alleviate the pressure on European banks. One after the other, the European Central Bank, the Bank of England and the US Federal Reserve declined to make any shift in policy.

At a press conference last Friday, US President Barack Obama called for "decisive" steps by European leaders "to stabilize their financial system [and] clear action as soon as possible to inject capital into weak

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banks".

This followed a telephone discussion with British Prime Minister David Cameron in which Obama urged Cameron to step up pressure on the German government to release extra funds to bail out European banks. Cameron traveled to Berlin on Thursday to communicate Obama's message.

The British prime minister was rebuffed by German Chancellor Angela Merkel, who told him there was no "magic bullet" to solve the crisis and intimated that she was prepared to contemplate a breakup of the European Union to defend German interests.

Obama's remarks on Friday were his answer to Merkel's refusal to take immediate action. The German government has repeatedly called upon the Spanish government to accept EU money for its banks, but only on condition that it accept the type of conditions Berlin has linked to previous bailouts, i.e., drastic austerity measures and the transfer of national budgetary powers to Brussels.

The pressure to free up more money to the banks received additional backing from the IMF, rating agencies and international banks.

On Friday, the head of the International Monetary Fund, Christine Lagarde, urged action to resolve the European crisis, but made clear that the IMF would not contribute financially to a bailout package. Lagarde spoke the same day the IMF released a report detailing the extent of the indebtedness of Spanish banks. The report was released three days ahead of schedule to pressure euro zone ministers to reach an agreement before financial markets opened Monday.

A political factor leading to the weekend agreement is the elections next Sunday in France and Greece. The European bourgeoisie is worried that a massive anti-austerity vote in both elections—particularly in Greece—could lead the current "slow run" on European banks to turn into a rout.

The latest figures from a number of European countries reveal an intensification of the trend toward recession across the continent.

On Monday, the statistics office Insee revealed that French manufacturing production fell 0.7 percent in April from March. Especially hard hit sectors of the French economy were the auto and metalworking sectors.

Also on Monday, the Rome-based statistics institute Istat reported that Italy's economy shrank by 0.8 percent in the first quarter.

Data released Friday showed that Greece's economy shrank further in the first three months of 2012 and is expected to contract by over 5 percent this year. Greece is already in its fifth year of recession due to the austerity measures demanded by the EU and IMF in return for its 130 billion euro rescue package.

The Greek jobless rate hit a new record of 21.9 percent in March, placing the country closely behind Spain, where unemployment has reached 24.4 percent.

The only European country to register significant growth is Germany, but according to figures released Friday by the Federal Statistical Office, German exports are declining markedly as European markets dry up. German exports to euro zone countries fell by 3.6 percent in April, alongside a slowdown in demand from China and India. The German automobile industry registered a 13 percent drop in exports in May compared to the same month in 2011.

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