Euro zone finance ministers demand more austerity

Stefan Steinberg
11 July 2012

Euro zone finance ministers meeting July 9 in Brussels called for the implementation of more austerity measures in response to the growing European economic crisis. The meeting decided to supply Spain with part of the 100 billion euro loan to bail out Spanish banks agreed at the last European Union summit, held last month. The interim loan, however, is conditional on the Spanish government making more budget cuts.

At a briefing after the finance ministers' meeting, EU Economic and Monetary Affairs Commissioner Olli Rehn told the press that it was essential for Spain to take further measures toward fiscal consolidation. "And I would expect additional measures to be taken rather soon," he stressed.

Rehn made his demand for more austerity despite the fact that Spanish Prime Minister Mariano Rajoy had announced new budget cuts just last Saturday.

The proposal for fresh austerity measures for Spain comes hard on the heels of similar announcements by the Italian, French and Greek governments. As the European crisis increasingly impacts world trade and financial markets, individual European governments and the European Union are intent on intensifying austerity policies and ensuring that the working class carries the full burden.

While there is agreement between Paris, Berlin and Rome on imposing austerity, there is growing disunity between the European states about which nations should bear the most financial risk to ensure the refinancing of Europe's ailing banking system.

The EU summit held at the end of June was marked by profound disagreements over proposals to fund Spain. Germany insisted that any deal to assist Spanish banks should not be dependent on spreading the debt risk among European states, with the largest share falling on Germany. France lined up with Spain and Italy to force the German chancellor to make concessions on this point.

The conflict reemerged at Monday's meeting of finance ministers. Prior to the meeting, Spanish PM Rajoy had stressed that immediate action was necessary, declaring: "It's time to go from words to deeds. Europe must comply as quickly as possible… The European project is at stake."

For his part, German Finance Minister Wolfgang Schäuble made clear that the deal struck Monday to award Spain 30 billion of a promised 100 billion euros was dependent on agreement by the German parliament. "It must be made clear that nothing is going to happen quickly," Schäuble told the press after the meeting

Disagreements also arose on a second item on the agenda, a replacement for euro group head, Jean Claude Juncker, who has long made it clear he wishes to vacate the position. The German government proposed Schäuble, while France insisted on its own finance minister filling the key position. Unable to agree on a common candidate, the meeting decided Juncker had to stay at his post for the time being.

After the EU summit on June 29, European leaders had gone to some lengths to play down their differences. German Chancellor Angela Merkel traveled to Rome last week and then to France to share photo ops with Italian Prime Minister Mario Monti and the new French president, Francois Hollande.

The shows of harmony, however, cannot mask the increasing economic divide. Despite all the measures to prop up European banks, including the decision last week by the European Central Bank to drop its key interest rate to a record low 0.75 percent, the financial markets continue to press for fresh injections of cash.

The euro has continued to lose value against other currencies while interest rates on Spanish and Italian government bonds have once again reached the danger level of seven percent.

At the same time, the yields for German bonds on

Monday dropped below zero. Investors were prepared to pay a premium for the privilege of lending money to the German state, since German government bonds are increasingly regarded as a safe haven.

These widening financial disparities within Europe were briefly addressed by European Central Bank President Mario Draghi last week when he announced a new injection of funds into the banks. Acknowledging the limited effect of previous disbursals of cheap credit to the euro zone banking system, Draghi declared, “It is not clear that such measures can be effective in a highly fragmented area.”

Commenting on the high level of yields being demanded for Italian bonds, Prime Minister Monti blamed northern European countries. During a visit to France, he said, “Spreads have widened again because of several factors…including some inappropriate comments from political authorities, notably from Nordic countries.” His comments were directed against the Finnish finance minister and the Dutch central bank chief, who had lined up with Germany and spoken out against spreading financial risk among euro zone states.

Meanwhile, there is a growing lobby in Germany calling upon the government to reject any further moves towards European integration. Last Thursday, 160 German economists, led by the head of the influential Ifo institute, Hans-Werner Sinn, published an open letter in which they pointed out the dangers to the German economy of its existing exposure to European debt and warned against any further investment.

In a parallel development, nationalist political lobbies are attempting to torpedo German involvement in Europe by lodging a series of cases with the German Constitutional Court claiming that the European funding mechanisms are incompatible with the German constitution. On Tuesday, the Constitutional Court began its deliberations on a series of such claims.