EU summit measures mean deeper attacks on the working class

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The agreement reached at the European Union summit on Friday averted the immediate prospect of a meltdown of the banking system. However, it set in place measures that will see a further intensification of attacks on the social position of the working class across the continent.

Under pressure from Spain and Italy, supported by France, Germany agreed to a proposal that would allow the EU bailout fund to pump money directly into Spanish and Italian banks rather then lend the money to their governments, which would then make the funds available to the banks. In return for this concession, the summit decided that a joint bank supervisor for the euro zone would be established to replace the existing network of national regulators. The heads of government pledged to reach such an agreement by the end of the year.

German Chancellor Angela Merkel backed down from her insistence on maintaining the previous policy after warnings that failure to reach an agreement and the emergence of an open split could have led to a collapse of world stock markets, a run on European banks, and a speculative assault on the euro.

In essence, the summit took emergency steps to buy time while the EU and its constituent governments press ahead with their austerity programs. The main message was that there would be no retreat from the anti-working class offensive against jobs, wages and social services. This was underscored by the agreement to centralize euro zone banking regulation, a move that will further concentrate the power of the banks and their control over economic and social policy.

The record of the discussions between Merkel and Italian Prime Minister Mario Monti, who led the push for the change in bank bailout rules, are not available, but reports suggest the Italian leader made clear that if a deal was not reached, the crisis would very quickly spread from the banking systems of Italy and Spain to Germany. Thus, the financial equivalent of the old cold war principle of “mutually assured destruction” was employed in the heart of the euro zone.

Washington also pressed strongly for Germany to accede to rule changes speeding up the flow of public funds to the banks. The combination of spreading recession and financial turmoil in Europe is increasingly impacting the US and world economy.

Merkel had previously opposed the injection of EU bailout funds directly into the banks on the grounds that a government guarantee would be the best way of protecting German finances. However, this led to a situation where the most indebted governments were being bound ever more closely to the weakest banks, creating more instability for the entire financial system.

The significance of this issue was underscored by the post-summit communiqué, which began: “We affirm that it is imperative to break the vicious circle between banks and sovereigns.”

While the immediate press reaction was that Germany had blinked and there might be some softening of the austerity measures it has demanded, the upshot of the agreement is likely to be an even stronger enforcement of the attacks on social spending by means of the all-European supervisor. In practice, this will mean not just closer bank regulation, but also tighter control over government fiscal policies.

This assessment appears to be behind the immediate reaction of the markets. Friday’s rebound on European markets marked the biggest one-day gains so far this year for blue-chip stocks, with money also going into government bonds. Markets in the US also recorded gains of between 2 and 3 percent. Press reports noted the positive response of the financial markets to the appointment of an overall supervisor.

The reaffirmation of austerity policies was underscored Friday by the German parliament's one-sided vote, with the opposition Social Democrats supporting Merkel, to back the EU fiscal pact, which is aimed at imposing spending cuts across Europe.

The pact is seen as setting up a permanent mechanism for inflicting spending cuts, rather than having such measures imposed through the kind of protracted negotiations that took place over the Greek austerity program. This is the main reason why Spain and Italy were not forced to adopt new austerity measures in return for the provision of funds for their banking systems. In place of ad hoc negotiations on cuts, the fiscal pact provides a framework for brutal austerity measures to be carried out as an ongoing process.

After the summit meeting, both Merkel and European Central Bank President Mario Draghi warned that access to funds would come with "strict conditionality"—shorthand for cuts in wages and pensions and "structural reforms" aimed at the destruction of jobs, speedup and privatization.

While the financial markets received a short-term boost by the announcement and may even remain buoyed by the deal, no one believes that a long-term solution has been set in place. There are major concerns that the European Stability Mechanism (ESM), which has €500 billion at its disposal, has nowhere near the funds needed to cover the debts of both Spain and Italy. There are considerable doubts as to whether it even has enough to repair the crisis-ridden Spanish banking system.

Significantly, there was no move to increase ESM funding in the face of intransigent German opposition. As *Financial Times* commentator Wolfgang Münchau noted in a column posted today, Germany's commitments under the ESM remain the same as before Friday's agreement. "Some will have to explain to me," he wrote, "how we can have no change to Germany's overall liabilities, nor of ECB [European Central Bank] policies, and yet Italy and Spain can now be safe when they were not safe a week ago."

Merkel emphasised her opposition to the provision of further German funds when she told the parliament last week that there would be no euro zone bonds "for as long as I live."

These remarks, made in the face of widespread support for such measures among other leading members of the euro zone, point to the fact that notwithstanding the agreement at Friday's summit, the divisions among the major powers are widening. They have no unified response to the crisis, let alone a solution, other than deepening attacks on the social position of the working class.

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