

# Behind the mounting conflicts in the EU

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Although most governments and parliaments are on their summer break, a fierce dispute over the future of the euro is raging between the European capitals.

Italian Prime Minister Mario Monti is on a European tour promoting the unlimited extension of the European Stability Mechanism (ESM) euro rescue fund. He has French President François Hollande's support, but faces strong resistance from Germany.

The volume of the ESM is currently limited to €500 billion, for which the member states of the euro zone are liable. The June 29 European Union (EU) summit decided to provide ESM funds directly to the banks and not just to governments, as was previously the case. This was designed to allow for a direct bailout of individual Spanish banks without bailing out the Spanish government, which might overwhelm the ESM's €500 billion limit.

However, although the summit made €100 billion available for the ailing Spanish banks, the financial markets were not satisfied. The interest rates for Spanish and Italian bonds soon rose to new record highs.

Monti and Hollande now want to provide the ESM with a banking license. The ESM would then be like a commercial bank, able to take out loans from the European Central Bank and buy up government bonds on the market. These bonds would have to be lodged with the European Central Bank as security. The ESM would thus serve as a conduit for essentially unlimited amounts of money printed by the European Central Bank to bail out banks or governments.

Such a step would neither halt nor slow down the austerity measures that have plunged much of the Greek and Spanish populations into misery. The proponents of a banking license for the ESM have stressed that the purchase of government bonds by the ESM would be bound up with strict demands for new austerity measures.

This is actually the real reason for plans to involve the ESM. Unlike the ESM, whose actions must be unanimously agreed by the euro finance ministers, the European Central Bank cannot dictate austerity measures to the governments concerned. The ESM as envisaged by Hollande and Monti would be an agency to funnel trillions into the coffers of the banks while dictating trillions of cuts against the working class.

It is no coincidence that this is also supported by the US and British governments, whose financial sectors would be severely affected by the bankruptcy of a euro zone country.

In Germany, however, the proposal has met with fierce opposition. The leader of the Free Democratic Party (FDP) in the government coalition, Rainer Brüderle, has described it as an "inflationary suicide mission".

Berlin is afraid of being drawn even deeper into the vortex of the financial crisis if it agrees to a further expansion of the ESM. Although German business has benefited from the euro like no other, it is opposed to all financial activities that benefit other countries, and instead insists on draconian austerity programmes, even if they provoke a complete social and economic collapse in Europe, starting with Greece and Spain.

Nationalist voices are increasing in the German media calling for the expulsion of Greece and other highly indebted countries from the euro zone, or the formation of a northern currency bloc under German domination.

Most of German big business still shrinks from such steps. In particular, the representatives of the export industries fear a break-up of the euro.

Chancellor Angela Merkel and Finance Minister Wolfgang Schäuble have therefore indicated the possibility of further concessions after US Treasury Secretary Timothy Geithner flew to Europe to speak with Schäuble and European Central Bank President Mario Draghi. However, this could blow up Merkel's

government coalition, in which the opponents of inflationary policies clash ever more openly with their advocates.

The dispute over the ESM recalls the proverbial fight over how to divide up the fur of a bear which has not yet been killed. Although the ESM should come into force this month, Germany has not yet ratified it. It is being blocked by the Supreme Court, which will decide only on September 12 whether it complies with the German constitution.

The sharpness of the tensions between the European governments was seen at the weekend in several interviews given by senior politicians, who insulted one another, eschewing all diplomatic restraint.

On Monday, in the *Süddeutsche Zeitung*, Luxembourg's prime minister, Jean-Claude Juncker, accused Germany of treating "the euro zone as a branch office". European integration was "a very fragile affair," he warned. He then added: "Resentments thought forgotten are swimming very close to the surface. More than 60 years after the Second World War, they are not miles away, but only inches below the surface."

German politicians wasted no time in replying. Christian Social Union (CSU) General Secretary Alexander Dobrindt described Juncker's remarks as "unsurpassed impertinence" and suggested that Juncker consider resigning.

The conflicts between European governments go hand in hand with new attacks on the working class. On this issue, the ruling class of Europe is united.

In June, the unemployment rate in the euro zone reached a record 11.2 percent, with 17.8 million workers unemployed and workers' living standards collapsing due to unemployment, austerity and rising inflation. In Spain, turnover in retail trade fell by 5.2 percent in one year, in Greece it declined by as much as 8.8 percent. Even in Germany, retail sales have declined continuously over the past three months. Six euro countries are officially in recession.

The EU serves the ruling class as a forum to sort out their differences at the expense of the working class. It is the main instrument for the subjugation of Europe to the dictates of the financial markets. It cannot be reformed, but must be abolished and replaced by the United Socialist States of Europe.

The working class can defend its rights and social

gains only when it is organized independently of all wings of the ruling class. Workers must unite throughout Europe and fight for a socialist programme for the establishment of workers' governments to expropriate the banks and corporations and organize the economy according to social need, rather than the demands of the financial aristocracy.

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