German-French tensions dominate European Union summit

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In recent years it has been the practice for the German chancellor and French president to meet two or three days before a European Union summit to clear up any differences and agree on a common line. However, things were different prior to the summit that took place Thursday and Friday in Brussels.

On Thursday, six European newspapers published an interview with President François Hollande in which he sharply attacked Chancellor Angela Merkel, without directly naming her. In a government statement to the German parliament (Bundestag), Merkel retaliated in a similar manner.

The public clash between Merkel and Hollande is symptomatic of growing tensions within the European Union. Berlin and Paris are agreed that the euro be retained and European institutions strengthened. They also agree that this should be carried out at the expense of the working class—through the gutting of laws and regulations restricting labour "flexibility," the lowering of wages, and the cutting of social expenditures. However, there are sharp differences regarding the ways and means for achieving these goals and, above all, whose banks and corporations are to bear the greatest cost burden.

The German government has refused to take on the debts of other countries. It is insisting that they first implement severe austerity measures and submit to strict oversight by the EU. Only when these conditions have been fulfilled is Berlin ready to participate in mutual financial measures. France, on the other hand, is demanding that common steps to restructure the banks and lower interest rates on the bonds of highly indebted countries be taken immediately, while rejecting European control over national budgets.

Two days before the summit, German Finance Minister Wolfgang Schäuble proposed to establish a sort of super commissioner for austerity in Brussels, who would have veto rights over national budgets. (See: "German Finance Minister Schäuble calls for a commissioner for austerity") Although Schäuble's proposal was flatly rejected by Paris and other capitals, Merkel supported it in the Bundestag.

In his interview, Hollande spoke energetically in favour of euro bonds, which Berlin has repeatedly rejected. "It is impermissible that in a common currency area some countries are financed at an interest rate of 1 percent and others at 7 percent," he said. In her speech to the Bundestag, Merkel called this a "false answer."

Although his government only recently ratified the European fiscal pact and has agreed to drastic cost-cutting measures, the French president likes to present himself as an opponent of German-backed austerity and as a proponent of Europe's "integration in solidarity." He declared, "The recession threatens us today just like the deficit", and added, "It is France's task to tirelessly tell our partners that there are alternatives to a policy of austerity."

Merkel reacted by proposing a new European investment fund. With this, Germany was bringing a "new element of solidarity" into the discussion, she claimed. This fund would be financed through an as yet nonexistent financial transaction tax.

Merkel is seizing on a proposal by EU Council President Herman Van Rompuy for a fund to ameliorate economic differences and social hardship and seeking to turn it into something very different. She wants to use the fund to force other countries to implement structural reforms—i.e., the abrogation of workers' rights. Only countries that contractually agreed to improve their competitiveness would be eligible for support.

The conflict between Merkel and Hollande climaxed at the summit itself over the question of a banking union, on which the heads of state had already agreed over the summer.

Hollande insisted that the planned European-wide banking supervisory body take up its work on January 1,

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2013. A functioning European banking supervision system is the precondition for stricken banks to receive direct support from the European Stability Mechanism (ESM), the euro rescue fund, without governments having to meet attached demands. In particular Spain, whose banks are in deep crisis, is pushing for its banks to receive direct support from the ESM.

Merkel, on the other hand, is seeking to delay the new banking supervision plan. She has justified this by talking of the primacy of thoroughness over speed, arguing that the launching of such a complex mechanism would require several months. However, it is an open secret that the German government only reluctantly accepted direct financing of banks by the ESM and wants to delay its implementation until after the German federal elections in September 2013.

Early Friday morning, the summit participants finally agreed on a compromise that papered over, but did not resolve, the differences. Merkel instructed her finance minister to work out the legal framework for the banking supervision body by January 1, 2013, thus meeting Hollande’s desired deadline. The body is to function under the umbrella of the European Central Bank and begin its work “in the course of 2013.”

How long it will take to actually establish a functioning body is viewed quite differently on opposite sides of the Rhine. France assumes it will take a few weeks, Germany sees it taking from six to twelve months.

The bank supervision body, whose precise form and tasks remain in dispute, is only one step on the road to the planned banking union. Further steps, over which there are also disagreements, include a European bank deposit protection scheme and a common fund to wind up insolvent banks.

The summit made clear that there is no prospect of a lessening of conflicts within the EU or of a resolution to the euro crisis.

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