European Central Bank chief Draghi reassures German parliament: Austerity will continue

Alex Lantier
26 October 2012

On Wednesday, European Central Bank (ECB) chief Mario Draghi held an extraordinary two-hour, closed-door meeting with the Bundestag on ECB bailouts of European bond markets. His visit aimed to reassure the German bourgeoisie that the ECB's trillion-euro handouts to the banks will not halt budget cuts, austerity policies, and attacks on workers' social rights.

According to Draghi's prepared opening statement, posted on the ECB web site, he traveled to Berlin to assuage politicians' concerns about so-called "Outright Monetary Transactions" (OMTs), announced early last month by the ECB. The OMT program follows a similar €1trillion (US$1.3 trillion) ECB bailout package organized in December 2011-January 2012, and a €440 billion package in the summer of 2009.

In the OMT program, the ECB promised to provide unlimited amounts of money to purchase European state debt from private banks—thus lowering interest rates in countries such as Greece or Spain, whose debt the banks targeted for speculation. The ECB's rapid extension of massive loans is key to various plans discussed at last weekend's European summit for up a "banking union" to prop up Europe's banking sector.

German politicians have objected to this policy, pointing to the inflationary implications of increasing the quantity of money in circulation, calling instead for deeper austerity policies to balance national budgets across Europe. Jens Weidemann, Germany's representative at the ECB, apparently voted against the OMT program and threatened to resign over it.

Alexander Dobrindt of the Bavarian Christian Social Union (CSU), a coalition partner in German Chancellor Angela Merkel's right-wing government, publicly denounced Draghi before the meeting as a "money forger." He did not attend Draghi's speech at the Bundestag.

After noting that it was highly unusual for an ECB chief to speak to a national parliament rather than to the European parliament, Draghi's statement sought to address Berlin's concerns.

He promised that the OMT program would not lead to any let-up in attacks on the working class, but might limit a rapidly developing economic downturn by restoring access to credit cut off by the European debt crisis.

He indicated that the surging interest rates in countries hit by the euro crisis are sinking the European economy: "In an economy like the euro area, where about three quarters of firms' financing comes from the banks, this [rise in interest rates] has very severe consequences for the real economy, investment and employment … Banks and governments were being forced to pay even higher rates. And credit and economic growth were falling further, leading to rising unemployment and reduced consumption and investment."

Yesterday the ECB reported a 1.7 percent year-on-year contraction in bank lending to non-bank businesses. This follows a 0.2 percent contraction of the European economy in the last quarter, and sharply negative figures for October purchasing managers' indices (PMI) for manufacturing and services in Germany and France—48.1 and 44.8, respectively. PMI figures below 50 indicate contraction.

As deepening slump, ongoing social cuts, and record joblessness put continuous downward pressure on wages and prices, Draghi noted, "we see no signs that our [OMT] announcement has affected inflation expectations. They continue to be firmly anchored.”

Draghi made clear, however, that the ECB would watch closely to ensure that its OMT funding did not lead to any shift away from austerity policies.

He said that the ECB would only extend loans if governments met “conditionalities”—i.e., if they made the type of devastating social cuts the ECB and the European Union (EU) have imposed on Greece. He explained, “We have been very clear that each time a program starts being reviewed, we will routinely suspend operations and resume them only if the review has been concluded positively.”

That is, should any government fail to follow the ECB’s reactionary dictates, Draghi will rapidly move to cease buying its debts, threatening to trigger a financial panic that will cut off its access to credit and bankrupt its economy.

Draghi’s plans underscore the bankruptcy of capitalism in Europe. As the economy collapses, financiers and politicians continue to push for attacks on wages and living conditions that only intensify the slump, while giving massive cash handouts to the bankers whose recklessness led to the crisis. Trillions of euros slosh around inside the banks, but workers are told that there is no money for basic social needs.

The official debate on social and economic policy in Europe proceeds within narrow, deeply reactionary limits. While the conservative German government presses for deeper spending cuts, forces that called for the ECB to adopt a looser monetary policy, like the Greek petty-bourgeois “left” party SYRIZA or France’s ruling Socialist Party, do not ultimately disagree with demands for social cuts. They only hope to secure enough bailout cash that continuing cuts do not undermine their country’s banks or lead to an uncontrolled economic collapse.

Deep popular sentiment against austerity throughout Europe—which led to the election of French President François Hollande and a strong vote for SYRIZA—has been drawn into a blind alley and is completely disenfranchised.

Instead, new austerity programs are being implemented throughout Europe. Greece is pushing through yet another series of cuts worth €13.5 billion, while the French PS government has made €30 billion in state budget cuts and is planning similar-sized cuts in social security. Spain has forced through four austerity packages this year, totaling €122 billion in cuts.

Under these conditions, EU threats to immediately expel Greece from the euro zone have ended, at least for the time being, and reactionary deals are being worked out between the major European powers.

German officials largely approved Draghi’s remarks in the closed-door session. Green Party budget expert Priska Hinz said, “Mr. Draghi has made clear that bond purchases can only take place under certain conditions. We will want to know what kind of aid program and conditionality he sees as prerequisites.”

Otto Fricke from the free-market Free Democratic Party said, “He really took time to explain a lot of things. OK, he may not have convinced everyone. But people have something to think about. And as good as his explanations were about why OMT will not lead to inflation, whether he is right or not, will be shown by events.”