EU summit: Berlin calls for stricter budgetary discipline

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Just two days after the establishment of a new grand coalition government in Berlin, consisting of the Christian Democratic Union (CDU), Christian Social Union (CSU) and Social Democratic Party (SPD), Chancellor Angela Merkel of the CDU attended a European Union summit in Brussels. Together with her foreign minister, Frank-Walter Steinmeier of the SPD, she made clear that the new German government would demand that the European Union oversee a continuation and intensification of the antisocial austerity policies that had been promoted by its predecessor.

Since many EU decisions had been postponed until after the formation of a new government in Germany, last week's EU summit had a full agenda. In addition to pledging further "reforms" in economic policy, the summit presided over negotiations for a European banking union and closer collaboration in foreign and security policy.

The new German grand coalition, which enjoys an overwhelming parliamentary majority, was even more aggressive in its posture toward the EU than the government it replaced, stoking conflicts with France and Britain and heightened tensions within the EU as a whole.

Last Wednesday, in her first government statement since her reelection as chancellor, Merkel declared that the European Union had to be made more crisis-proof. EU member states had to "pledge themselves to binding reforms," she decreed.

Merkel said new agreements between member states and the EU Commission, the executive arm of the European Union, had to include far-reaching "reforms" of the labour market, education, research and innovation, public administration and the social security system.

She insisted that the European governments agree to binding treaties with the EU Commission enshrining massive social cuts. These obligations to "reform" would be subject to intrusive oversight by the EU Commission. Only after having been evaluated and approved by the European Commission would member states be eligible to receive financial aid.

In an attempt to make such binding agreements appear less onerous, Merkel spoke in Brussels of "reform partnerships" and a "caring society." In reality, her proposals signify the extension to the whole of Europe of the austerity measures that have resulted in a social catastrophe for the broad masses of the population of Greece. In the name of preserving "competitiveness," all that remains of the European welfare state is to be destroyed, while the ranks of European multimillionaires and billionaires are enlarged.

Merkel's proposals for greater centralization of power in Brussels met with resistance at the summit. The majority of the heads of state and government insisted that decision-making regarding economic and social policy remain with national governments. As a result, the time frame for working out "bilateral reform agreements" was extended from June 2014 to October 2014.

In the German media, this postponement was described as a "blow to Merkel" (*Süddeutsche Zeitung*). But at her Brussels press conference, the chancellor was relaxed. More important than the time frame, she said, was the view of all participants that "comprehensive reform" of the labour market and education and welfare was unavoidable. She added that those who did not yet grasp the necessity and urgency of the adjustments being demanded, or shied away from the difficulties in implementing them, would soon be convinced otherwise by economic facts.

A reader's letter in the *Süddeutsche Zeitung* summed up Merkel's Brussels diktats as follows: "It is quite clear where the 'reform agreements' demanded by Merkel will lead—Hartz IV throughout Europe." Here the reader referred to the draconian counter-reforms of the labour market and welfare system in Germany implemented first under Gerhard Schröder's SPD-Green government, and then under succeeding CDU-led coalitions.

Other items on the summit agenda also led to conflicts. German Finance Minister Wolfgang Schäuble (CDU), who remains at that post in the new government, traveled to Brussels in advance of the summit to push through Germany's position on the establishment of a banking union.

The question of forming a European Banking Union has a long history. It has been under discussion since the 2008 financial crisis. However, which banks would be monitored on a pan-European basis, and who would be held liable in the event of bankruptcy, has always been highly controversial. While the German government fundamentally supports a banking union, it wants to limit it to a few hundred large banks and prevent German banks and the German state from being forced to bankroll bailouts of banks in other countries.

In 2011, the European System of Financial Supervisors was founded, with responsibility for the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA). However, the competence of these European authorities is limited to creating uniform supervisory standards, while oversight of the banks remains primarily the responsibility of the national regulatory bodies of the individual states.

Eighteen months ago, when the banking crisis intensified in Spain and several leading finance houses in Madrid faced collapse, some European countries, together with EU Commission President Manuel Barroso, organised a coup. Without prior consultation with Germany, they implemented a summit decision enabling banks to secure financial aid directly from the European Stability Mechanism (ESM), so long as a banking supervision system had been established with the participation of the European Central Bank (ECB). The summit charged the European Commission with proposing an appropriate mechanism.

In financial and economic circles in Germany, this decision was regarded as a step towards "collective liability for the debts of the banks of the euro system" and broadly opposed. A statement from over 200 economists declared that the decision of the EU summit was fundamentally wrong and called for it to be reversed. The "sound countries of Europe" should not be held responsible for securing the bank debt of the "crisis countries," they insisted.

Since then, Finance Minister Schäuble has blocked every EU initiative in the direction of a "liability union," i.e., an automatic financial commitment by the EU to rescue crisis-ridden banks. Instead, he has demanded that every financial emergency be used first to implement drastic austerity measures.

At last week's summit, Schäuble was able to ensure that German interests largely prevailed. When he appeared before the press on Thursday evening, he said with marked cynicism that it was clear to him that some of his European colleagues "could no longer look me in the face." Nevertheless, he made clear, he had no intention of backing down.

The decision taken by the summit postpones all measures to 2016. That is the earliest date when a bank rescue system, based on a uniform set of rules and regulations to wind up insolvent banks, would begin to function. The system is to cover all 6,000 banks in the euro zone, but only the largest 128 institutions are to be directly affected.

The banks will be obliged to create a resolution fund of €55 billion. After 2016, if a bank becomes insolvent, the shareholders and creditors will be expected to pay first, then the national government, and finally the resolution fund.

European Parliament President Martin Schulz (SPD) criticized both the time frame of the proposal and the size of the resolution fund, calling the latter totally inadequate. He announced the parliament's opposition. "One either establishes a proper banking union, or none at all," he said in a speech to government leaders.

There was also a collision of views in relation to a common foreign and security policy. When French President François Hollande called for European financial support for his war effort in the Central African Republic, Merkel gruffly refused. "We cannot fund military missions where we are not involved in the decision-making process," she declared.

Merkel made clear that in the future she expected France to behave differently. It was not enough to obtain a UN Security Council resolution and then simply proceed, she said. One had to obtain the agreement of EU partners if one wanted Europe to share responsibility.

There was unity on the question of strengthening Europe's military power. But here too, national contradictions emerged in relation to the details and, above all, the question of finance. The summit document speaks only vaguely of the tasks before the EU institutions. There is to be collaboration in the development of drones between 2020 and 2025, but unresolved is the issue of whether this applies to nationally owned or European-owned drones.

Cooperation was agreed concerning air-to-air refueling, satellite communications, and cyber security, but no details were forthcoming.

On one question, however, the summit participants were unanimous. In a joint statement, they reaffirmed their support for the opposition in Ukraine, even though there are extreme right-wing and openly fascist organisations in the leadership of this movement.