European Union finance ministers insist on more austerity

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European finance ministers met Monday, just hours after Italy's Prime Minister Matteo Renzi tendered his resignation, having seen his proposed constitutional reforms decisively rejected in Sunday's referendum.

In addition to the authoritarian nature of Renzi's reforms, his defeat was also shaped by popular hostility to the austerity measures he has sought to impose in Italy in league with the European Union (EU). Nonetheless, the finance ministers gathered in Brussels made clear there would be no retreat from this agenda.

The main item on the table was to complete a second review of Greece's bailout programme, to enable the EU, European Central Bank and the International Monetary Fund (IMF)—the Troika—to sign off on the next tranche of funding, which is expected to eventually total €86 billion. No agreement could be reached, however.

Greece had sought reductions in the 3.5 percent primary surplus target that it is expected to run after 2018, and some debt relief. The IMF agrees that the primary surplus target is unrealistic and has urged loosening the terms on Greece's debt payments in return for Athens imposing an extra €4.2 billion in austerity savings and further labour reforms, including abolishing collective bargaining and making it easier to sack workers.

While supporting the labour reforms, Germany and the Netherlands in particular are opposed to any debt relief measures. There are elections next year in both countries, as well as France, all contested strongly by anti-EU parties like the Alternative for Germany, Geert Wilders' Party for Freedom and the National Front of Marine Le Pen.

Prior to the meeting, German Finance Minister Wolfgang Schaüble threatened Athens that if it wished to remain in the euro, it would have to deliver. Debt forgiveness would "not help Greece," he said. "Athens must finally carry out the necessary reforms. If Greece wants to stay in the euro, there is no way past that—completely independently of the debt level."

Germany and the Netherlands also insist that no EU funds will be forthcoming for Greece, unless the IMF is on board.

In the end, a discussion on the future of the bailout programme was postponed and the meeting agreed only minor and limited changes on debt repayment. This includes extending the timeframe by which Greece has to repay existing loans from 28 to 32.5 years, which will raise the interest rate. This "relief" will mean that, by 2060, Greece will have only achieved a 20 percent reduction in its debt-to-GDP ratio.

Greece has already been reduced to penury after seven years of austerity. The official poverty rate is 35.7 percent, but in fact it is far higher, while youth unemployment is at 50 percent. According to reports, many Greek businesses have gone bust or moved to countries with low tax levels, such as Bulgaria, where corporation tax is just 10 percent. The number of Greek-owned businesses that are registered in Bulgaria has risen from 2,000 in 2010 to 17,000 today.

The central role in imposing EU austerity diktats has been played by Prime Minister Alexis Tsipras and his pseudo-left Syriza coalition. Syriza won election in January 2015 promising to overturn austerity. In June 2015, the government received a massive 61 percent mandate to oppose the EU and reject the bailout conditions in a referendum. Within weeks, Tsipras had betrayed that mandate and was imposing even more draconian austerity measures than his conservative predecessor. Syriza is now deeply unpopular, languishing in the low 20s in opinion polls.

Tsipras had warned that any failure in agreement could lead to new elections, while Greek Finance Minister Euclid Tsakalotos cautioned after Monday's meeting, "There should be no demands on Greece that do not take into account ... the current political and social situation."

EU foreign ministers reacted with contempt and hostility to such concerns. Speaking after the meeting, Schaüble said, "I think for Greece it is realistic that they should carry out reforms to make themselves competitive ... For Greece it is a long, hard road." Eurogroup president Jeroen Dijsselbloem said that "more work has to be done" and the troika would "stand ready to return to Athens to work on it."

The finance ministers also rejected setting targets for fiscal stimulus in the eurozone. In November, the European Commission—concerned at rising anti-EU sentiment—proposed a fiscal expansion of up to 0.5 percent of GDP next year. While the meeting agreed vaguely that countries with the highest budget surpluses—Germany, the Netherlands and Luxembourg—should spend more, the ministers ruled out setting a figure.

Concerns over the implications for Europe of the developing crisis in Italy were simply brushed aside. The mantra was that Renzi's defeat is a domestic problem and that the government would somehow proceed with the EU's austerity agenda anyway.

Schaüble said, "There is no reason to talk of a euro crisis and there is certainly no reason to conjure one up," while France's Finance Minister Michel Sapin said the referendum "is a question of internal politics. The referendum wasn't about Europe."

Jean Asselborn, Luxembourg's foreign minister, said that the result was a "domestic political argument ... Italy voted on a reform. It would be wrong to extrapolate that now to the European level."

Dijsselbloem said Renzi's defeat "doesn't really change the situation economically in Italy or in the Italian banks. It doesn't seem to require any emergency steps."

Such statements are absurd. In the last months, the EU has suffered the UK's vote to leave the EU and now, in the US, faces President-elect Donald Trump, whose threats to undermine the NATO alliance between America and Western Europe have shaken European politics to its core.

Italy is the third domino to fall. Its economy has shrunk by 12 percent since 2008, and industrial production is down by more than 25 percent. Youth unemployment is at 40 percent, and poverty levels are on a par with Greece. The third-largest economy in Europe, Italy's debt-to-GDP ratio is second only to Greece, at 133 percent. Its banking system is insolvent, loaded down with €360 billion in bad loans.

Italy's Finance Minister, Pier Carlo Padoan, could not participate in Monday's meeting because he was involved in emergency talks on a €5 billion rescue plan for the world's oldest bank, Monte dei Paschi di Siena, to avoid bankruptcy at the end of the month. Uncertainty over Renzi's successor means that it is not clear that investors—which include the Qatar Investment Authority—will go ahead with the recapitalisation.

More broadly, there is concern that Italy could be tipped into an early general election that would be to the advantage of the Five Star Movement, which has said it will push for a referendum on EU membership.

In contrast to the EU leaders, many corporate and political commentators are warning on the dangers of Italian contagion, with the Centre for Economics and Business Research (CEBR) predicting there was now a less than 30 percent chance of Italy remaining in the eurozone.

In Britain's *Financial Times*, Gideon Rachman warned, "Renzi's defeat could endanger the euro and risk a financial crisis." Prior to the result, on November 27, he had already expressed his concern over the political impact of the response of the EU states and their ruling elites to growing oppositional sentiment across the continent, comparing it to the *ancien regime* before the French Revolution.

"The Bourbons were hard to beat as the quintessential out-of-touch establishment," he wrote. "They have competition now…A Bourbon regent, in an uncharacteristic moment of reflection, would have backed off. Our liberal capitalist order, with its competing institutions, is constitutionally incapable of doing that. Doubling down is what it is programmed to do." Rachman titled his comment, "The elite's Marie Antoinette moment."