European finance ministers divided over Greek bailout

By Stefan Steinberg
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European Union finance ministers are holding a two-day meeting in Brussels March 15-16 to discuss a bailout package for Greece under conditions where growing divisions are emerging between European partners on how to tackle the country's budget crisis.

Pro forma, leading finance ministers denied that the meeting would decide on any emergency loans for the country.

German finance minister Wolfgang Schäuble told the *Bild Zeitung* newspaper on Sunday, "There will be no reason to make decisions about financial aid." French finance minister Christine Lagarde also made clear that she opposed an announcement this week. "I'm certainly not expecting any decision being made, or any button being pressed, or any button being selected to be pressed, because it's totally premature," Lagarde told reporters.

The reaction by Schäuble and Lagarde is in line with the stance taken so far by European governments regarding the Greek budget crisis. They are seeking to give the impression that no aid is being planned to assist the ailing Greek economy in order to exert maximum pressure on the Greek government to carry through and intensify the two austerity packages it has introduced since coming to power.

While reluctant to admit in public that they are planning a bailout, behind the scenes EU finance functionaries are frantically scrambling to come up with a rescue package. Media reports have assessed the potential Greek aid package at between €20-25 billion.

Summing up the seriousness of the situation, EU's monetary affairs commissioner, Olli Rehn, declared on the eve of the two-day conference in Brussels, "If Greece fails and we fail, this will do serious and maybe permanent damage to the credibility of the European Union," adding, "The euro is not only a monetary arrangement but a core political project of the European Union." Rehn went on to stress that any financial support for Greece would be linked to the enforcement of additional savings measures on the part of the government.

Leading European financiers and bankers are increasingly concerned that Greece will default on its debt repayments. It is estimated that Greece will have to refinance about €54 billion of its debts in 2010; €20 billion of this sum is due in April and May. The Greek government was able to raise €5 billion in fresh loans earlier this month, but only on the basis of agreeing to inflated rates of interest.

The €5 billion in loans raised in March is actually a larger sum than the savings accruing to the Greek finance ministry from the drastic €4.8 billion austerity package passed by the Greek government on March 3.

Some finance experts are warning that the austerity measures so far agreed are completely inadequate to pay off the country's debts to the banks. Other voices are warning that the savings measures already introduced are likely to prove counterproductive. The two budgets so far passed will result in major cuts to wages and pensions while considerably increasing taxes on basic goods and fuel. Such measures serve to depress domestic demand and worsen the chance of any recovery for the Greek economy.

Proposals to bail out the Greek government have unleashed a heated debate in European political and finance circles over how to proceed. Major countries such as Germany and France have extensive banking investments in Greece and are not prepared to allow the country to become insolvent. At the same time they have different approaches as to how to tackle the Greek crisis, with Germany in particular taking the lead in demanding strict fiscal and budgetary discipline.

The hard-line position of the German government was outlined just over a week ago when German Finance Minister Wolfgang Schäuble announced that he favored the establishment of a European Monetary Fund (EMF). Such a fund would permit leading European nations, with Germany to the fore, to override the national sovereignty of individual countries and impose drastic austerity programs similar to those imposed by the International Monetary Fund—but without the interference of the United States, which dominates the affairs of the IMF. Schäuble stated that his EMF proposal could not be institutionalized in time to resolve the Greek crisis but would be necessary to deal with new crises in the future.

In an article in the *Financial Times* last Thursday titled "Why Europe's monetary union faces its biggest crisis" Schäuble stressed that he advocated the strictest form of budgetary policy in order to fulfil the demands of Germany's internationally operating banks. "There is only one course of action: all eurozone members must return to adherence to the stability and growth pact as rapidly as possible. I underline this message because I have the impression that global financial markets seem to be speaking far more plainly than many of the voices from the political sphere."

Schäuble then sketched out some of the draconian powers to be awarded to his version of a European Monetary Fund. Any offer of aid, he writes, must be attached to "Strict conditions and a prohibitive price tag … so that aid is only drawn in the case of emergencies that present a threat to the financial stability of the whole euro area. This effect should be further reinforced by excluding the country concerned from the decision-making process—aid must be the last resort."

Greece has already been subject to the strictest budgetary control and political supervision in the history of the European Union. Every decision made by the Greek parliament relating to financial and budgetary matters must be checked and agreed by EU bureaucrats in Brussels. Now Schäuble proposes that national parliaments of financially stricken countries be deprived of any control of their own financial affairs.

As if the overriding of national sovereignty by the Brussels bureaucracy were not enough, Schäuble goes further to advocate imposing fines on countries that refuse to pay their debts to his proposed EMF on time, the suspension of voting rights of a eurozone member should it breach European economic and monetary law, and even the exclusion or expulsion of the offending country from the eurozone.

Schäuble's sweeping onslaught on national sovereignty and established democratic norms was sufficient to take away the breath of some columnists. Writing in the *Financial Times* on Monday, Wolfgang Münchau describes Schäuble's proposals, in particular the right of the eurozone to exclude members, as "unbelievably extreme."

The reception for Schäuble's ideas has been more favorable in Germany itself. Writing in the *Taggespiegel* on Monday a professor for economic policy at the military academy in Hamburg heads his article "Greece Should Quit the Eurozone."

Schäuble's proposal for a European Monetary Fund to provide Europe's leading economies with more control over the continent's financial and budgetary affairs makes clear that such an institution would possess dictatorial powers to impose punishing austerity programs on behalf of international finance.

His proposition has been met with considerable opposition from political and financial circles within Europe. Increasingly German economic policy—based on strict budget criteria coupled with an expanding export industry and a huge cheap jobs sector—has come under fire, most recently from the French finance minister, who called upon the German government to boost demand within its own market.

Germany, other EU countries argue, has the biggest economy and the biggest balance of payments surplus. It should be prepared to cash up and help other European countries in need. Schäuble's plan for an EMF with Germany in the driving seat is aimed at rebuffing such criticism. But at a time of growing trade and international tensions with the United States, Schäuble's latest proposal has only served to reveal the deep and growing divisions inside Europe itself.