Divisions Between the US and Europe Widen Over Greek Financial Bailout

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The Greek government is preparing to turn to the International Monetary Fund (IMF) for financial help in the next few weeks to avert a default on its national debt. The move to engage the IMF follows the failure of European finance ministers meeting in Brussels earlier this week to agree on any concrete plan to provide financial backing for Greece. The principal obstacle at the Brussels meeting was the hard line taken by Germany.

On Thursday, Greek Prime Minister George Papandreou told the European Parliament that the interest rate Greece is forced to offer investors for servicing its debt is unsustainable, and that his government had complained to the IMF. Papandreou said the inflated borrowing costs would more than offset his government's savings from the sweeping austerity measures it has introduced.

It is estimated that Greece will have to refinance some €54 billion of its debt in 2010, of which €22 billion will come due in April and May. The government was able to raise €5 billion in fresh loans earlier this month, but only by agreeing to pay about 6.3 percent interest on its bonds.

This is fully 3 percentage points higher than the average interest rate on German state bonds. According to one Greek finance official, the high rates demanded by international investors were deterring Greece from seeking to sell additional bonds. "One thing is for sure," he said, "We will not go to the market again with these barbaric interest rates because this is a recipe for bankruptcy."

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

Expressing his frustration over the failure of the European Union to put together a financial rescue package for Greece, Papandreou declared that the austerity measures Greece is taking at the behest of the EU are as severe as those that would have been demanded by the IMF. "They [the IMF] would ask nothing more," he said. "We have the worst of the IMF" without the benefits of an IMF loan, Papandreou complained.

Greek officials have warned that they are giving the European Union a last chance at its summit meeting next week, but according to one government source, the chances of a solution "do not look good." The official added, "If there is no clear support at the EU summit on March 25, we will have to decide where to go next. There are a number of scenarios on the table, but the most prominent one is the IMF."

For its part, the German government reinforced its opposition to an EU bailout. The German finance ministry explicitly warned that Greece should not expect a detailed financial aid package from the March 25 meeting of EU heads of government. On Wednesday, German Chancellor Angela Merkel cautioned Germany's EU partners against any "rash decision" to bail out Greece.

In another move reflecting the hardening of the German position, Merkel told the German parliament (Bundestag) Wednesday that she supported the suggestion put forward last weekend by her finance minister that countries failing to meet official EU budget criteria be subject to exclusion from the Eurozone—i.e., that they no longer be allowed to use the euro as their currency.

German Finance Minister Wolfgang Schäuble broached the issue recently in connection with a proposal for the establishment of a European Monetary Fund that would have broad powers to impose draconian terms on highly indebted Eurozone nations.

In her speech to the Bundestag, Merkel called for "an agreement under which, as a last resort, it is possible to exclude a country from the Eurozone if again and again it doesn't fulfil the requirements." While not mentioning Greece by name, the implications of her threat were clear. From Athens, Prime Minister Papandreou retorted that there was "zero possibility" of Greece leaving the Eurozone.

The proposal of Schäuble and Merkel also received a rebuff from the president of the European Central Bank, Jean Claude Trichet, who told the French magazine Le Point that the notion of expelling a Eurozone member was "absurd."

On Wednesday evening, senior figures in Merkel's Christian Democratic Union (CDU) indicated that Germany would reluctantly support an IMF deal. Michael Meister, deputy leader of the CDU parliamentary group, told the Bloomberg news agency, "Nobody apart from the IMF has these instruments."

Meister conceded that his parliamentary group had been strongly opposed to an IMF bailout for any Eurozone country, but its members were also adamantly opposed to a bailout for Athens.

In light of the fact that it would take years to establish a European Monetary Fund as an alternative to the IMF, and the idea has already encountered considerable opposition from political and economic circles within Europe, it now appears that Berlin has reconciled itself to an intervention by the IMF in the Greek crisis.

The Merkel government has also been forced to confront the fact that the opposition to intervention in the Eurozone by the US-dominated IMF is crumbling. On Wednesday, three of the Eurozone's 16 nations—Finland, the Netherlands and Italy—declared that they were in favour of turning to the IMF for financial aid if Athens is unable to refinance its debt.

It can hardly be an accident that Greece's open threat to go to the IMF has followed Papandreou's meetings last week in Washington with President Barack Obama, Secretary of State Hillary Clinton, Treasury Secretary Timothy Geithner, and leading congressmen and business figures. While publicly the US is taking a hands-off approach to the crisis in Greece and its reverberations throughout the European Union, there can be little doubt that privately US officials assured Papandreou that they would support an IMF intervention.

This would mark an unprecedented intervention by the US into the internal affairs of the EU, something that Germany, in particular, has sought to prevent. The conflict over IMF intervention into the Greek crisis is yet one more expression of mounting tensions between Washington and Berlin.

The comments by Meister and others will do nothing to resolve the conflicts within the European Union and the differences between leading European countries and the US on how to deal with the Greek crisis. The Wall Street Journal on Thursday cited a "senior Greek official" as saying, "The rift with Germany is widening instead of narrowing. There is an increasing belief in the government that the IMF will be the only solution."

Tensions between the European political elites are not restricted to Greece. Throughout Europe, nations are preparing austerity packages to cover huge state deficits resulting from bailouts of their respective banking systems. In a column this week in the Financial Times, Martin Wolf makes the point that Greece is not the real problem for the Eurozone. Wolf writes that "it is not Greek public finances that threaten the stability of the Eurozone. These are a mere bagatelle. The threat is the public finances of big countries."

As the financial crisis enters a new stage, national antagonisms and egoisms are increasingly coming to the fore. French Finance Minister Christine Lagarde recently suggested that Germany's dependence on exports is partly to blame for the crisis, and its refusal to stimulate domestic demand is making it harder for other countries to recover.

German politicians and the German media brusquely rebuffed the French criticism. On Wednesday, Chancellor Merkel ended her speech to the German parliament by insisting, "Germany will not forfeit its export strength."

Differences are also deepening with the US and within Europe over measures to regulate certain forms of speculation. Following declarations by both French and German government leaders that they favoured some sort of regulation of derivatives trading and hedge funds, US Treasury Secretary Geithner publicly objected. Geithner sent a letter to the European internal markets commissioner declaring that proposed European restrictions on private equity and hedge funds "discriminate against US firms and deny them the access to the EU market that they currently have." Britain, also a major international centre for hedge funds and derivatives trading, has lined up with the US.

The issue of financial regulation was on the agenda of the meeting of EU finance ministers earlier this week, but no concrete measures were agreed on following the intervention of the British. Prime Minister Gordon Brown contacted Spanish Prime Minister José Luis Rodríguez Zapatero and informed him that Britain was not prepared to accept the proposals put forward by Germany and France. At the last minute, the EU presidency, currently held by Spain, pulled the issue of hedge fund regulation off the agenda.

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