

GLOBAL INSIGHT

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Greek indignation threatens to spread

By Peter Spiegel in Brussels

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Grey day: pensioners march in central Athens on Tuesday in protest at proposed austerity measures

A week ago, not many people in Brussels knew who Karolos Papoulias was.

But in the corridors of power and the evening salons where the European Union's future is mulled over dinner served by liveried waiters, the Greek president and his angry outburst against Germany's finance minister – complete with thinly veiled references to Greece's Nazi occupation – has suddenly become the topic everyone wants to discuss.

"I had no idea it had gotten this bad," said one senior European diplomat.

The latest round of hand-wringing is only partly due to the substance of the dispute between Mr Papoulias and Wolfgang Schäuble, the German finance chief who suggested Greece was a "bottomless pit" where another €130bn in bail-out money might be wasted.

Most believe that at an all-night meeting of eurozone finance ministers on Monday night, Mr Schäuble and his brethren will, at long last, approve the new rescue and once again pull Greece back from the cliff of bankruptcy.

Instead, what Mr Papoulias has forced European officials to think hard about is whether his anger is the temporary rage of a Greek political elite roughly treated by the country's increasingly frustrated creditors – or a sign of things to come elsewhere in the bloc.

Even if Athens clears this latest financing hurdle, the damage done by outsiders dictating terms to a sovereign government may be irreversible. And if it is irreversible, it becomes a very bad omen for the EU's ability to impose tough fiscal medicine from Brussels on other reluctant eurozone governments.

While Greece may appear an outlier now, the EU is very quickly becoming an organisation where officials in Brussels will soon be telling national governments and parliaments how to tax and spend.

In fact, it is already happening. Last month, Olli Rehn, the mild-mannered Finn who serves as the EU's top economic official, wrote a letter to the Belgian government informing ministers

they needed to cut €1.2bn-€2bn from their 2012 budget or face huge fines. And they needed to do it in five days.

The eyes of Europe were fixed on Athens at the time. But inside Belgium, where political elites had just spent nearly two years negotiating hugely complex budget issues in an attempt to form a six-party bilingual government, there was shock and anger. “Who knows Olli Rehn?” demanded Paul Magnette, a socialist minister in the new Belgian administration. “Who knows this man’s face?”

Despite Mr Magnette’s outburst, Belgium, home to the EU’s institutions, quickly fell into line. But will others?

This week, Mr Rehn is due to present economic projections confirming that Spain is wildly off its agreed deficit-reduction track. The new centre-right government has already said the Spanish public deficit soared to 8 per cent of national output in 2011 – far worse than its predecessor had predicted – and well above the 6 per cent level Mr Rehn had mandated for 2011.

This year, Spain is supposed to get to 4.4 per cent. That is not going to happen. Which means Mr Rehn is expected to send another letter, complete with a threat of large fines, to Madrid after Mariano Rajoy, the prime minister, unveils his revised budget next month.

And if that does not kick up a Papoulias-like outburst, consider this: on April 23, the EU’s statistical office will publish its official debt and deficit forecasts for the eurozone. France, which had agreed with Mr Rehn to a 4.6 per cent deficit for this year, is expected to veer off target. Already, Paris is projected to hit 5.3 per cent in 2012, and that was before the recent economic downturn began to deepen.

Can anyone imagine how Nicolas Sarkozy, likely be in the middle of the two rounds of the French presidential election, would react to a similar letter from Mr Rehn?

Fiscal union in the eurozone is already well under way. Europe’s voters do not realise it yet. When they do, indignation could spread well beyond Athens.

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