Alliance against the ESM

10 points for overcoming the Euro crisis

The currency union is mired in a crisis. Its members and the ECB sometimes deliberately violate basic principles of the common European monetary system. The member states disregard the Maastricht criteria and the no-bail-out clause, while the European Central Bank (ECB) continues to buy up massive amounts of bad debt and carry out long-term tender businesses in order to flood the markets with money.

The individual member states are struggling unsuccessfully to deal with the debt crisis of the Euro zone. The markets have not calmed down. On the contrary: despite receiving even more financial support, the situation is escalating further, which is threatening the Monetary Union as a whole.

The ESM and the European Financial Stabilisation Facility (EFSF) have major design flaws. They are unilaterally focused on financial aid and are intended to avoid the economic default of a Euro member state by political means at any price. Instead they are nationalising private losses by banks and investors at the cost of “communitisation” of national debt.

We reject the creation of a transfer union - even if it is disguised with the label “stability union”. The transfer union restricts the sovereignty of recipient countries. They have to accept a significant restriction of their freedom of action. Donor countries bear substantially higher burdens and are now taking unacceptable risks.

This European system of mutual guarantees eliminates the necessary pressure for unavoidable economic adjustment and change. Those responsible fail to see that the problems of some countries lie in excessive balance of payments deficits and lack of competitiveness. They reward countries which fail to manage their budgets. Due to the pledging of huge sums, we fear permanent damage to European integration, the end of self-determination of future generations and the break-up of the Euro zone and the whole of Europe.

We therefore call for:

1 The temporary rescue package of the EFSF must be phased out as planned in 2013. The permanent successor institution ESM must not be introduced. All members of the Euro zone must themselves be responsible for their financial commitments. Liability and responsibility belong inseparably together.

2 Increasing competitiveness must be the focus of aid. It should not depend on the claims of private creditors. Over-indebted countries must save and create specific incentives for investment for reconstruction. To do so, the country concerned must make its economy and administration competitive. This requires far-reaching structural reforms in the tax system and the social security system, because only in this way can sustainable growth be achieved.

3 Infringements of the rules must have automatic consequences. The action mechanism of the fiscal pact is an empty promise. There are politically desired margins of latitude to refrain from an action despite violations of binding budgetary constraints. This latitude will not be restricted unless the circle of those entitled to bring actions before the ECJ is extended.

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Uncontrolled defaults as well as permanent transfers via the ESM must both be avoided. To do this, the Euro zone should establish a European Restructuring Mechanism (ERM) instead of the ESM. This will allow the public sector in the crisis countries to maintain their functions and preserve their national budgetary sovereignty, and to negotiate a settlement between creditors and debtors. The ERM provides the framework for an arbitration procedure which is conducted by an impartial and generally accepted body and supervised by the IMF. Key points can be based on US bankruptcy law. Private creditors participate under the impression of a possible default in all phases of the restructuring.

Financial aid serves only as a last resort. It can temporarily recapitalise banks important to the system and serve to guarantee deposits. The forced recapitalisation of financial institutions is left primarily to the respective countries. This can if necessary be supplemented by financial support of the Euro countries. These must receive adequate compensation. Financial aid already granted or promised is not an act of European solidarity. It divides us: the “aid” releases creditors from their responsibility and then has to be borne by the taxpayer.

Where all such measures are not enough to return to the financial markets, the withdrawal of a country from the Euro zone must be made possible. Its competitive position would improve quickly and noticeably by a devaluation of its currency. In addition, the prospect of withdrawal helps in the negotiations of the countries with their creditors.

Monetary and fiscal policy must again be strictly separated. The European Central Bank has far overstretched its mandate through the purchase of government bonds and the flooding of the financial markets by means of long-term tender business. It finances national deficits and approvingly accepts the risks of inflation. Monetary policy must be removed from the decision-making power of political majorities and inflation must be prevented.

The ECB must urgently reconsider the credit standards for commercial banks and provide unimpeachable collateralisation for the target-2 balances and a market-oriented interest rate. A further aim should be an annual settlement obligation along the lines of the Federal Reserve System of the USA.

The voting rights in the ECB must correspond to the capital and liability circumstances.

Germany in particular as the strongest member country must lead by example and finally comply with the stability pact. Otherwise it, and we, will lose all credibility.