

Merkel and Sarkozy want to turn out the left wing light...

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The Merkel and Sarkozy plan for Europe, agreed yesterday, will according to Reuters:

[P]ermit automatic sanctions against states that breach an existing deficit limit of no more than 3 percent of total economic output, unless a "supermajority" of states voted against the penalty.

That would reverse the current system where a majority of states must vote to launch a disciplinary procedure.

It would also enshrine a budget-balancing rule in national constitutions across the euro zone, although they gave no detail of the proposed wording.

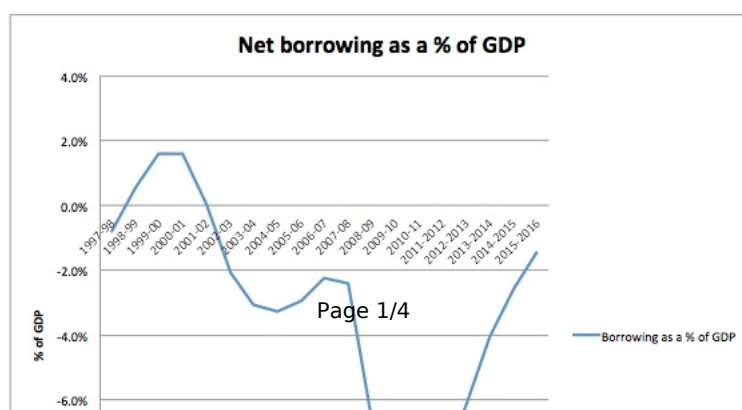
You need know no more than that to realise just how dangerous this plan is.

But there is one piece of information you need to know about why this is happening. As [the FT notes](#):

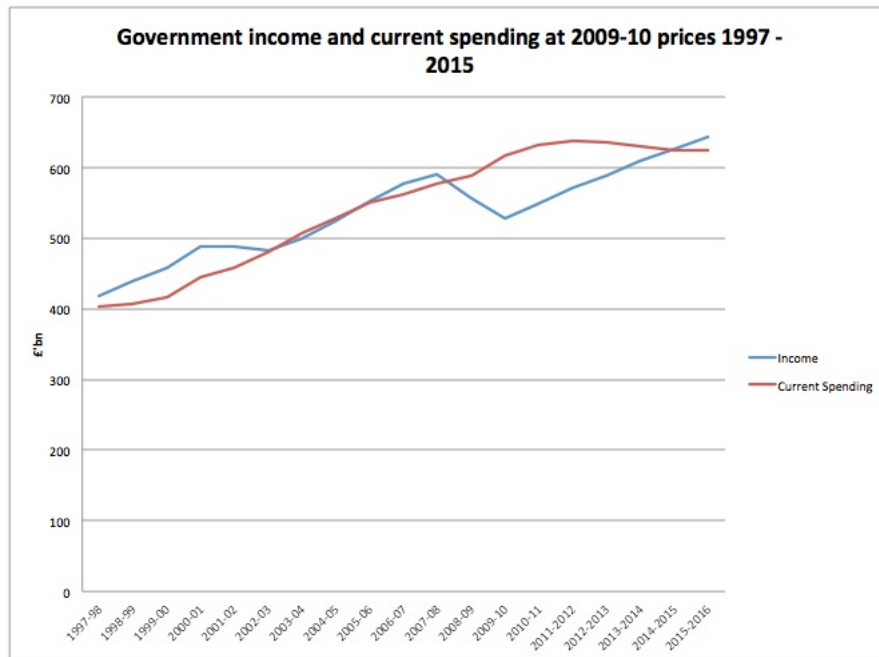
In an apparent concession, Ms Merkel agreed that private sector bondholders would not be asked to bear some of the losses in any future sovereign debt restructuring, as she had insisted this year in the case of Greece's second bail-out.

So we know that this deal is for the benefit of banks and their owners.

What it in effect says is that Keynesian deficit financing is not allowed. And any government that does it will be automatically penalised. Let's take the UYK as an example of such spending. This data is from the March 2011 budget (I have not updated for the autumn statement yet, but that just slows the recovery):



First of all, Labour almost exactly met the EU requirement pre-crash. But, more importantly, when the crash came what this evidences, [as I argued yesterday](#), is that governments have no control over their income. So this was what happened to UK current income and spending (i.e. spending not related to investment) (same data sources):



The data is right by the way: Labour ran a current surplus in 2006-08: the deficit was solely investment related in that period. But when the crash came it was income that collapsed.

Now what would happen under the Merkel/ Sarkozy plan? Simply that to meet the budget requirement that just as revenues crashed and people faced increased risk of unemployment the government would have to slash spending to balance the books. So there would have been no cuts of the sort we're seeing now. There would be public services decimated.

Benefits would be slashed.

Class sizes would reach 45.

NHS services would be withdrawn from all but emergencies.

All investment would end.

Police and fire services may be part time.

Ambulances simply would not come.

That's the scale of what would have been needed to balance our budget.

And of course hundreds of thousands or millions more would have been out of work and without benefit, which would have been slashed.

This is what Merkel and Sarkozy would have demanded. And it would have been *illegal for governments* not to have made those cuts - to destroy the fabric of our society - all to save banking from loss.

This is what we face.

But it's even worse than that. [*As I've also argued:*](#)

There are four engines for growth, and no more. They are:

1) Consumer spending, and that's going down due to falling incomes, lack of confidence, rising unemployment and demands for more pension contributions from public sector workers, plus VAT rises.

2) Business investment, and that's falling because consumers are spending less.

3) Exports, and the Eurozone is now killing those.

4) Government spending.

That's it. That's all you need to know about where growth can come from.

And the first three are all in decline, although business is increasingly profitable, perversely (and are lending their profits to government rather than investing it — that and quantitative easing are how the deficit are being paid for).

So, given these facts (for these are facts at present) then there's only one way to go forward, and that is for the government to spend more. If it doesn't then the cycle of decline continues. That is inevitable.

*And as Keynes said, it spends for a reason: it spends to create jobs. That's why the spending has to be on the [*Green New Deal*](#) (not the government's watered down Green Deal) or infrastructure spending paid for by the government - because that's far and away the cheapest way to fund it (and so getting pension funds to pay for infrastructure directly or subsidising banks to lend to small business makes no sense - the government has to act as organisers, funders, guarantors and so managers of such schemes since this way we get the benefit at lowest cost).*

So what Merkel and Sarkozy are doing is banning deficit spending that is the only way to break recessionary cycles. They are actually going to make illegal the only hope we've got.

This is complete and utter madness.

There is no other description for it.

And yet people are told it is inevitable.

And it isn't.

But the results will be catastrophic.