

The euro one year later: an economic straitjacket

by William Engdahl

After 12 months, the controversial European experiment to create a synthetic new currency, the euro, looks like anything but the unbounded success its creators and financial market backers had predicted at the end of 1998. After its launch on Jan. 1, 1999, when its value was fixed at 1.175 euro to the U.S. dollar, the euro had dropped by year-end to 1.004, a hair's breadth away from the "parity" to the dollar deemed by financial markets to be the make-or-break level below which the euro should not fall, if it is to establish its credibility as the world's second reserve currency alongside the dollar.

By end of December, the euro had lost fully 15% against the dollar, and 34% against the Japanese yen. This, despite the fact that the huge Japanese industrial economy is still the "sick man" of the Organization for Economic Cooperation and Development (OECD).

Why does it matter if the euro is 1.17 or 1.005, or even 0.95, to the dollar? After all, so the conventional thinking goes, a weaker currency should help boost Euroland exports. It is 15% cheaper for German machine-tool makers or auto manufacturers to sell in North American markets against their dollar rivals. And in the markets of Asia, where Japan had been by far the strongest competitor, the euro has a huge competitive advantage.

The problem of a "strong" or "weak" euro, lies elsewhere. Trade and the so-called markets themselves are in crisis. The contrived new euro currency came on the scene during the very year when the "boundary condition" was reached in the world financial system, where the widening dis-connect between actual economic activity and wildly inflated financial aggregates (debts, derivatives, currency, and other speculation) put the financial system itself at the blow-out stage. As

the old year passed, there were shouts from all sides of "crash," "tulip bubble mania," and other warnings of what's in store.

'The European Union can not survive'

Lyndon LaRouche, who had forewarned that the international financial crisis is systemic, summarized what is now unfolding as going in potentially three alternate directions, barring intervention: wild hyperinflation, imploding deflation, or disintegration into violent conflict and warfare—the last a simultaneous threat with either of the other two. As of the close of 1999, the printing presses were working overtime in the United States, Japan, and elsewhere to pump liquidity into the financial markets.

LaRouche elaborated on this perspective in a press conference with international journalists, carried live over the Internet on Dec. 22, and was later asked specifically about how the situation in the European Union will develop. He replied, "Well, no one knows what's going to happen to the European Union. In its present form, the European Union can not survive. That was forecast by a number of my friends and acquaintances in Germany, who understood it. I've always had that view: It couldn't work. The Europeans are going to have to go back to some other arrangement. . . . I think that what will have to happen, realistically, since the European Union is not going to survive in its present form, is that there will have to be a renegotiation, so that you will have something to supersede Maastricht, and this should have the provision for adapting to this kind of reality" (see *National*, for a transcript of his press conference).

Other commentaries on the falling euro, and troubles in

Euroland, are forthcoming. Even in the customary market terms of financial “perceptions,” interest rate pressures, and inducements to global financial flows, the euro is caught in an impossible paradox.

“If it is going to establish itself as a genuine alternative to the dollar as a world reserve currency,” said George Andersen, senior economist with a continental European bank, “it must finish the first year of its existence as a perceived ‘strong’ currency. Otherwise, the European Central Bank faces a huge uphill battle to convince global fund managers and others to buy Euroland stocks, bonds, or other assets in coming months. That, in turn, could force EU interest rates far higher, and turn the economies into even deeper recession.”

The issue of sovereignty

The temporary weakness of the euro—many predict it could rebound to 1.10-1.15 by next spring—obscures a far deeper question. Why, in fact, have the European Union (EU) nations agreed to surrender one of the most vital powers of a sovereign state, power over its own currency, to a politically independent, supranational European Central Bank?

The answer is political, and not economic. First, it is necessary to go back to the December 1991 EU summit in Maastricht, Holland. There, the 12 heads of state and government signed what came to be called the Maastricht Treaty on European Union. The treaty called for creation of an independent European Central Bank to administer a new supranational currency, now called the euro.

The idea of a single European currency had been debated in Europe since it was first advocated more than four decades ago by French political figure Jean Monnet. Detailed plans for creation of a European Central Bank were drawn up for European Commission President Jacques Delors already in 1988. The plans were shelved as “unrealistic” at the time, because no EU nation was willing to surrender such fundamental sovereignty for such questionable goals.

But by 1991, conditions had changed. The euro was presented to German Chancellor Helmut Kohl at Maastricht, by French President François Mitterrand, as the price Germany had to pay for French agreement to German unification. Mitterrand, along with British Prime Minister Margaret Thatcher, had led a ferocious fight to prevent German unification after November 1989. The French feared that a German economic colossus would dominate the EU, and only if Germany would agree to surrender control over its economic power—the Bundesbank and the deutschemark as Europe’s leading internal currency—would France accept a united Germany.

So went the argument in 1991. The Maastricht Treaty, ratified by the German Parliament the following year with scarcely a word of public debate, spelled out four basic criteria for an EU state to join the new European Monetary Union, including strict limits on the ratio of public debt and budget deficits to GDP, and stable interest rates and inflation. In 1998, eleven of 15 EU member-nations had been accepted as meet-

ing the Maastricht criteria. To howls of protest from members of the Bundesbank, Italy was among the starters.

Euroland’s demographic time bomb

The conservative monetarists of the Bundesbank howled at the inclusion of Italy because, rather than the Maastricht public debt burden ceiling of 60% of GDP, Italy had more than double that, 123% of GDP, the highest in the world.

Only after the October 1998 collapse of the giant Long Term Capital Management hedge fund, did it emerge that Italy met the deficit criteria of Maastricht only because the Banca d’Italia was secretly using LTCM (and likely other major hedge funds) to manipulate the perception in financial markets that Italy would qualify for Maastricht entry, triggering a flood of speculative capital flows into Italian bonds. That flood, in turn, pushed interest rates down and allowed the government of Romano Prodi (who is now EU Commission President), to slash outlays for interest on Italy’s \$2 trillion public debt, its largest budget item. Suddenly, international bankers began to buy the line that Italy was “converging” with German interest rates and deficits.

With behind-the-scenes backing of the French, the EU Commission ruled in 1998 that Italy be admitted, despite its inability to meet the debt/GDP criteria, because it had qualified on the “more important” budget deficit criteria.

In such manner, the euro started life based on fraud and lies. Even worse, however, Italy now faces a demographically driven budget crisis, which will erupt full-force in about 2005-06. That is when the wartime distortions of Italian birthrates—Italy today has one of the lowest birthrates in the OECD—will result in a huge number of new retirees eligible for public pension support, at a time that the active labor force is shrinking dramatically.

Germany faces a similar plight, also because of wartime demographics, and has similarly very low birthrates. Worse, the huge costs of the bungled German unification have already pushed German public debt well over DM 2 trillion, double the level before unity. With 4 million Germans unable to find work, a level of unemployment not seen since the economic crisis of the 1930s, Germany faces stresses on its economy and on future public spending as never before. Yet, under Maastricht and the European Central Bank regime, both Germany and Italy are powerless to deal with these pressures.

“With Italy out of the EU, Germany could have somehow managed the euro strains,” says Andersen. With Italy in, the problem facing both Germany and the European Central Bank becomes staggering in scale.

“The two members of Euroland with the worst looming demographic crises—Italy and Germany—are also the two economies right now with the weakest economic growth,” says City of London economist S.J. Lewis. “The individual economies of the euro would have done better without the European Central Bank. But the political will to create the euro remains so strong, that Europe will suffer for years to

come because of the euro.”

The Maastricht Treaty explicitly mandates that the new European Central Bank be absolutely free from any and all political interference from elected governments. This central bankers’ tyranny now will increasingly haunt efforts of European banks and financial groups as well as governments, to establish the euro as a genuine reserve currency, and to make Euroland a magnet for U.S. and global capital flows. Only if Euroland can draw in hundreds of billions in capital from around the world, as the European Central Bank and leading Euroland banks, such as Deutsche Bank or *Crédit Lyonnais*, see it, can it remotely hope to weather the coming demographic storms, even assuming, for the sake of argument, that the global financial architecture has not already collapsed.

“This is why the European Central Bank acted in November to raise Euroland interest rates by a hefty 0.5%,” said Lewis. “Significantly, however, the response of financial markets was to leave the euro.” European Central Bank president Wim Duisenberg has blamed the Schröder government’s rescue of a major construction firm, *Holzmann AG*, for the weakness of the euro in late December. This gives an indication of how frantic the European Central Bank is becoming about the euro’s weakness.

What neither Duisenberg nor other Euroland policymakers care to admit, is that until July 2002, they have the tricky job of managing a nonexistent currency. Fearing the worst, EU governments agreed to phase in the new currency. On Jan. 1, 1999, the euro existed only as a bookkeeping unit linking fixed parities of the 11 individual Euroland currencies. No one can go to their bank and withdraw 100 euros to pay his or her bills. No one can use euros to buy stocks or bonds. The euro is still the sum of the national currencies tied to it, a “virtual currency,” as Lewis terms it. If a real crisis of confidence sets in before the euro actually exists with bills and notes in circulation in 2002, the European Central Bank will be all but powerless to do anything.

The former governor of the Danish National Bank, Dr. Erik Hoffmeyer, told this author in a recent interview, “The job of the European Central Bank is going to be a very difficult one. Jacques Delors told me that a combined political and economic union was his original plan. As it is, we have no political union, but a monetary union. Always before in history, a monetary union has followed after there existed a political union. This is why, if we have fair weather, the euro can exist. But if not . . .”

The obsession of European governments and financial elites with their euro project is credited as a major reason, despite the ravages of global economic and financial shocks over the past 30 months since the global financial crisis broke out in Asia, that the proposals of President Clinton early in 1999 for drastic reform of the international monetary order fell on deaf ears. Whether true or not, it looks at year-end that the euro could go down as one of the most colossal political and economic disasters of the 20th century.

How to create more than a million jobs a year in Mexico

by Carlos Cota Meza

It is now evident that one must add the charge of intellectual bankruptcy to the economic, financial, and political bankruptcy of the Ernesto Zedillo government in Mexico. This kind of bankruptcy also extends to the newly emerging “political majorities” within the Party of the Democratic Revolution (PRD) and the National Action Party (PAN). The fundamental question, so totally absent from all debate today, is the global financial crisis, which is already perhaps more severe even than that of 1929-31, and which is no longer a question of forecasting, but of reality, as U.S. economist Lyndon LaRouche has demonstrated.

Regardless of what these new political “majorities” say about the reality of the international financial crisis (and their approach to it is truly lunatic), a new determining element for dealing with it has been added: the Eurasian Land-Bridge.

This immense project, already under construction, both politically and physically, is precisely the kind of major infrastructure program that is needed to underpin the proposal by Lyndon LaRouche for a “New Bretton Woods” international financial system. Such a system would immediately reestablish the best aspects of the financial policies that were applied following World War II: stable parities, protectionist trade and tariff agreements, and encouragement of scientific and technological progress. This new system would permanently bury the entire International Monetary Fund system.

If Mexico is to participate in this new international economic order, and it must do so if it wants to survive, it will do so through construction of its own development projects.

What we present below is a reelaboration of various infrastructure development projects for the country, which were originally proposed for the postwar period but were simply archived by successive governments, or rewritten in a stripped-down fashion, for the explicit purpose of preventing Mexico from ever becoming an industrialized country.

The projects described here were presented to Carlos Salinas de Gortari in 1983, when he was Planning and Budget Secretary for the Miguel de la Madrid government. With his characteristically perverse inexpressiveness, he made no comment. As Social Development Secretary, the late Luis Donaldo Colosio had agreed to have a group of advisers review the projects. According to reports of those meetings,