In Europe, Maastricht And WTO Under Attack

by Claudio Celani

In a more and more bankrupted European economy, the debate grows for the adoption of the "neo-Colbertist" policy represented by Italian Finance Minister Giulio Tremonti's "European Action for Growth" plan. The plan calls for a yearly investment up to 70 billion euros in transnational infrastructure projects, to be carried out through a combination of public funds and state-guaranteed bond issues. In a statement before the Joint Finance Committee of the Italian Parliament July 22, Tremonti said one could be confident that his plan for infrastructure investments will be approved in December by the EU Council, and that "it could have effects as early as January," as the economy will immediately react in expectation of growth. European Investment Bank (EIB) chairman Philippe Maystadt told the Italian financial daily *Il Sole 24 Ore,* on July 26, that the EIB is ready to play its central role in the Tremonti Plan. Maystadt said that the EIB, with EU 50 billion direct credits up to 2010, can leverage 6-7 times as much in private investments, thus reaching the annual figure of EU 50 billion. This is still not enough to finance all priority projects listed in the Van Miert report on transnational infrastructures, which forecasts a total expenditures of EU 600 billion (as we reported last week), and so the quota of public infrastructure funds from European Union (EU) members must increase, Maystadt said.

This has put center-stage, the budget constraints set by the EU Stability Pact, which set targets for reducing and ultimately eliminating national budget deficits. Since its inception, the Stability Pact has revealed itself the biggest obstacle to economic growth: Because the economic crisis has collapsed revenues, state deficits are exploding, while the Stability Pact regulations prohibit deficit-financed public investment by those same states, which would be able to turn the economic collapse around. Euroland is therefore now in a situation in which all its largest members are presenting growing budget deficits, and have violated or are violating the Pact's cap of 3% deficit as a ratio of GNP. The additional absurdity of the Pact is that its rules envision "punishing" violations by member countries in form of money transfers—which would would further aggravate their deficits!

Unlock the Maastricht 'Chastity Belt'

Therefore, the Stability Pact is de facto dead, and a discussion on how to change it has started at the highest level. First, French President Jacques Chirac announced publicly that the Pact should be reviewed. In his traditional July 14 speech to the nation, Chirac called upon "the representatives of the euro-group states managing the euro, to examine together provisional methods for easing" the Stability Pact structures, taking in account the situation of each member-state. On July 23, the chairman of the Italian Infrastrutture Spa agency (Ispa), Andrea Monorchio, called for the EU to set up a "European Development Pact" against what he called the "chastity belt" of the Stability Pact. Monorchio, in the Rome daily *Il Messaggero* on July 23, called for an expansion of the Tremonti Plan. One idea which has been floated, Monorchio suggested, is that of the "golden rule"—decoupling spending for investments from the budget deficit. Monorchio wrote, "In Europe, as well as in Italy, to get some oxygen into stagnating economies . . . we bet on infrastructure development, which can surely be done through forms of project financing, but which also needs flows of additional public funds."

In the same direction of Monorchio's proposal, EIB Chairman Maystadt proposed that the Pact be reviewed, with an eye to allowing a deficit for investment expenditures. The Stability Pact's creators (himself among them), Maystadt told the *Financieel Economische Tijd* and *Il Sole 24 Ore,* "did not take enough into account the quality of spending. Wouldn't it be better to have a 2% deficit following investments favorable to growth, rather than a 0.5% deficit resulting from spending purely linked to consumption?"

A proposal to *repeal* the Pact came from unexpected quarters: a group of experts working for the EU Commission. The Group of Political Advisors (GOPA) has produced an internal report which has provoked an uproar, because it proposes as well to re-nationalize current EU agricultural policies and end the practice of granting aid directly to poor regions, rather than to nations. The GOPA demands that Stability Pact constraints be lifted for countries with 0% or negative growth.

A 'New Deal' Is Needed

Tremonti, the central figure in the current economic debate in Europe, has not joined the debate on repealing the Stability Pact. His views are reflected by Ispa Chairman Monorchio, whom he appointed; otherwise, Tremonti publicly avoids attacking the Pact. Italy must play a role above factions during its EU presidency, which runs the semester until Dec. 31, and also with other diplomatic considerations given Italy's high public indebtedness.

However, as the author of the European "New Deal" plan, Tremonti has opened another flank in the war against neoliberal economic policies, by opening fire on the World Trade Organization (WTO) and calling for European-wide protectionist measures. In an interview with the daily *Corriere della Sera* on July 20, which had a large echo in Italy and abroad, Tremonti said that one reason for the current industrial crisis in Italy "is called WTO, is called the overly violent opening of the markets. We live in strategic times; we must invest in order to compete, but in the meantime we must act to defend ourselves. . . . Trade is either with rules, or it is not trade. . . . In the long run, trade will surely make everyone richer, but in the meantime, we must avoid dying."

Tremonti stressed that under his initiative, "the issue has begun to be discussed in major international forums. I spoke about it at the G-7, achieving the result that the classic formula, 'free trade,' be replaced with the formula 'trade based on rules.' " In polemic with the Left, Tremonti said: "The defense of workers and small entrepreneurs of Italian districts is done . . . by those who start to pose the challenge of protecting European and national industry." On the Italian/European Action for Growth plan, Tremonti said that it corrects a paralysis, whereby: "The states have transferred their original powers—fiscal, budget, and monetary powers—without there being a new, collective political machine able to exert them as a substitute. We have no budget policy, because there is the Stability Pact. We have no monetary policy because there is the ECB, the European Central Bank. We have no currency-exchange policy because it is being made elsewhere."

Pointing to the irrationality of currency values under the current regime, Tremonti said: "In the year 2000, European economies and public budgets were good, the euro was weak against the dollar; now, economy and public budgets are not so good, and nevertheless the euro is strong against the dollar. Newton would have some trouble in defining the rationale for the cause-effect relationship, the trajectory of the apple."

'Minister Tremonti Is Right'

Tremonti's interview found immediately an echo in France, where well-known economist Jean-Paul Fitoussi endorsed it. There are currently two schools of thought in Europe, Fitoussi said: "The first one attributes the loss of dynamism to the lack of structural reforms [read: elimination of the welfare state]. . . . The second one points to the decline of European governments' capacity to elaborate and run an economic development policy." Were they private companies, "European executives . . . would have already brought their books to court, that is, they would be already certified as bankrupt."

Fitoussi told *Il Sole 24 Ore* on July 26, "Minister Tremonti is right, when he says that European government structures must be reformed because there is no European economic policy. We must go back to the idea of development, whereas we are still anchored to the idea of stability. This, in aging societies, means paralysis." As had Tremonti, Fitoussi complained, that in Europe currently, "there is no common economic policy; but at the same time national governments have no maneuvering room, because of the constraints of the Stability Pact. . . . Europe is a ship without a rudder."

"The only thing national governments can demand from their citizens is sacrifice, i.e., approve structural reforms," Fitoussi warned: "The Stability Pact is too rigid a choice and must be revisited. The dogmatic interpretation of the Pact does not allow us to prepare for the future."

Washington Bushwhacked Argentina's Kirchner

by Cynthia R. Rush

Argentine President Néstor Kirchner's September meeting with George W. Bush was hastily re-arranged for July 23. Kirchner sought support for a strategy he claims will allow his devastated country to emerge from its financial crisis—if only the International Monetary Fund (IMF) would show a little understanding. Since taking office May 25, Kirchner has been operating under the delusion that Argentina could find the road to economic recovery through a "softer" agreement with the Fund, that would apply austerity a little more slowly, and postpone foreign debt payments, suspended since January 2002, for a few more years.

Since the current short-term agreement with the Fund expires at the end of August, and Argentina faces a looming Sept. 9 deadline for paying $3 billion to the IMF, Kirchner and his Finance Minister Roberto Lavagna say they need a new agreement that will roll over all debt payments for the next three years, and postpone the application of harsh structural reforms, until the economy begins to recover from the debacle brought on by more than a decade of free-market "reforms" under then-President Carlos Menem, an IMF poster boy.

This carefully laid plan ignores the reality that Argentina is the victim of a crushing systemic global financial crisis, and can only be rescued if the world monetary system is put through the type of bankruptcy reorganization outlined by Democratic Presidential pre-candidate Lyndon LaRouche in his New Bretton Woods proposal. While there are sovereign decisions Argentina could make now to protect the nation and its people—national banking, capital and exchange controls, and continued repudiation of an illegitimate foreign debt—nothing short of a New Bretton Woods, combined with the global development program embodied in the Eurasian Land-Bridge, offers any hope for the future.

Kirchner should be considering LaRouche's advice that both Argentina and Brazil, with their combined $720 billion in debt, have the potential to bring down the whole rotten financial system, were they to repudiate IMF policy. IMF and Wall Street bankers are already nervously eyeing South America's Southern Cone region, fearing what could happen were Argentina not to reach an agreement with the Fund by Sept. 9 when its $3 billion comes due. They are particularly anxious about Brazil, whose precarious financial situation is worsening daily. The *New York Times* had to admit on July 29, that an Argentine default on the $6 billion it owes the