Maastricht Stability Pact Is Dead, Awaits Official Burial

by Rainer Apel

When French President Jacques Chirac and German Chancellor Gerhard Schröder met in Paris Oct. 14 and announced there should be a "more flexible interpretation," a "more growth-oriented interpretation of the stability criteria" of the European Union's Maastricht Treaty system, it was clear that some profound changes were up in the EU's "Stability Pact." The Pact has come under heavy attack in Italy, France, and Germany, from leading experts and policy-makers, because the limits it places on state budget deficits make it impossible for nations to deal with the current collapse in industry and employment. When Portugal's labor unions staged their one-day general strike on Oct. 16, and the Italian unions their general strike two days later—including slogans against the Maastricht criteria—it became all too evident that the Stability Pact had turned into the ridiculed emperor without clothes of Hans Christian Andersen's famous tale.

But the blow come not from the governments which have become disloyal to its impossible criteria: It was delivered by one of the very Maastricht watchdogs himself—Romano Prodi, the President of the European Commission at the EU bureaucracy's headquarters in Brussels. In an Oct. 18 interview with a leading French daily, *Le Monde,* Prodi said, "I know very well that the Stability Pact is stupid, like all decisions that are too rigid. . . . The Stability Pact is imperfect, we need a more intelligent mechanism and more flexibility." Immediately, French Sen. Philippe Marini, a leading policy-maker, welcomed Prodi's remarks, saying, "I am delighted that realism has entered the Commission. The Stability Pact has to be re-read . . . it no longer exists, actually."

Pascal Lamy, another Frenchman who is Prodi's commissioner of foreign trade relations, called the Pact "medieval," and noted that Prodi had "just said loudly what everybody is thinking to himself, anyway."

Principle of Infrastructure Credits

Prodi's remarks provoked a storm of protest from the overwrought advocates of more monetarist austerity against depression-wracked Europe. Some demanded his resignation; but Prodi, who apparently had the tacit backing of the governments of France, Germany, and Italy, responded that he did "not regret a single word said in the interview"; he told France's Europe 1 radio station on Oct. 20, "I could repeat that interview word for word." He added that there is a "difference between the spirit and the letter" of the Stability Pact; what Europe needs is "an authority for the interpretation of all the problems and variants of economy. It is absolutely necessary to have a common economic government for the countries that share a common currency. . . . I underline the necessity to be intelligent, rather than being stupid . . . because one has to treat the economic problems with a real knowledge of the situation."

The "common economic government" idea has been proposed, repeatedly, by leading French politicians and experts, and the fact that Prodi used that term was taken by many to point to some concert of action between the EU Commission and the French government. There was also evidence of German government backing, in remarks by Finance Minister Hans Eichel on Oct. 19: "The Pact must be applied in a concrete reality. We must achieve the target, but not create additional economic problems. If this is what Prodi meant, I agree."

The next act was Prodi's testimony before the European Parliament in Strasbourg, France on Oct. 21. There, he first made a sly effort to calm his critics, by stating that the Maastricht Stability Pact had "its merits," but then added that it "should not be enforced inflexibly and dogmatically, but be modified according to the circumstances. That is why I called—and still call—it stupid." Among those supporting

Prodi was the chairman of the European Parliament's financial and monetary policy committee, German Social Democrat Christa Randzio-Plath, who exclaimed, "How long has the Commission needed to acknowledge that!" This should have been declared already in 1997, she said, when the great majority of the European Parliament had called for "more flexibility in the handling of the Maastricht criteria." Instead, "the Pact has been administered so far [including by Prodi, who now admits the mistake—ed.] with ridiculous rigidity that has further weakened countries with already weak growth, with a counterproductive impact on employment. That is why one has to differentiate between deficits originating from current expenditures, and deficits originating from productive investment programs."

A major January 2002 Italian interview with Lyndon LaRouche, in which he insisted, "Under Maastricht and the present policies of the European Union, it is impossible to . . . save the economies of Europe from a general collapse." LaRouche declared Maastricht dead-on-arrival already a decade ago; European leaders now must admit, he was right.

This has now become the "fighting issue" in the economic crisis of the European governments: that credit created for productive investments—such as infrastructure—must not fall under the rigid Maastricht limits on deficit spending as a fixed proportion of GDP. Among trade unions, there has been debate and actions for months: They demand that long-term loans for infrastructure, employment, and ecology projects be run entirely outside the Maastricht-controlled budgets. The German metal workers union has gone public, with proposals that the Frankfurt-based Kreditanstalt für Wiederaufbau (Reconstruction Bank) issue governnment-guaranteed long-term loans for public-sector investments in transportation, energy and water supply infrastructure, municipal housing, and education projects. The metal workers have called for an end to the "Stability Pact dictatorship over the three major productive economies of Europe," and for a complete redefinition of the work of the European Commission and European Central Bank.

LaRouche Right for a Decade

Thus Europe's leaders have to decide rapidly on an alternative to the Maastricht system. U.S. Presidential pre-candidate Lyndon LaRouche had warned them already a decade ago that the Maastricht criteria were insane and doomed, and that if ever enforced—as they were by the Stability Pact of 1997—they would be untenable and have to be abandoned. Immediately after the European Community's Dec. 9-10, 1991 summit in Brussels (which gave the green light for the Maastricht Treaty to be signed in February 1992), LaRouche warned it would deepen economic depression throughout Europe. And whereas Europe's leaders have tried to stay loyal to that system in the years since, LaRouche urged France and Germany to take the initiative to declare the Maastricht system dead, and to replace it, at the first opportunity, with a return to national bank arrangements and a concerted strategy for industrial recovery and mass re-employment.

In September 1992, only seven months after the signing of the Maastricht Treaty, such a chance arrived, when Europe was hit by a severe monetary crisis, and the EU Exchange Rate Mechanism (ERM) broke apart. The Sept. 20, 1992, referendum in France, which yielded a pro-Maastricht "majority" of only 0.9%, should have provided the pretext to drop Maastricht. France and Germany did establish special, bilateral economic and monetary consultations that would have had the potential addressed by LaRouche, had the governments in Bonn and Paris not timidly stopped half-way. The muddling-through that has dominated the ten years since, has been a disservice to Europeans.

In a first assessment of most recent developments, LaRouche said on Oct. 18 that with the Stability Pact declared dead, it is possible to press for several European countries to establish national banking arrangements. French, German, and Italian national banks could carry out debt issuances at 1-2% interest rates, over 25- to 50-year periods, to provide the needed credits for infrastructure projects and the build-up of long-term export agreements. With these regulations and long-term credit, LaRouche said, Europe can halt and reverse the collapse process, via Eurasia-wide infrastructure projects. Integral to that is long-term debt reorganization between Germany and Russia, as the necessary precondition of a vast expansion of continental trade between West and East.

Pointing to the Sept. 25 vote in the Italian Chamber of Deputies—in which he was cited—for a return to fixed-exchange-rate systems, LaRouche said the liquidation of Maastricht and an alliance among national banking systems, with fixed exchange rates to facilitate long-term development of industry and infrastructure, is what must be done. He warned that inaction now, by the European governments, would prolong the present period of bankruptcy, unemployment, and economic and monetary chaos.