EIR Economics

Debate in Europe Intensifies Over Future of Euro Currency

by Andrew Spannaus

The future of the European common currency, the euro, is now being openly questioned, after the bombshell of the French and Dutch votes, May 29 and June 1, respectively, against the European Constitution. After years in which serious debate over the European Union's economic policy has been virtually prohibited, a public backlash is becoming an explosion, and certain political forces have begun to suggest that the euro could actually fall apart.

The outbreak of such a debate represents a major shift in the political situation in Europe, as it opens up the possibility that national governments—whether or not the euro continues to exist in its present form—may demand the abandonment of the monetarist policies represented by the institutions which govern the euro: the European Central Bank and the EU's Stability Pact, which have ripped away European nations' sovereignty in economic policy over the past decade.

The resounding French "no" vote to the European Constitution was followed by an even stronger rejection in Holland three days later. More than 60% of Dutch voters rejected the Constitution, in a referendum that left no room for doubt about where the people of Europe stand—as opposed to many of their representatives. One week later, the third blow fell: British Prime Minister Tony Blair decided to postpone Britain's own referendum on the Constitution, because it appeared headed for a two-thirds "no" vote. For all practical purposes, this means the process of forming a European super-state has been stopped cold.

A Stubborn Oligarchy

However, just as the impetus for this process actually had little to do with the real needs of Europe's people, significant layers of the political bureaucracy in Europe are attempting to ignore the clear message sent by voters, and say that "the show must go on." The leaders of the EU Commission, and numerous high-level officials involved in drafting the European Constitution, are maniacally repeating that these "no" votes are just a little bump in the road, and that somehow, some way, the process will continue.

These figures are toeing the line that has been pushed by the international financial oligarchy for well over a decade: that the European Union is necessary because it creates a single free-market area, in which supranational—and independent—monetary authorities can enforce a common economic policy, thus leading to economic stability and increased political weight for Europe in the world. The problem is that these free-market policies—which are no different than those the International Monetary Fund imposes on Third World countries—are actually intended to block sovereign nations from breaking with the insanity of the free market. And the results—predictably—have been disastrous. Highly industrialized countries such as Germany, Italy, and France have seen drastic reductions in their productive capacity, and the once-famed "European social model," in which highly productive economies also provided excellent social welfare systems, is now under attack from financial vultures who demand compliance with the rules of the "market."

The European Constitution, unlike the American Constitution (or many national constitutions across Europe), does not provide the instruments necessary for promoting the "general welfare" of the population; rather, it codifies the independence of the central bankers, and imposes adherence to balanced-budget policies that prohibit countries from investing in large-scale infrastructure and industry—the only way the crash of the physical economy could be stopped.

And the Euro?

Immediately after the French referendum, certain circles in Germany and France began to launch trial balloons regarding the future of the euro. In Germany, both the weekly magazine *Stern* and the leading economic daily *Handelsblatt* reported that the German Finance Ministry has been taking the possibility of a failure of the euro very seriously. Although Finance Minister Hans Eichel has denied that he discussed the subject with the European Central Bank, the very fact that the subject was broached in Germany, indicates that the real debate is heating up behind the scenes.

The weekly *Der Spiegel* June 6, hinted at this behind-closed-doors debate in part one of its series on the global financial crisis, titled "Balance of Terror." The article reviewed the most prominent cases in the past of speculative, hedge fund, and other attacks, such as George Soros's against the European Monetary System. Now increasingly, *Der Spiegel* wrote, there is a debate on the need for a new world monetary system, a kind of "modern Bretton Woods." Without mentioning the LaRouche initiative for a New Bretton Woods, and the resolution of support April 6 by the Italian Parliament, *Der Spiegel* said, "a lot is being talked about concerning a new monetary system in private, but in public nobody says anything."

The article quoted Prof. Peter Bofinger, a semi-reasonable (but rather weak) anti-monetarist, who cautioned that you always have to be careful that "they don't call you a nut." Therefore, politicians don't touch the subject, and at best they set up a secret study group, *Der Spiegel* commented. The article noted at least that, in the ongoing "modern Bretton Woods" discussion, 1) the gold standard is not an option, nor is 2) Robert Mundell's world currency. Otherwise everything, *Der Spiegel* said, is in flux. The article concluded with former Bundesbank head Karl-Otto Poehl, who warned, "there's every reason to be very much afraid of the situation" in the current world monetary system.

The Italian Case

In Italy, Social Welfare Minister Roberto Maroni has made several public statements suggesting that Italy could return to its former currency, the lira. When someone suggested to Maroni that Italy could end up with an Argentina-style crisis if it were to leave the euro, Maroni said, "We're already heading towards an Argentina, so that's why we have to change direction."

Other Italian Cabinet members are also discussing a return to the lira. Justice Minister Robert Castelli is quoted in the *Financial Times* June 8 saying that he doubts there is an automatic benefit from having the euro: "Does sterling have no economic foundation, because it is outside the euro? Is Denmark living in absolute poverty, because it is outside the euro? Are Swedes poor, because they are outside the euro?" Deputy Prime Minister Giulio Tremonti is reported to have said that the euro was a "good thing" in principle, but it could have been introduced as a unit of "reference value," allowing the Italian lira to remain in circulation.

In an interview with the Italian daily *La Repubblica* June 3, Maroni talked about the dissension at the ongoing ministerial meeting of the European Union, saying "We have been discussing for six hours, all 25 ministers, on the draft bill on the work week proposed by the European Parliament. Each one of us has a different opinion. At the end we will agree on a bad compromise. But can we go on like that? When will this Europe be able to reform the tax system or even the social state? The mere idea of that is a pure illusion. This European government is unable to face a crisis situation."

Maroni announced that his party, the Northern League, will "launch a campaign to collect signatures for a referendum [on the European Constitution]. Meanwhile, at the next European Council of June 16 and 17, we propose that the Italian government ask that the process of constitutional ratification be stopped."

Maroni's statements, however, along with those of other representatives of the Northern League, must be read as part of the larger debate in Europe. The League is part of Italian Prime Minister Silvio Berlusconi's governing coalition, and although the League has always jumped to espouse populist positions, it is likely that the party is being used as part of a coordinated strategy to bring up a touchy subject on behalf of other political forces. In fact, the European Union has just begun the process of penalizing Italy for its excessive budget deficit, and a big fight is looming over whether the EU Stability Pact criteria will be enforced strictly in this case, or whether the "flexibility" of the rules decided by European leaders earlier this year will head off a confrontation.

What is clear, though, is that with the French and Dutch referenda, a major shock has occurred, which provides an opportunity to expose the fundamental flaws behind the euro policy, and thereby create the conditions in which sovereign governments can face the current global financial crisis. On June 6, Italy's Deputy Prime Minister Tremonti said that the results of the French referendum indicated the importance of relaunching development projects which can stimulate the productive economy in Europe. He proposed a return to the large-scale infrastructure projects of the Delors Plan from the early 1990s, as the Italian government had suggested two years ago. Such a shift, in the context of a New Bretton Woods-style reorganization of the financial system, could allow Europe to survive.

Indeed, Italian support for Lyndon LaRouche's New Bretton Woods approach was reflected in the clearest way earlier this year when, on April 6, the lower house of the Italian Parliament passed a resolution calling for the convening of an international conference to create a new, more just world monetary system.