THE EU FISCAL PACT

Euro Crisis Continues As Nations Crumble

by Claudio Celani

March 30—The echo of European Central Bank chieftan Mario Draghi's words, "The worst of the crisis is over," had not yet died out, when the euro financial crisis exploded again. The calming effect of the ECB "nuclear strike" of EU1 trillion, zero-interest, three-year loans to the banks, lasted less than four weeks. The sovereign debt crisis, the credit crunch, political instability, and social tensions are again up-front, as the real economy, brutalized by the insane ECB/European Union policies, has been crushed in all the Eurozone countries, rendering them unable to achieve their fiscal targets.

As of this writing, Italy is again becoming a hot spot of sovereign debt and social crisis, adding to the ever-deepening Greek crisis, as a new member joined the club: Spain. The economic performance of Spain is so bad that rumors are circulating that the government of Prime Minister Mariano Rajoy will be forced to ask for EU financial aid, thus defying all current EU plans for a "firewall" to prevent the collapse of the euro.

Spain's aggregated debt, as a percentage of GDP, is the highest in the Eurozone, second only to the U.K. in the European Union: 363%. Whereas government debt is "only" 71%, household debt is 82%, non-financial corporations is 134%, and financial corporations is 76%. The government deficit, a marker for new debt, is at over 6% of GDP. Consider that Spain, like all Eurozone members, has implemented austerity measures aimed at reducing that deficit to zero in the short term. The result is just the opposite.

At the beginning of March, the Spanish government announced a revision of growth forecasts, from 0.8% to minus 1.7%. Official unemployment in Spain is the highest in the Eurozone, at 23%. Every second youth is unemployed.

Despite the evident failure of the EU adjustment programs, Rajoy's government intends to proceed with the same therapy, and has announced a new austerity package of EU27.3 billion in budget cuts, tax increases, and a freeze on public-sector wages. Social tensions are rising. At the general strike on March 29, demonstrators applauded rioters who set fire to banks and shops, similar to what was seen in Greece, beginning a few months ago.

Italy: It Can Happen Here

Italian observers are worried about what could happen in Italy, as the country, joining Greece and Spain, is entering a period of social tensions as a result of the Monti puppet government's imposition of the same level of brutal austerity under orders from the EU/ECB. Trade unions have called a general strike over Prime Minister Mario Monti's bill for deregulation of labor laws.

In recent days, anti-government protests have taken a form previously unknown in Italy: people setting themselves on fire, as has been seen in the North African revolts. Yesterday, an immigrant worker set himself on fire in Verona. The day before, a small businessman set himself on fire in front of the government debt

"The worst of the crisis is over," averred ECB head Mario Draghi (left) recently, but nothing could be further from the truth. In Italy, for example, led by the bankers' toyboy Mario Monti (right), workers are setting themselves on fire, in despair over the austerity and joblessness.

agency. In the last seven weeks, seven small entrepreneurs hanged themselves because of debts.

Similar to Greece and Spain, Monti's made-in-the-EU "fiscal discipline" is destroying Italy's physical economy, along with its ability to achieve those very fiscal targets demanded by the EU. Industry Minister Corrado Passera, a former Intesasanpaolo banker, said on March 29, in front of a Parliamentary committee, that the Italian economy will be in a recession "the entire year" of 2012. Industrial production is down 2%; industrial orders, 5.6%; applications for home mortgages have collapsed 44%; new car licenses have dropped 17.8%; air passenger and cargo traffic is 6.5% down; natural gas consumption, 4.3%,

The Monti double tax on gasoline led to a drop in gasoline consumption of 10% in the first two months of 2012, while gasoline prices have increased 10%, rising above the threshold of EU2 per liter, or about $10 per gallon. (By comparison, in Germany, it is between EU1.6 and 1.7).

Despite all the bloodletting, Italy's budget figures are worse than last year: The government deficit for January-February is EU10.7 billion (EU10.3 in 2011); public expenses from January 2011 to January 2012 have increased 2%.

The Monti government forced its 12th confidence vote, since coming into office last November, on an executive decree yesterday in Parliament. By contrast, the previous Berlusconi government, which was scolded by the media and the opposition because of its massive use of the confidence vote to force through government bills, had forced a confidence vote 53 times in 36 months.

Although Italy's economy is not comparable to that of Greece (Italy has the second-largest manufacturing output in Europe), the path chosen by Monti on behalf of the EU/ECB is leading to a similar inferno. The oligarchical faction supporting Monti claims that Italy must accept the idea of losing 50% of its industry, because of globalization and outsourcing. This means mass unemployment and physical-economic collapse.

Greece: Back to a Peasant Economy

The example of Greece is before everyone's eyes. It is now reported that Greece is moving from an agro-industrial to a peasant economy because of the European Union's depredations. More than 1.5 million Greeks, 15% of the population, are considering moving from the city to the provinces, according to a survey commissioned by the Agricultural Development Ministry which was made public yesterday.

The survey, conducted by the polling firm Kapa Research, based on a sample of 1,286 respondents in Athens and Thessaloniki, found that 68.2% have considered leaving the city, while 19.3% have already relocated. Three-quarters of the respondents who expressed a desire to move to the provinces are younger than 44. Around half said they were interested in going into farming, with most drawn to cultivating olives or producing olive oil.

The government is offering small parcels of farmland, 1 to 3 hectares (2.5 to 7.5 acres), for lease to would-be farmers. Many unemployed have taken advantage of the offer. There is now a trend in which urban Greeks, many of whom are unemployed or pensioners, are moving back to their ancestral homes in rural villages to eke out an existence through subsistence farming and barter trade.

According to some reports, the Greek government, led by former central banker Lucas Papademos, is now looting the bank assets of Greek universities and government hospitals to pay off private bondholders. *Athens News* reported that six of the country's universities are facing immediate closure, the recent bond swap[1] having reduced their assets to zero. An emergency meeting of university rectors yesterday heard that only EU33 million remained out of EU120 million that 17 Greek universities had deposited with the Bank of

1. A deal reached with the government's foreign creditors on March 9, to write down their loans by 53.5%, the biggest sovereign debt restructuring in world history.

swiss-image.ch/Remy Steinegger

German Chancellor Angela Merkel has so far gone along with the insane Fiscal Compact, which will destroy Germany, along with the rest of Euroland. A referendum, as called for by Helga Zepp-LaRouche, could defeat it.

Greece for their operating expenses, while six university accounts were now completely empty, and would soon be unable to stay open.

This report tends to confirm a report earlier this week on a Greek blog, called "The Slog," that the Greek government had grabbed the assets of state universities and hospitals to the tune of almost EU1.5 billion in order to pay off foreign bondholders. The blog, citing a Greek health news site, wrote that just before midnight on March 8, the eve of Greece's bond-swap, an average of 70% of public utility funds in various large, interest-bearing accounts at the Bank of Greece were raided. This included the regional hospital budget and at least one utility.

As a result, checks issued by these institutions bounced, and they were unable to pay salaries. They assert that the money was used to pay a group of bondholders the full face value of their bonds before the swap was finalized.

The Rush to Dictatorship

Blind to the failure of the "fiscal discipline" policies, Eurozone countries are rushing to constitutionalize it, first in each member-state, and finally into the so-called "Fiscal Compact," a new treaty which will shift full budget control to a supranational level.

The Fiscal Compact is supposed to be ratified by all national parliaments, together with the new permanent EU bailout fund, the European Stability Mechanism (ESM), which should be operative by July. The decisive battle for this is being fought in Germany, where the Constitutional Court put limits on sovereignty transfer, in a ruling last year.

In order to bypass the Constitutional Court, the Merkel government has pulled the trick of leaving a blank space in the draft bill for the financing of the ESM, because it involves the delicate question of sovereignty over the budget, which, according to the Court ruling, must be held by the national Parliament. This blank space will be filled in by the Budget Committee, whose members, and only they, will deliberate on the complete text. The rest of the Parliament is excluded.

At the end, Chancellor Angela Merkel's government might make some concessions to the opposition in order to get the necessary two-thirds majority in the Bundestag, but it is believed that the government will get the votes. However, constitutional challenges are being prepared, and the fight is still open. More and more prominent people have called for a referendum on the two treaties, similar to that which Helga Zepp-LaRouche has put forward.[2]

Among the opposition, Die Linke (The Left) party has also announced that it will challenge the constitutionality of the Fiscal Compact because it establishes a "European federation, the United States of Europe, by way of a fiscal union," as spokesman Gregor Gysi stated in the Bundestag debate on March 29. The Treaty, furthermore, establishes an "eternity clause," which contains no provision for an exit, so that under the Vienna Convention on the Law of Treaties, it can be invalidated or changed only if all signatories agree.

Thus, the zero-deficit provision included in the Treaty is stronger than the same provision which was previously inserted into the German Constitution, but which can be changed with a two-thirds majority. To change the Treaty will be almost impossible, except by violating international law.

Usually, Merkel leaves the room when Linke members speak, but this time, she stayed in her seat and listened, together with all the other parliamentarians.

The other pillar of the new Fiscal Union will be the permanent bailout fund, the ESM.

Originally, the ESM was supposed to be able to build a "firewall" of EU500 billion; eventually, this was increased to 700 billion. On March 30, Eurozone fi-

2. See Helga Zepp-LaRouche, "Feudalism or Nation-State: The Choice Is Ours," *EIR*, March 30, 2012.

nance ministers came out of their meeting in Copenhagen with the announcement that ESM has been further increased to EU800 billion. But this looks like an illusionist trick: Half of the money has been spent, and the rest is not there.

The Eurozone illusionists added EU100 billion to the already agreed-upon 700 billion, by adding money already spent by the "small" EFSM (European Financial Stabilization Mechanism) (an EU60 billion fund set up in 2010 directly under the EU Commission) for Ireland and Portugal, and money already loaned by EU member-states to Greece under a bilateral agreement. It is about 50/50 each.

A 'Tower of Babel'

As for the bulk of EU700 billion, only 400 will be available in 2013: 200 billion is supposed to come from the EFSF (European Financial Stability Facility), but has already been spent under current bailout programs; and 200 billion will be the total amount of loans the ESM can generate in the first year, because its capital will be paid in installments: two installments in 2012, and one in 2014.

Thus, only after one year can the ESM reach its own "firepower" of EU500 billion, plus the (already spent) EFSF quota of 200 billion. In order to compensate for that, it has been agreed that the money the EFSF could additionally borrow by statute (about EU240 billion), will be calculated as a potential "buffer" until the ESM reaches its full power, i.e., in one year.

Thus, the Eurozone ministers could write in the final communiqué: "All together, the euro area is mobilising an overall firewall of approximately EUR 800 billion, more than USD 1 trillion." By pronouncing the words "1 trillion," the EU illusionists hope perhaps to convince the IMF to add another "half a trillion" to the virtual firewall.

Even German central banker Jens Weidmann exposed the insanity of an ever-increasing bailout fund. Speaking in London on March 29, Weidmann compared it to a "Tower of Babel." No matter how many bricks you add, you will never reach the heavens, he said.

What Weidmann forgot to say, is that even if the bricks reached to the sky, it wouldn't be enough to bail out the system, because it is not a matter of one country, but of the entire bankrupt trans-Atlantic financial system. Only one thing will work: banking separation and destruction of the financial casino.

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