EIR Economics

Rebellion grows against Europe's Maastricht Treaty

by William Engdahl

Almost as soon as French trade unions agreed to momentarily halt their four weeks of strikes against government austerity proposals, the focus of growing social protest and tensions shifted to Germany, the country once considered "safe" for the imposition of a new single European currency. The trigger for an unprecedented wave of public calls for delay or postponement of the planned European Monetary Union (EMU), was the surprising report of German Finance Minister Theo Waigel on Bavarian radio on Jan. 9, that Germany had failed to meet the strict demands of the Maastricht Treaty for European Monetary and Political Union for 1995. Instead of an earlier estimated annual budget deficit below the mandated 3% of Gross Domestic Product (GDP), Waigel admitted that official German estimates now put that figure at 3.6%.

Even the 3.6% figure is a fraud. As the German Statistical Office revealed on Jan. 11, if the DM 400 billion in "off-budget" debts of the Treuhand agency, responsible for privatization of former communist East German industry and farms, were included, the actual 1995 German public deficit was 10.2% of GDP! A ruling by the European Union in Brussels last summer allowed Germany to ignore the Treuhand debts, which were assumed by the government in 1995.

Waigel's announcement sent shock waves throughout the European Union. Until recently, the German government had prided itself that it was one of only two EU states which already met the strict fiscal requirements to qualify to join the proposed new European single currency, to be called the "Euro," by January 1999. The only EU country at present that qualifies is tiny Luxembourg. The other 13 nations of the EU, as of 1995, were all wide of the mark.

Under the terms of the treaty agreed during the December 1991 EU heads of state summit at Maastricht, Holland, the member states will take steps toward dissolution of one of the cornerstones of national sovereignty, control of national currency and national central bank policy. European states are to forge a new supranational currency, according to the Maastricht Treaty, automatically by January 1999, if not before. But that treaty document, on the insistence of various governments, spelled out explicit criteria, the so-called "convergence criteria," which must be met by Dec. 31, 1997 at the latest, if a country is to qualify for the January 1999 entry.

The criteria are four. First, a country must, for at least two years before entry, have kept its inflation rate to within 1.5% of the three lowest-inflation EU members at the time of entry; second, it must have kept its national currency "stable" for the same two years; third, it must have brought its public budget deficit to below 3% of its GDP by 1997; fourth, it must have limited its total public debt to less than 60% of GDP by end 1997.

As one European banker familiar with the implications of Maastricht stated to *EIR,* "Maastricht is an engine of economic deflation for all Europe today. Every minute that its convergence demands continue to define national budget policy, manpower cuts, wage reductions, unemployment, and economic recession will be the order of the day. It is what I call monetary psychosis."

Unity starts to crack

Ironically, it has been the German government of Helmut Kohl which, in the past three years, has assumed the role of the prime proponent of Maastricht. This, despite the fact that the initial monetary union scheme, back in 1991, was viewed by French President François Mitterrand and others as a way to bind the newly united Germany firmly into a European economic and monetary structure.

But the grim reality is that, not only has Germany failed

© 1996 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

Labor unions demonstrate in the city of Nancy in December 1995, against the French government's austerity program, which is dictated by the Maastricht Treaty.

to hit the target for Maastricht, but the depressing economic effects of Maastricht across Europe include collapsing growth, exports, and tax revenues.

On Jan. 14, Finance Minister Waigel also admitted that, based on preliminary estimates, the government faces an unexpected gap in the budget for 1996 of at least DM 20 billion ($14 billion). Even this, is believed wildly optimistic. German unemployment, at just under 10%, is dangerously close to 4 million, and growing at an alarming rate as more companies slash their workforces to cut costs in the savage global competitive environment. German business consultant Roland Berger recently predicted that unemployment would soon reach the staggering level of 6 million. Under the present German social security system, the State is obliged to pay large sums for unemployed workers, adding even more to the deficit.

According to Bonn parliamentary sources, Waigel delivered his latest budget shock in order to set the stage for a huge added round of budget cuts and new taxes later this summer, well before the next federal elections in October 1998, to ensure that Germany is in the front ranks of those making up the Euro. But such new budget cuts and taxes will only depress the economy further, as consumers refrain from making new purchases. While Bonn politicians enjoy pointing to the fact that German workers are among the highest paid in the world, they conveniently omit to mention that they are also among the highest taxed. This year the average employed worker will have to pay 49% of his gross wage in form of taxes, fees, social security, and other mandatory taxes. In 1960, by contrast, the figure stood at 27%, or almost half.

Much of these taxes are going to debt service, which by 1997 is estimated to reach over DM 201 billion ($140 billion). Waigel insists that the combined debt of cities and the federal government in 1995 fell within the Maastricht 60% level, but according to estimates by the Organization of Economic Cooperation and Development, Germany has not even met this criterion. The OECD calculates total public debt at 62.7%. Present total German public debt has passed the DM 2 trillion level for the first time in history.

Opposition speaks out

These growing pressures have ignited a political debate across Europe, but most notably in Germany. The Christian Social Union (CSU) conservative prime minister of Bavaria, Edmund Stoiber, a known opponent of Maastricht, came out at the CSU party congress in Bad Kreuth on Jan. 6, declaring that a currency with "only Germany, France, and the Benelux states [Belgium, Holland, Luxembourg] won't work." He called for a five-year delay of Maastricht.

An even sharper critique came from Dieter Spoeri, the Social Democratic economics minister of the influential Baden-Württemberg state. "The latest unemployment data show that we absolutely cannot afford to sacrifice any additional jobs on the altar of a poorly prepared monetary union," Spoeri told a conference in Stuttgart on Jan. 10. "A mini-currency union without countries such as Italy, Britain or

Spain," he added, would have a further negative consequence for growth and employment in Germany. Spoeri echoed Stoiber's call for a five-year postponement of the Maastricht deadline, adding that "everything has to be done to prevent this hara-kiri program for our industry. We cannot afford a galloping deindustrialization."

Despite the growing signs of anti-Maastricht revolt, Bonn and Paris are holding rigidly to the Maastricht targets. On Jan. 15, French President Jacques Chirac told the press that his priority would be job creation, social welfare, and economic growth. But in the next breath, Chirac reaffirmed his hard-line policy of slashing the public deficit and social welfare programs, the very policies which triggered the country's worst wave of protest strikes since May 1968. "Without an elimination of the State deficit, France will be weak," he insisted. "There is no doubt that the reform project to restructure the State budget is necessary."

In Germany, President Roman Herzog insisted, "Europe's internal market needs an enrichment through a single currency." And Kohl's coalition partner and Free Democratic Party leader Wolfgang Gerhardt warned that the strict deadline for Maastricht must "not be allowed to come into question, otherwise the strict sense of fiscal discipline will vanish."

EIR has received reliable reports that both Kohl and Chirac are working behind the scenes to try to speed the collapse of the Conservative government of Britain's Prime Minister John Major, by making public statements designed to fuel the "anti-Maastricht" opposition within Major's own party, which threatens to bolt if Major tries to bring Britain back into the Maastricht process. Following the British pound-sterling crisis of September 1992, Britain has remained officially outside the Maastricht process, along with Italy.

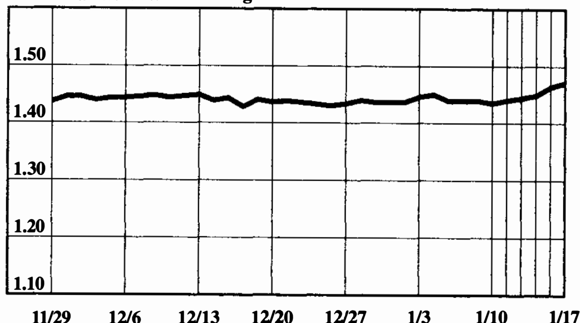
"Kohl and Chirac want a Labour government under Tony Blair, which would be a government they feel they could deal with on Maastricht," a senior Brussels source, who was until recently a high-ranking EU official, told *EIR*. Blair's Labour Party, unlike the Conservatives, are on record favoring British entry into Maastricht. *EIR* has also been told that in the last days of November, just as the anti-Maastricht protest strikes in France were getting under way, a confidential meeting was held in a Paris hotel between a representative of Blair's Labour Party and representatives of Kohl's government. The agenda was to work out a deal on Britain rejoining Maastricht under Blair, in return for Kohl's support. The outcome of the talks is not known, but the very fact that they were held, indicates the fierce determination of Kohl and Chirac to force Maastricht into being, regardless of the immense social cost.

At this juncture, events in Europe on every level are being defined by the Maastricht convergence criteria. In the Paris-based *International Herald Tribune* on Jan. 16, columnist Alan Friedman wrote, "Just a month ago it was heretical to speak of delaying the starting date of European Monetary Union beyond 1999. But now, in the face of an unexpectedly severe economic downturn, the prospect is being openly discussed."

Currency Rates

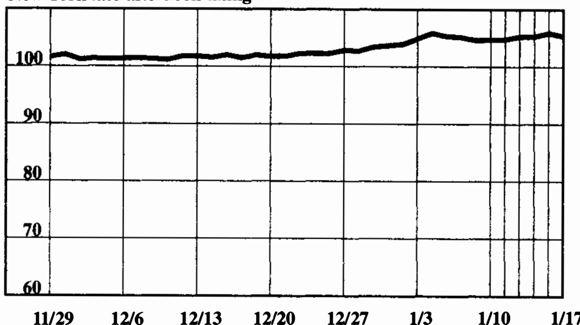
The dollar in deutschemarks

New York late afternoon fixing



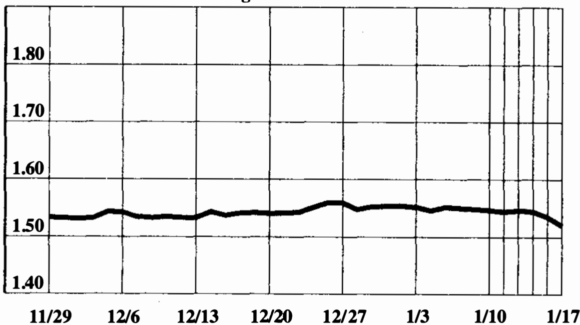
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing