Euro-bankers scramble to save monetary union

by William Engdahl

Political developments in Germany and France at the beginning of June are threatening the future of Europe's much-touted monetary union, the project for creation of a single supranational European currency, the so-called euro.

In France, President Jacques Chirac received a crushing defeat in the June 1 parliamentary elections, forcing him to accept an opposition Socialist-led coalition under Lionel Jospin (see article, p. 44). The issue of the European Monetary Union (EMU) was the sole reason for the election.

In Germany, where Chancellor Helmut Kohl had staked his political future on creation of the EMU, Finance Minister Theo Waigel proposed a desperate move in defiance of the German Bundesbank, which could topple the Kohl government and the currency union with it. It was the first such open clash between the government and the Bundesbank since 1948.

Behind all this lies a titanic power struggle to forge a single supranational Europe, with a single currency to replace the present 15 national currencies of the member states. The project has forced European Union (EU) governments to impose severe budget austerity, to ensure that the new euro is "strong and stable." That austerity has led to growing social explosions, such as the strikes which have spread in recent months from France to Belgium and Germany.

At the heart of the fight lies the rigid conditions of the December 1991 Maastricht Treaty on European Monetary Union. That treaty, which fixes Jan. 1, 1999 as the start-up date for a European Central Bank (ECB) and the euro, places strict limits on a country's public debt (not more than 60% of its GDP) and public deficit (not more than 3% of GDP). A country must reach the critical "convergence criteria" by the end of this year, to be eligible to join in 1999. Final decision on who qualifies, is to be made at an EU summit meeting in May 1998, based on review of final official data for 1997.

When the limits were agreed to some five years ago, the idea had been to exclude only the most chronic deficit spenders from the project. But not even Germany or France will qualify, as things stand now. The Duchy of Luxembourg is the only one of 15 EU states that is under the limits.

EU economies are mired in the worst unemployment crisis since the 1930s, with 12.2% jobless in Germany and as much as 18% in Spain. Germany's 4.2 million unemployed exceed the entire population of several EU countries. In France, the jobless level is 12.8%. Along with unemployment, public debt and deficits have soared. The government budget austerity that has been implemented in order to reach the Maastricht targets, is worsening the deficits, as unemployment soars and tax receipts fall.

A recent internal report of the French Finance Ministry forecast a deficit of 3.8% for this year, and an even worse 4.5% next year. Germany, which had a dismal 4% deficit last year, is on course to miss the 3% target, barring drastic further budget austerity or higher taxes. This is the background to the present EMU crisis.

France: Chirac's blunder

Conservative French President Chirac called parliamentary elections almost a year before they were due. With the popularity of his prime minister, Alain Juppé, at an all-time low, and protests against government budget cuts and soaring joblessness, Chirac made a gamble that he could save the

EMU, by reaffirming his parliamentary majority. He gambled that by acting now, rather than next year, when elections would coincide with the decision to join the EMU, he could retain control of parliament and implement the more unpopular austerity measures needed for France to join the EMU. He had expected some losses, but reckoned to hold onto a parliamentary majority, to ram through the privatization and austerity needed to enter the EMU on time.

His calculation was a catastrophic blunder. "Chirac has lost enormously in this," noted Jacques Cheminade, a co-thinker of Lyndon LaRouche, who ran two years ago as a candidate for the French Presidency. "Never in the history of the Fifth Republic, since 1959, has a President dissolved the National Assembly and not won an election, until now. The result will be that Maastricht as it had been, will no longer exist. Either a new flexible version, a 'Camembert'—soft and stinky—will come, or it will be scrapped altogether. For the good of Europe and France, let us hope the latter."

Jospin's Socialist Party (PS) slate, allied with the Communists and the smaller Green Party, won 319 of the 577 National Assembly seats. The governing conservative coalition, RDR-UDR, had gone into the elections with 80% of the seats from the previous 1993 elections, and came out with a loss, from 464 down to 239 seats.

"The real point," Cheminade continued, "is not that Frenchmen voted *for* Jospin and the left, but that they voted overwhelmingly to punish the right for the Maastricht austerity. I would estimate that Jospin has until September or October to show decisive improvement in the economy, or French voters will take to the streets again in protest."

But to make a dent in the jobs crisis, the coalition headed by Jospin must now decide what to do about Maastricht. In his campaign, Jospin called for a softening of the criteria, and for allowing Italy and Spain to join the EMU as well, something that Germany has strictly opposed. French media have dubbed this the "Camembert euro." Italy's public deficit and debt are well over the Maastricht limits. The fear in Bonn is that letting Italy in will lead capital to flee the euro.

"Jospin has one looming challenge," said K.A. Olsen, a European banker closely involved in monitoring the process of Maastricht qualification. "He has to tackle the 12.8% unemployment and create jobs. He has only two options: Either demand a delay of 2-3 years in the start of the EMU, to allow time to stimulate the economy to create jobs, or scrap the so-called 'strict interpretation' of the Maastricht deficit target of 3%. Or, a combination of both."

While it is too early to say how Jospin will try to work such miracles without scrapping the EMU, the French threat to the EMU intersects an equally grave crisis on the German side.

Kohl forced to break a German taboo

Until the end of May, Germany was the self-appointed guardian of the "strict convergence" approach to meeting the Maastricht criteria. Finance Minister Waigel had repeatedly demanded that other nations adhere to even stricter deficit limits, even after joining the EMU. He introduced a so-called Stability Pact, which would impose heavy financial penalties on countries that joined and then began "cheating," by running large deficits to boost growth. It was Kohl who was personally responsible for demanding that the EMU treaty explicitly state that the new European Central Bank be entirely free of the national political influence of elected governments. The model was the German Bundesbank.

Ironically, the most fiscally puritanical of EU states, Germany, now appears ready to become one of the most brazen cheaters. The government has become desperate to find ways to meet the 3% target, as the deficit explodes from the tax revenue shortfall and soaring unemployment costs.

On May 22, Waigel proposed that the Bundesbank use a bookkeeping trick, and mark the value of its 3,700 tons of gold reserves to current market price, instead of the far lower purchase price. That pure bookkeeping "gain," which would amount to tens of billions of deutschemarks, would then be transferred this year to the account of Waigel's Finance Ministry, allowing the government to reach the 3% limit required for Maastricht membership. The gold would remain at the Bundesbank, which would, in effect, simply print the money to cover the sum, and close the government's deficit.

The powerful Bundesbank is seen by most Germans, rightly or wrongly, as the only institution protecting their savings and the German mark. French politician Jacques Delors, founder of the euro, recently noted, "Not all Germans believe in God; but they all believe in the Bundesbank." For the Bundesbank, Kohl's accounting tricks were a violation of a strict German taboo.

"To revalue the country's gold reserves without selling any of them, and use the new market assessment to lower your deficit," wrote former Kohl ally Thomas Kielinger in the June 1 London *Sunday Telegraph,* "might make the most artful dodger cringe with shame. But not Kohl. . . . Predictably, Kohl has now been bloodied by the Bundesbankers themselves, who rejected his crude ploy." On May 28, the Bundesbank Council had issued an unprecedented rejection of Kohl's gold plan, claiming that it was an illegal interference into the independence of the Bundesbank.

By June 3, Waigel had been forced to give in to Bundesbank chief Hans Tietmeyer's compromise proposal to delay the gold transfer to 1998. This leaves Kohl with a huge DM 29 billion ($17 billion) budget gap that it must close through other means, to meet this year's critical 3%. Kohl's coalition partner, the free-market Free Democratic Party, categorically rejects the idea of new taxes to cover the hole, and the German population categorically rejects new budget austerity. On June 3, Kohl rejected the option of delay of the EMU, an option which Bundesbank chief Tietmeyer recently suggested, fearing that delay would risk the entire EMU.

That leaves only the option of large-scale cheating to cover this year's gap. The government is already leaking hints of another major budget gimmick. This would reportedly involve "delayed privatization": counting the proceeds now on Waigel's budget, for sales of state companies like Lufthansa Airways or Telecom, which, by law or practicality, can only be privatized in 2-3 years.

A collision course

Many Europeans are starting to ask why EU governments inist on going ahead with the monetary union. A European trade zone exists; EU currencies are remarkably stable; there has been an astonishing lack of debate over the implications of the euro, which has been called, "the boldest monetary and social experiment" in postwar history.

"The unspoken reality," says banker Olsen, "is that Maastricht is a political, not an economic project. Originally, it had been the French price for agreeing to German unity—that the new Germany firmly bind itself into a European structure, called the EMU. Since then, large German banks and multinationals reckon they actually could come out the 'winners' in the new Europe, so they have pressured Kohl to push the project. The French see the euro as a direct rival to the American dollar, as well as a way to bind German ambitions. None of this debate can go on in public, which is why everything appears so byzantine."

"The reasons for the EMU are not economic, rather political, geopolitical," concurred a former European central bank governor, involved in the formation of the EMU. "The French have one agenda, and the Germans—at least the Bundesbank—quite another. As the deadline nears, the two are on a collision course."

The divisions center on the powers of the ECB, who shall head it, and what countries will be members of the EMU. Germany insists on a "firm and stable euro" modelled on the deutschemark. France wants an EMU based on French ideas, including national flexibility to run deficits. French economist Jean-Paul Fitoussi warns, "The Germans should go back to a more moderate role," and drop demands for their strict model. France is also keen to draw the so-called Mediterranean or Club-Med countries, especially Italy and Spain, into the EMU, as allies of this French "Camembert," or soft, position.

The difference is major. "German banks reckon with a hard euro; they will be in position to dominate banking and corporate mergers on the continent in the coming crucial period," Olsen noted. "Right now, French banks are still recovering from their real estate losses of the past five years. A soft EMU would make the German agenda much more difficult. It would allow France and the Club-Med to dominate European policy. Both sides want the euro, but for quite different reasons."

This Franco-German policy tension has come out in other ways. When Germany recently proposed Dutch central banker Willem Duisenberg, to be head of the new ECB, France floated a French alternative, International Monetary Fund Managing Director Michel Camdessus, revealing how much importance they give to the issue. Duisenberg is close to the Bundesbank's strict monetary thinking. Camdessus is a former governor of the Bank of France.

More globalization on the horizon?

For such a major change, remarkably little analysis of the euro's impact has been made public. A senior executive of one of Europe's largest transport firms, responsible for his group's euro strategy, told *EIR:* "Large EU multinationals and the big banks are the real locomotive behind the euro. When you understand why, it's clear why so little is said in public. It's a timebomb.

"Most companies with operations in several EU countries," he continued, "plan big rationalizations after January 1999. With no more currency risk inside the EU, big firms will be able to eliminate anywhere from 10% to 30% of current jobs. Payroll functions, payments, and other overhead can all be centralized. Banks plan huge cuts in manpower. I've heard confidential Brussels estimates that after the EMU, a further 10 million unemployed in Europe is considered likely.

"This, on top of Europe's record unemployment already. No politician dares admit this, but the influence of these banks and corporations is so strong, that the EMU goes ahead. Big companies are behind the EMU, because for them it promises a major advantage in the new lean and mean globalized competition."

There are other aspects. "The EU has just admitted for the first time an anti-dollar potential of the euro," said Olsen. "For large banks such as Deutsche Bank or ABN-Amro, the euro is an alternative to the dollar as a world reserve currency." On April 23, French EU Commissioner for Monetary Affairs Yves de Silguy noted, "The euro zone will match the economic and commercial weight of the United States, and will be greater than the Japanese economy," and, the size of the EMU market will give the European Central Bank "an international dimension beyond that of national central banks today."

This role of the euro, as an alternative reserve currency for central banks, has enormous political and economic implications. European and other foreign central banks today hold a record $600 billion of dollar reserves, in the form of U.S. government Treasury bonds or bills. Were that to be dumped en masse, in favor of the euro, at some point, the shock to the world financial system would be incalculable.

The EU Summit on June 16-17 in Amsterdam could see a dramatic announcement of delay of the entire project, given the dramatic developments in Germany and France. Were that to happen, as Olsen puts it, "no one has developed a plan for what to do then; currency crises would be certain."