Europe's National Economies Wrecked by Liberal 'Reforms'

We present here excerpts from three speeches at the Sept. 24-26 Schiller Institute conference in Germany, delivered as part of the Sept. 25 panel on "The State of the Physical Economies." Two of the individuals who spoke are from the former Communist bloc country of Czechoslovakia—now two countries, the Czech Republic and Slovakia; and the third is from Italy, a "Western" country. And yet, the three tell something of a similar story: That the "red thread" showing up in the destruction of each of their nations' economies is the liberalization, the "free market" poison of deregulation, privatization, and shock therapy austerity measures.

A fourth speaker, Silvia Szegeoe of Hungary, will submit her contribution in writing. She, too, demonstrated that "liberalism" means handing over national sovereignty to speculators to liberally do as they please, and national interest be hanged.

What stands out in all these remarks, is the sensitivity of the speakers to the conjuncture in which the conference was taking place: Social upheaval against the take-down of the physical economy was evident, much of it given impetus by the LaRouche Youth Movement in renewed and growing Monday demonstrations in Germany and growing voter optimism around the Presidential campaign of John Kerry in the United States.

The speeches here were preceded by more extensive discussions of the world economy, by *EIR* Ibero-America Editor Dennis Small and Economics Co-Editor Lothar Komp, whose presentation appeared in *EIR,* Nov. 5.

Nino Galloni

Misguided Ideas Behind Italy's Pension Reform

Dr. Galloni is an economist and former Director General of the Italian Labor Ministry. He addressed the Schiller Institute conference on Sept. 25, as part of the panel on the "State of the Economy." Subheads have been added.

In Italy, political and labor forces have not paid enough attention to the movement and mobilization in Germany in the last few months, despite the fact that the situation is not much different than in Germany. Many large and important companies are shutting down or reducing their activity. Official statistics indicate that industrial production decreased at an annualized rate of 3.7% in July—part of a trend which has been going on for years. Real price inflation has been hitting working families extremely hard since the euro was introduced under the budget regulations and austerity policy of Maastricht. Both left-wing and right-wing governments have accepted theories which consider industrial and development policies unimportant, and say that the economy can only be revived by reducing salaries, pensions, and public spending in the hopes of appeasing the so-called "market forces."

However, not everyone in Italy agrees with this absurd approach, and it has often been possible to unmask such mistaken policies. When this has happened, the name of Lyndon LaRouche and his movement has circulated widely, and garnered significant support. However, due to forces opposed to this critical approach in Italy, there has also been fear and embarrassment in reaction to LaRouche's proposals.

The Role of Youth Employment

Before dealing with the question of pensions, let me say a few words about the economic conditions of youth in Italy.

Until about 20 years ago, youth unemployment in Italy reached levels of 65% for females and 56% for males in the poorest areas. Many of these young people actually had unofficial work in manual labor or simple jobs, even if they had a good education or training in a specific field; only a minority of these had "part-time" jobs, since most of these youth, despite being unemployed according to the statistics, had full-time jobs in the informal economy.

Nevertheless, until about 20 years ago, a miracle tended to happen: When these youth reached the age of 30 or 35, they began to find stable, regular jobs with normal contracts. Naturally, this didn't happen to everyone, but it worked for the majority of them. After 20 years of making the labor market more flexible—which means precarious—the informal economy has not been reduced, but youth today easily find normal, registered jobs. These jobs, though, are underpaid, and tend to push workers out of the labor force at about the age of 30, when the companies find it cheaper to hire even younger people, at lower salaries, and possibly with a better level of education. The companies' goal is to make immediate profits, which they can proudly announce in order to see the value of their stock rise. What happens though, is the quality of their products decreases, the companies do not invest in technological research, and thus they fail to satisfy their clients, who would prefer higher-quality goods and services.

It is in this context that ten years ago pension reform was introduced; the promise was, at most, a few hundred euros a month, and thus impoverishment. On the other hand, in terms of public spending, there is a lack of investment in infrastructure projects, which could pull the country out of its increasing backwardness. Spending is cut for public education, public transportation, basic health care, and services to the elderly.

Pension contributions though—be they voluntary or mandatory—are an integral part of payments to workers, meaning costs for companies. For this reason, the idea of dealing with pensions without considering the general economic situation and the changes in the labor market, is irrational and has strongly negative social consequences.

In Italy in particular, the institutions—and the experts paid by those institutions—have considered the financial aspects of pensions as an independent variable, as if it were possible to use this variable to keep the system stable over time. In reality, the money paid out by the public pension system influences the taxes paid into the system, because spending by retirees is a larger and larger part of the demand for goods and services in our economy.

The institutions and experts have underestimated the dynamic aspects of the question: There is not simply a "static" equilibrium between money received and money paid out. Pensions are a very important part of consumption, and thus indirectly of investments themselves, especially in a society with an increasing percentage of elderly. If pension reform reduces the purchasing power of the elderly, there will be fewer opportunities for productive work for the youth, and contributions to the pension system will therefore be insufficient. If, on the other hand, the money paid by the elderly is given back to them, then both the quantity and quality of good and services will increase.

Dr. Nino Galloni, a former official in the Italian Labor Ministry, shown here at a Rome press conference.

Three Obstacles to 'Pay as You Go'

The debate about mandatory pay-as-you-go pension sytems (meaning that current workers pay for current retirees) started in Italy and Europe at the beginning of the 1980s, when three intersecting phenomena were present:

1. The aging of the population, due to two factors: first, the decrease in birth rates after the Baby Boom, which means that there will be fewer workers in the future compared to the number of retirees; second, the increase in life expectancy, which makes it harder to manage a pay-as-you-go system.

2. The increase in industrial and intellectual unemployment, a rigid labor market which seems to favor the informal economy (in which taxes are not paid), and the decrease of production and employment compared to finance and speculation.

3. The tremendous increase in real interest rates, which pushed capital out of the productive areas of the economy. This increases the problem of employment, or we could say, of insufficient employment growth.

The gloomy predictions made in the 1980s regarding the necessity to reduce spending on pensions (increase taxes, raise the retirement age, make it harder to retire) were aimed at pumping up the speculative financial markets: The idea was to force the productive working class to invest in financial activity and reduce the amount that the state pension system has to pay.

The numbers used for these predictions though, were based on bond rates as high as 16%, with a spread of 7-8 points compared to inflation.

When the European Monetary System fell apart at the beginning of the following decade (in September 1992), bond rates fell significantly. (This event was inevitable, because the system penalized production and employment in weaker countries, such as Italy.)

Institutional investors and pension funds bought up controlling shares in major industrial groups and forced management to bring in profits of 7-8% per year, in order to meet the bond obligations they had contracted in the 1980s, when real interest rates were far above all historical averages. In the 1990s, these results were easy to obtain in the most innovative sectors of the economy, but they also required cuts in production and employment (as well as in research and development) in 60-70% of the economy.

Therefore, employment was reduced in the sectors with the most value added (mostly in the industrial sectors), which meant less income for the most stable workers. There was less money for pensions, and workers had less money to spend on services in areas such as personal needs and the environment, which had seen an increase in employment, but at lower salary levels.

The results of this situation were:

1. At the end of Spring 2000, the productive impulse from the innovative sectors ended, causing a blowout of the speculative stock market bubble and launching a major financial crisis which is still not under control.

2. Despite the fact that employment increased, official levels of income—which are used to determine pensions—decreased. (The increase in employment was due to more women and youth working, and the fact that most of the working age population which is considered unemployed actually produces something, for example in agriculture or services.)

3. The effect of the reduction in pensions was very negative for consumption, that is, for the quantity and quality of goods and services under demand by the elderly.

The elderly, in fact, tend to want high-quality goods and services—when they can afford them. Thus, the higher their income is, the better the prospects are for youth employment and income.

The so-called generational conflict is merely the product of the sick imagination of those who make economic policy based only on finance. In Italy, groups of youth, elderly, and certain political and cultural movements, are contributing to a discussion of the necessity to restore currency and finance to their proper functions, that of productive investment and its role for progress in civilization.

A Pension Reform for Human Beings

A pension reform which is coherent with economic growth should thus be based on the following key points: 1) All of the elderly should have a minimum income sufficient to guarantee a decent standard of living. For Italy, this means not less than 800 euros a month, along with services and care. 2) Public pensions should have a maximum level of about 1,500-2,000 euros, above which those who pay more because they have higher incomes, will see a progressive reduction of their pensions—in order to contribute to guaranteeing the minimum pensions mentioned above—along with incentives for voluntary retirement funds. 3) Tax evasion must be fought, as it subtracts money from the pension system, in particular among those with high incomes. This strategy would allow for progressive rates of pension taxation, which would decrease as incomes grow (but which should be mainly destined to help others in the labor market).

In this way, a minimum "social" income can be guaranteed for the elderly (part of which would come from their work, and part from the policy of solidarity described above), along with a pension system which would encourage higher incomes to be registered and taxes to be paid.

To defend the real interests of working people, pensioners, and the entire population, we must fight to reverse the ongoing global financial collapse and change the anti-economic dogmas of financial globalization and Maastricht. We need what LaRouche calls a New Bretton Woods. We have launched a number of initiatives in the Italian Parliament aimed at implementing this proposal.

In Italy and elsewhere, we need to create international cooperation and solidarity for the fight against austerity initiated with the Monday demonstrations in Saxony and other places.

Jan Carnogursky

Paradox and 'Dialectics' Of Life in East Europe

Dr. Carnogursky held various government posts in the post-Communist government of Czechoslovakia, and after Slovakia and the Czech Republic separated in 1993, he served in the Slovakian government, including as Prime Minister. His remarks are translated from the German, and subheads added.

You are the dissidents of the West.

During Communist times, throughout the entire East bloc there were jokes about the answers given by Radio Yerevan to questions from its listeners. They were good jokes, but now one doesn't hear them any more. The last joke from Radio Yerevan, which occurred already after the change, went as follows: Someone asked the editor of Radio Yerevan, who had been responsible for the stream of jokes, why the radio station wasn't giving out answers to questions from its listeners any more, as it did in Communist times. The editor answered: "In Communist times I could easily think up answers to listeners, because I lived in prison, but today I live in my own house."

This resonates with another memory from Communist times. This time, it is not a joke. High school students everywhere between East Berlin and Beijing might well have gaps